



Center for Social & Economic Research

Budget Crisis in Russia

by

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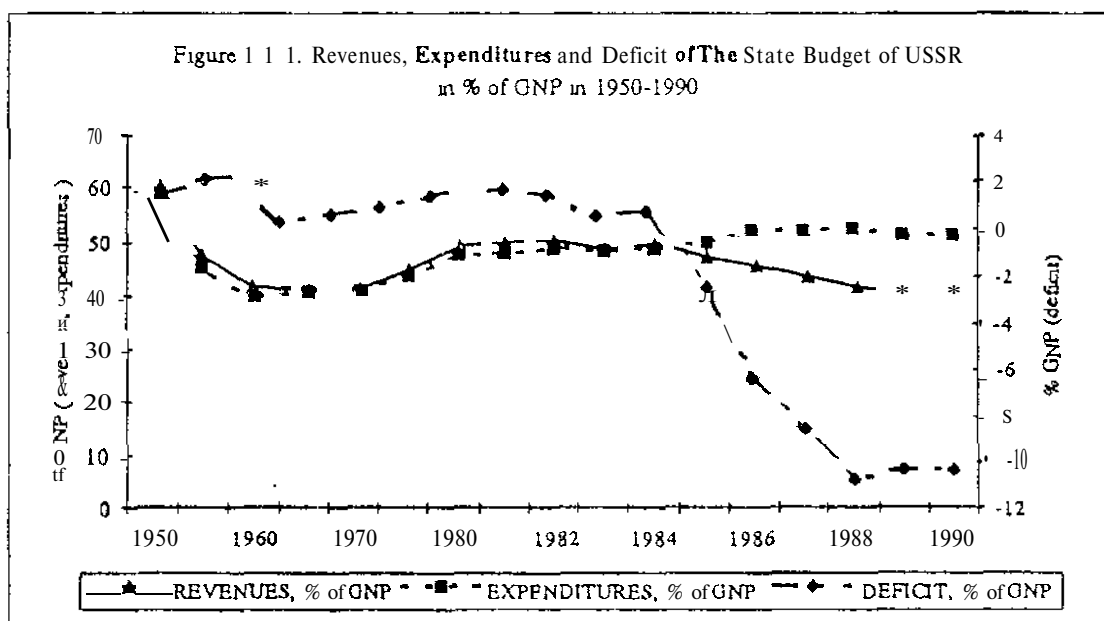
1. Economic transformation and macroeconomic changes in Russia

By the end of 1991 the Soviet Union ceased to exist and its former republics formed new, independent states. As an independent state, Russia has existed since 1992. This event defined the period under consideration in our study: 1991-1994. It was only in 1992 that the Russian budgetary system had to begin performing the entire range of functions characteristic of an independent state. Before that Russia was one of republics belonging to a federal state where finance was highly centralized. In our opinion, any attempts to reconstruct the Russian budget before 1992, taking into account all the amounts generated on its territory for both the Russian and state budgets cannot be correctly done due to lack of the necessary statistics.

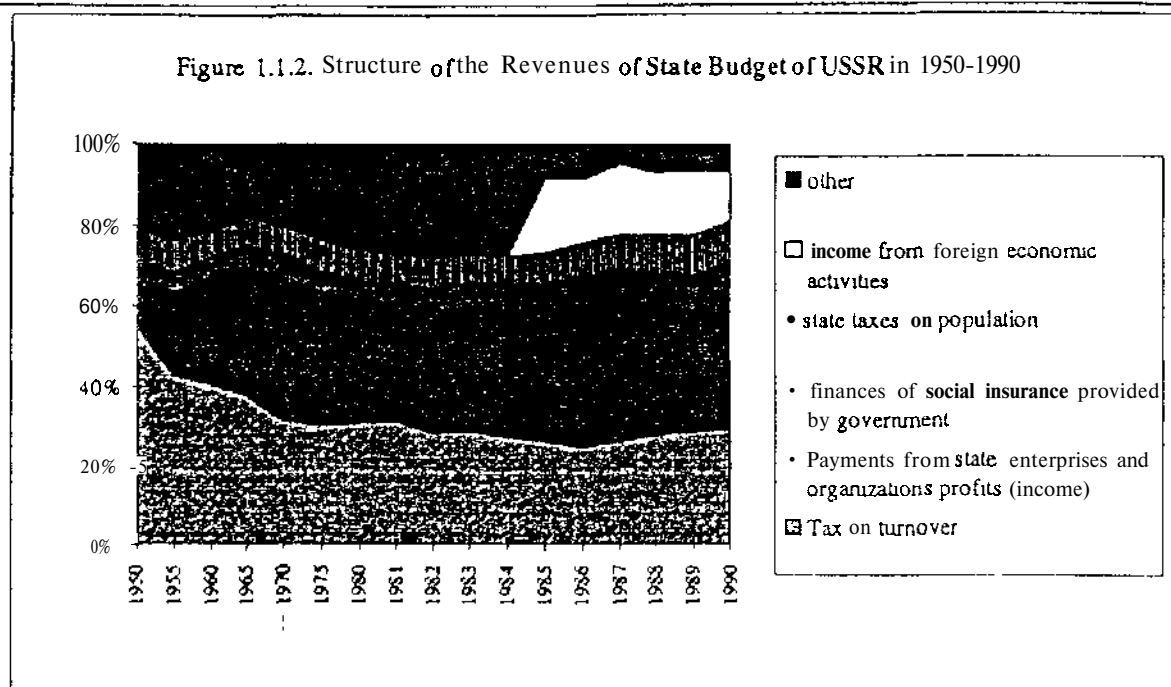
Thus, as regards the period preceding 1992 our studies (except where specified) concern the budgetary system of the Soviet Union.

1.1. Conditions of the budget crisis in Russia in 1991-1994

After World War II and up to the beginning of the 1980s the budget system in the Soviet Union showed a high degree of stability, without any serious fluctuations in volumes and composition of revenue and expenditure, as well as a virtually non-existent or very small budget deficit which was covered, as a rule, by the budget balances at the beginning of the year (Fig 1.1.1).



The main sources of revenue for the USSR consolidated budget included profit payments from enterprises, turnover tax, private income tax and revenue from foreign economic activity (Fig 1.1.2).



1985 was a crucial year, initiating a series of processes that triggered an acute budgetary crisis in 1990-1991. Some of these processes took place on the revenue side of the state budget, some others - on the expenditure side.

The unfavourable change in foreign trade conditions as regards the market for fuels should be mentioned as the first factor contributing to the budget crisis. Despite some growth in the volume of export of crude oil, petroleum products and natural gas, State revenue from the sale of fuels decreased almost twice in 1985-1990 owing to a fall in the world prices.

At the same time a sharp decrease of consumer goods import occurred in 1985-1987. Cuts in consumer goods imports constituted an effort to off-set the overall decline in hard currency proceeds, so that the level of imports as regards machinery, equipment, materials, etc could be maintained at the original level. Nonetheless, the cuts resulted in a decrease of revenue from turnover tax on imported consumer goods. In 1985-1986 the share of imports of consumer goods and raw materials for industry decreased from 36% to 31% in the total imports. The share of machinery and equipment grew from 37% to 41%.

The second most significant precondition of the financial crisis in 1990-1991 was the vigorous boosting of processes of partial economic reform. In the earlier period, operations of enterprises which were not subjected to centralization were determined in five-years plans and defined in more precise terms in annual plans. The entire net revenue was confiscated from enterprises in the form of payments out of profit. 1987 saw the introduction of a new system of state-owned enterprise management under the name of "full cost-accounting and self-financing". Under this system each enterprise was to make payments out of its profit, contributing to funds, governmental and local budgets, and making deductions to the relevant ministry. The remaining profit was shared amongst cost-accounting funds of enterprises. In accordance with the Soviet Act on the state enterprise (association), which went into

effect in January, 1988, product deliveries, economic standards, limits of centrally assigned resources and a series of normative indices were set by way of the government order indicating the required deliveries.

As a consequence, the nature of the Soviet economy was changed in two ways. First, enterprises became strongly oriented towards profit maximization. Second, the enterprises found opportunities to increase their financial results, since the state order did not cover the entire production program of an enterprise.

As a result, the rapid increase of profit in enterprises continued, including also the part of profit which remained at their disposal and was allocated for wages, material incentives and social development (Table 1.1.1). The growth rate of the average monthly wages accelerated from 2-3% up to 8-10% in 1988-1989 and 13% in 1990.

Table 1.1.1. National economy profits, wages & income of population in 1980-1990

	1980	1985	1986	1987	1988	1989	1990
Volume of profits	121,6	175,9	200,6	209,0	240,2	268,2	282,4
in % of previous year	105,4	105,4	108,8	106,9	112,3	109,0	103,9
parts of profits remained at disposal of enterprises & organizations in USSR in 1986-1990	41	45	46	47	50	52	51
mean monthly wage in national economy (rouble)	168,9	190,1	195,6	202,9	219,8	240,4	274,6
in % previous year		102,9	102,9	103,7	108,3	109,4	114,2
Monetary income of population (bil.roubles)	342,3	420,1	435,3	452,1	493,5	558	652,5
in % of previous year	125,9	122,7	103,6	103,9	109,2	113,1	116,9

Approximately in 1988 enterprises obtained the opportunity to manipulate prices of products manufactured in surplus of the state order. Formally such products were manufactured not by the enterprise itself, but by co-operatives and other private and quasi-private entities, controlled by the parent enterprise. Price manipulations concerned also products marketed through commodities exchange, etc.

Table 1.1.2. Dynamics of wholesale & retail prices in 1970-1991

	1970	1975	1980	1985	1986	1987	1988	1989	1990	1991
Retail prices for consumer goods	100	99,7	103	105	102	101	101	102	105	189
Wholesale prices of enterprises & manufacturers	100	98,6	98,1	98,1	111,1	99,7	100,1	100,5	102,7	238,0

Table 1.1.3. STATE BUDGET OF USSR AS PER SECTIONS (mln.roubles, % of GDP) 1980-1990

	1980		1981		1982		1983		1984		1985		1986		1987		1988		1989		1990	
ODP	619000		645000		701600		735400		764300		777000		799000		825000		875000		943000		1000000	
	rouble	% of GDP	rouble	% of GDP	rouble	% of GDP	rouble	% of GDP	rouble	% of GDP	rouble	% of GDP	rouble	% of GDP	rouble	% of GDP	rouble	% of GDP	rouble	% of GDP	rouble	% of GDP
INCOMES																						
Total incomes	301700	48,9	320635,2	49,7	353032,5	50,2	357919,1	48,7	376400	49,1	372600	48,0	371600	46,5	378400	45,9	378900	41,3	401900	42,6	410100	41,0
Tax on turnover	94109	15,1	100396	15,6	100602	14,3	102903	14,0	102712	13,4	97716	12,6	91547	11,5	94445	11,4	100994	11,5	111100	11,8	121200	12,2
Payments from state enterprises and organizations pro fitis (income)	89819	14,5	92432	14,3	102358	14,6	106642	14,5	115556	15,1	119497	15,4	129802	16,2	127398	15,4	119636	13,7	115500	12,2	116500	11,7
tax income on cooperative & social enterprises & organizations	1718	0,3	1864	0,3	1878	0,3	1175	0,3	2612	0,3	2522	0,3	2641	0,3	2854	0,3	2825	0,3	4200	0,4	6400	0,6
finances of social insurance provided by government	13957	2,3	15012	2,3	22349	3,1	23069	3,1	24528	3,2	25382	3,3	26513	3,3	28061	3,4	30077	3,4	33100	3,5	43200	4,3
state taxes on population	24511	4,0	25501	4,0	26638	3,8	27627	3,8	28788	3,8	30018	3,9	31217	3,9	32528	3,9	35870	4,1	41700	4,4	43500	4,4
income from foreign economic activities											71100	9,1	64400	8,1	69319	8,4	62631	7,2	67200	7,1	75200	7,5
other	78586	12,7	85429	13,1	99208	14,1	95503	13,0	101194	13,4	26365	3,4	25471	3,1	23795	2,9	26868	3,1	29100	3,1	4100	0,4
EXPENDITURES																						
Total	294631	47,6	309794	48,0	343150	48,8	354265	48,1	371184	48,6	386469	49,7	417100	52,2	430930	52,2	459526	52,5	482633	51,2	513200	51,3
National economy	161031	26,0	169770	26,3	197289	28,1	201832	27,4	211716	27,7	219452	28,1	226300	28,3	226947	27,5	242824	27,8	200069	21,1	197500	19,7
Social & cultural services	98797	16,0	103635	16,1	109556	15,6	114804	15,6	119658	15,7	125573	16,1	133700	16,7	139964	17,0	151251	17,3	149314	15,8	170000	17,0
Defence	17124	2,8	17054	1,6	17054	2,4	17054	2,3	17054	2,2	19063	2,5	19100	2,4	20244	2,5	20244	1,3	75230	8,0	69100	6,9
Administration	2544	0,4	2638	0,4	2788	0,4	2857	0,4	2861	0,4	2982	0,4	3000	0,4	2924	0,4	3037	0,3	3384	0,4	5100	0,5
Foreign economic activities	0	0,0	0	0,0	0	0,0	0	0,0	0	0,0	15100	1,9	16000	2,3	24600	3,0	26000	3,0	28400	3,0	28500	2,9
Other	15135	2,4	16697	2,6	16463	2,3	17718	2,4	19895	2,6	4299	0,6	17000	2,1	16252	2,0	16169	1,8	16235	2,8	43000	4,3

As a result, wholesale prices growth started to accelerate, accompanied with the preservation of a sufficiently strict control over retail prices. In the presented official statistics (Table 1.1.2) the abrupt upward change of retail prices is observed only in 1991. This fact is attributed to use of the manufacturers' wholesale prices index, i.e. the index that does not take into account the above techniques allowing to evade price control.

The continuing reduction in the effective administrative control over wholesale prices, along with a rather rigid control over retail prices, resulted in the reduction of budget receipts from turnover tax (Table 1.1.3). Moreover, the same trend in 1990-1991 was responsible for an increased burden of budgetary subsidies.

The third factor contributing to the budget crisis was the beginning of the implementation of the economic policy of "Accelerated social and economic development" in 1985. The policy was to initiate the next stage of industrialization of the national economy through rapid growth of investment.

This attempt to accelerate development was made in spite of the fact that by that time the rigid and strict administrative system had ceased to exist and all its means and stimuli had already lost all impact.

Figure 1.1.4. Government investment in USSR in 1980-1990*

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Investment, total (bil.roubles)	133,7	138,8	144,0	152,1	174,3	179,5	194,4	205,4	218,2	228,5	229,8
in % of GDP		103,8	103,7	105,6	114,6	103,0	108,4	105,6	106,2	104,7	100,6

(*) Since January 01, 1984 new estimate prices were introduced

In these prices volume of investments is 150.9 bil.roubles (index 1.129)

Investment growth rates increased from 3% in 1985 to 8.4% in 1986 (Table 1.1.4). Afterwards the rates began to decrease again, until 1990-1991, when investment started to fall. As a result, a sharp growth of budgetary expenditures on investments took place. The Acceleration policy provided also for an increase of investment made by enterprises themselves. That induced a reduction in budget revenues due to the growth of the part of profit withheld by enterprises and remaining at their disposal in accordance with central plans for production development. The decrease of budget receipts from the deductions from enterprise profits, which commenced in 1987, is clearly visible in the data presented in Table 1.1.3. From 1986 until 1989 such payments fell from 16% of GDP to 12% of GDP. The "Acceleration" policy affected also the composition of imports, biased in favour of means of production. As a result, budget revenues from turnover tax were reduced.

The fourth factor which contributed to the worsening of budget problems momentum and which was specific for the situation in the USSR, included the results of the campaign combatting hard drinking and alcoholism, implemented in 1985. As a

result, budget revenues from turnover tax were reduced. In comparison with 1984 figures, in 1985 the sales of vodka and strong spirits in the USSR fell 14%, in 1986 - by 45%, in 1987 - by 57%; the sales of wine were down by 20%, 60% and 67%, respectively. As a result, budget revenues from turnover tax (Table 1.1.3) fell from 13.5% of GDP (in 1984) to 11.5% of GDP (in 1986-1987). The reduction of public revenues from the sale of alcohol accounted for almost 10 billion rouble (slightly over 1% of GDP) in 1985-1988. It was not until 1988 that the turning point was reached, because of a lack of enthusiasm as regards the anti-alcohol campaign. The rapid growth of revenue from the production of alcoholic beverages and restoration of the traditional proportion of such revenue in the budget began in 1989.

The fifth factor, which is hard to confirm in a quantitative manner due to the lack of appropriate statistics, is related to the growth military expenditure, connected with the war in Afghanistan and the new stage in the arms race, generated by the tense international situation.

In the beginning of 1989 the budget situation started to cause serious anxiety among the governing circles of the nation. Hence, starting from March 1989, attempts were made to strengthen a rigid budget policy. A series of governmental and party decisions were made, determining the necessity to reduce investment growth, introduce cuts on military spending, continue the manufacturing of alcoholic beverages and increase the share of consumer goods in the total import. The decisions also set the goal of restricting the social expense growth. The investment cycle that had started in 1984-1985 was not completed by introduction of adjustments into the budget, as had been traditionally the case. The reduction of government investment expenditure in 1989 resulted in a series of natural negative consequences: increasing number of incomplete construction projects, longer delays in the commissioning of industrial project, reduction of industrial production output in these industries which are closely tied to investment levels. At the same time, investment cuts failed to bring about positive results as regards the budget, due to the abrupt growth of social expenditure and subsidies in the budget (Table 1.1.3).

Growth of social expenditure was driven by the general liberalization of social life. The 1st Congress of People's Deputies of the USSR caused a splash of populism and expansion of social programs. Efforts aimed at a more strict budget policy were seriously criticised. The pension reform was outlined, and assistance programmes for veterans, students, families with children, etc, were approved.

Growth of social expenditure (by 1.2% of GDP) and subsidies related to the price growth (over 1% of GDP) in 1990 outweighed the effect of a decline in investment and defence expenditure, the growth of revenue from the sale of spirits and import of consumer goods (Table 1.1.3).

In 1990 the legislative basis for the tax reform was set. The USSR laws regulating taxes levied from enterprises and private persons, as well as regulations governing their enforcement in Russian Federation were adopted. The overall direction of tax reform implemented in Russia is in general consistent with the main lines of reform in Eastern European countries. The reform included the transition from an individualized distribution of profit between enterprises and the budget to the tax

on profits, transformation of turnover tax and customs dues, modification of the personal income tax with the introduction of tax returns, modification of the social insurance system and other items.

1.2. Economic policy in 1991

Serious changes in the USSR economy took place in 1991.

AH of a sudden the traditional tools of economic administration, including the planning of tasks concerning production volumes and efficiency in enterprises, centrally fixed prices, funds and limits regulating product deliveries and resource acquisition became void. The process was accompanied by the total liberalization of social life, changing and removing these groups of interest and stimuli that previously constituted the driving force for administrative management system.

In 1988-1990, new laws setting the framework for the economic liberalization included the Co-operative Law (1988), Banking Law, Act on the Central Bank (1988); State enterprise Law (1987), Ownership law (1990), etc.

Nonetheless, all these measures failed to pave the way for the introduction of market mechanism governing economic processes, but only weakened administrative tools used for enterprise management, provided managers with a certain degree of freedom as regards administrative decisions, under circumstances where all parameters and measurements were utterly distorted and could not be used to set goals for economic activities. As a result, products and resources deficit started to reappear at an increased scale. Prices started to grow more and more rapidly, along with the domestic product and forced savings.

Implementation of a series of measures introducing economic liberalisation was necessary in order to stave off these phenomena, but the central government failed to make conclusive decisions with respect to a serious modification of the economic policy. Instead, the government continued the implementation of partial reforms and petty improvements of economic mechanisms. As a result, the material and financial disproportions continued to rise throughout the entire year. Postponement of radical changes was strengthening the social tensions and casting a more and more sombre shadow over the future reform.

In order to balance revenues and expenditures of the USSR budget in 1991, at least in the formal manner, the government went as far as to impose some additional taxes. The following taxes were imposed: wages fund tax which contributed to the stabilization fund; social insurance contributions were increased to 26%; a part (20%) of enterprise depreciation charges was also levied as a form of quasi-tax. At the same time the mandatory sale of a part of hard currency earnings realized by exporters was also established.

These measures were intended to increase the level of budget revenues to 55% GDP, while during the previous years these revenues accounted for 40-45% of GDP. New taxes and contributions were to off set the following budget disproportions accumulated over the previous years: growth of social expenses (budget and extra-budgetary funds), strong increase of price subsidies, due to the increase of prices

of agricultural products, introduced centrally, (autumn 1990) and the increased wholesale prices of industrial products (January 1991).

It was quite obvious, however, that such measures were not realistic. By the end of 1991, laws concerning the application of the USSR tax laws on the territory of the Russian Federation were adopted, on the basis of the Republic's declaration of independence. These documents initiated the "budget warfare" during which the Union government strove to keep its control over the budget system, and the Russian government tried to ensure its autonomy.

In the course of such activities, which disorganised economic life, legislative authorities and governments at all levels were making decisions that contradicted the initial budget estimates. Rates as regards personal income tax and tax on profits were lowered, sales tax was transformed from a cumulative ad valorem tax (as it had been provided for in the draft regulation) into an analogue of value added tax; moreover, zero sales tax was introduced with respect to numerous products.

As early as in the first quarter of 1991 the lack of realism in the construction of budgets adopted in the USSR and in Russia was quite obvious. As regards the revenue side of these budgets, the situation was disastrous: the Union budget was performed to a mere 40%, while the Russian one was performed in 60%.

An effort to improve budget situation at all budgeting levels resulted in the reform of retail prices, implemented on 2nd April, 1991, developed in order to strongly reduce the load of subsidies burdening the budget, enhance revenues from turnover tax, limit the sphere in which prices were controlled in an administrative manner.

However, retail prices reform, which implied mainly price increases generated in an administrative manner did not bring forth any improvements in the budget situation. This can be explained by the degradation of traditional means of performing centralized control over price movements and the domestic product.

The stability of wholesale prices and the freeze imposed upon the revenues of the population (which could not grow over 85% of the amounts compensating for price rises) constituted the main requirements as regards the effectiveness of the price reform and its influence upon the budget. The government was, however, unable to ensure that these conditions are met. In fact, nominal revenues rose twice, instead of the planned 1.3 times. Retail prices grew 1.9 times instead of 1.6 times; wholesale prices - 2.4 instead of 1.95 times. In the light industry and food industry, which accounted for a very significant part of turnover tax received by the budget, the growth of wholesale prices was even higher; 3.1 and 2.6 times, respectively. As a result, budget revenues from turnover tax were lower than had been planned, while budgetary expenditures, both allocated for the price increase compensation and for the support of organizations financed from the budget, military and investment expenditure, etc., were higher than had been assumed.

In the summer of 1991 tensions in the relations between the Union and the Russian government continued to grow. After the suppression of the coup attempt on

19th - 21st August, 1991, the actual independence of the republics was largely increased, leading to a full collapse of the national budgetary system.

Starting from 1st November, 1991, Russia terminated transfers of the amounts levied within its territory and agreed to finance the expenditures that had so far been covered from the Union budget and the economy stabilization fund.

Thus, the study of the performance of the Union budget has to end in October, 1991. According to the official statistics, the 1991 Union budget accounted for 83.2 billion rouble, while the total budget figure (including the Union extra-budgetary fund for economic stabilisation) amounted to 119.6 billion rouble. There was a deficit as regards the budget of the Russian Federation (taking into account the settlement of price differences concerning agricultural produce, operated at the expense of credit resources). As a whole, the deficit of the consolidated budget of the former USSR states increased from 10% of GDP in 1990 to approximately 13-16% in 1991.

The above data, however, fail to include all financial operations performed by the government. According to evaluations performed by the World Bank, the budget deficit was financed from surplus (forced) savings belonging to the population and enterprises. The monetary and credit system received funds from enterprises, amounting to 10.3% of GDP (total deposits made by enterprises in 1991 accounted for 14% of GDP). Funds from private deposits amounted to 21% of GDP. The positive balance of Russia's external settlements accounted for 1.5% of GDP. Thus, in 1991, the Russian budget deficit was assessed to account for 30.9% of GDP (See Russian Economic Reform. Crossing the Threshold of Structural Change. World Bank, 1992).

1.3. Economic policy in 1992-1993

By the end of 1991, it became obvious that a gradual conversion of the administrative economic system into a market economy would not be feasible. Legislative gaps, the absence of the necessary market institutions, an overwhelming prevalence of state ownership, and the high amount of monopolies were hindering the implementation of stabilization measures. Thus, the liberalization of prices and markets, while all macroeconomic proportions remained utterly out of balance, could lead to hyperinflation. The complete break-down of the financial system, however, did not allow any time for the implementation of measures which would permit an institutional transformation and partial stabilization that would precede the liberalization of prices.

Thus, the aggregate financial situation which has been described above, as well as the accelerating decline of production and foreign trade, made it necessary to implement comprehensive economic reforms in Russia within the shortest delay possible.

1.3.1. Liberalization of prices and inflation processes

The liberalization of a majority of prices merely legalized the complete collapse of the government-controlled price system and turned suppressed inflation into an overt process. Government's efforts to avoid hyperinflation in the course of price

liberalization and the liquidation of the monetary "overhang" required the enforcement of a tough budgetary and monetary policy.

In January, 1992, after the liberalization, consumer prices grew 3.5 times and wholesale prices grew 4.8 times, as compared to December, 1991. In the subsequent months, until summer 1992, inflation rates were reduced to approximately 10% per month as regards retail prices, and 12-15% as regards wholesale prices. In the autumn the average monthly increase of retail and wholesale prices reached 25-26%. As a result, over the entire year, prices of consumer goods and services grew by 2600%, while wholesale prices of industrial goods increased by 3400% (Table 1.3.1).

As has been pointed out by different authors, the change in prices recorded in 1993 reflected, with a certain delay, the dynamics of the main monetary aggregates (Table 1.3.1).

The rate of exchange of rouble, in relation to US dollar, grew by 132% during that year and reached 418 roubles by December 1992. The average rate of exchange during that year was 248 rouble.

The above data illustrate the relatively strict monetary policy implemented in winter and autumn of 1992. Rates of growth as regards M2 monetary aggregate were within the range of 9-14%. These figures are relatively small, judged against the background of an abrupt fall of demand for money. During that period this constituted the main factor behind the inflation. By June the demand for money was generally stabilized, and inflation began to be determined essentially by the growth of money supply. At the same time, a considerable growth of cash resources was recorded during the same period.

In 1992, when Central Bank credit volume grew 24.4 times, the volume of credit for commercial banks increased 19.6 times, and credit for the government - 18.1 times. Credit for the states belonging to the rouble zone, which began to be granted in February, 1992, amounted to 1566 billion roubles in December. Credit granted to the government represented nearly 37.3% of incremental credit granted by the Central Bank; credit for commercial banks - 38.2%; credit for the rouble zone states - 24%.

Investment credit was extensively used in order to solve the problems related to the support granted to the national industry, agriculture and other sectors, as well as in order to overcome the crisis resulting from enterprises' insolvency. A marked seasonal fluctuation of the Russian national economy exerted a considerable influence upon such an extensive growth of credit. By the end of spring large credits were allocated to agricultural manufacturers and enterprises responsible for the supply of products to the regions of the Far North. Virtually the entire amount of such credit was granted upon preferential terms and the financing required for credit service was assigned from the Republic's budget.

In July and August the rate of growth of the Central Bank credit was extremely high, reaching 50% monthly. It was not until September that the growth rates were slightly reduced.

An interesting event which took place in autumn, 1992, consisted of the implementation of a rather strict budget policy against the background of a

considerable cash growth. In October and November volumes of Central Bank credit granted to the government recorded practically no growth, and the growth of the central credit in the fourth quarter was mainly related to credit granted to commercial banks. A significant role in this process was played by the procedure of mutual offsetting of enterprise liabilities.

The high rates of prices increase continued in early 1993. On the other hand, as is clearly visible from the presented data (Table 1.3.1), monthly rates of M2 cash growth in 1993 (16%) were somewhat lower than in 1992 (average 19-20%). At the same time the average monthly rates of prices rise in 1993 (23%) were somewhat lower than in 1992 (21%), excluding the rapid rise recorded in January.

In 1993, serious changes occurred both as regards the composition of cash resources and the sources of their growth. The average monthly rate of growth for the Central Bank credit over the twelve months of 1993 amounted to some 14.6%. A considerable growth was observed in March, when credit granted to the Government increased at a rapid rate.

The growth in Central Bank credit volume amounted to 275%, of which approximately 51.2% corresponded to credit granted to the government; 34% to credit for commercial banks and 13.8% to credit granted to the states belonging to the rouble zone.

During the first two months more than half of the Central Bank credit was granted for CIS governments. Then the situation changed: starting from May the Central Bank abandoned the provision of credit to the rouble zone states. Starting from that time the credit was to be channelled through the federal budget and was to undergo a considerable reduction.

In 1993, the total M2 increase amounted to 316%. During that year the share of credit allocated to the government accounted for 51% of the overall credit growth in the Central Bank; credit for commercial banks - 34%; for CIS - 14%.

The rate of exchange of rouble rose from 442 rouble per dollar in January 1993 to 1247 rouble in December, resulting in a 198% rate growth. The average rate of exchange during that year amounted to 1034 rouble per one USD.

The accumulation of foreign reserves of the Russian Federation, generated mainly as a result of the mandatory sale of a part of hard currency proceeds operated by exporters and the purchase of currencies by Central Bank yielded a significant influence upon the monetary situation in 1993. Russian foreign reserves grew considerably in 1993 (from 2.8 billion dollars to 4.9 billion) and in the first half of 1994.

In 1994, the growth of Central Bank credit amounted to 213%. The average monthly rate of growth of Central Bank credit during twelve months was 11.2%. A considerable growth was recorded at the beginning of the year (in February - to 18%) and July-August (by 17%) which resulted mainly from the growth of credit granted to the government.

Overall, during that year, M2 increased by 188.9%, with the average annual growth rate at 9.1%. In April M2 grew by 17% and this situation continued also in May-June (13%), constituting one of the elements which contributed to the inflation in October (15%) and December (10%). These phenomena confirm the hypothesis stating that there is a 4-5-months' delay between the growth of cash resources and inflation. Annual inflation rate by December, 1993, amounted to 300%,

By the end of the year the rate of exchange of the rouble in relation to the US dollar amounted to 3550 dollar: 184% more than in December 1993.

1.3.2. Banking system¹

In 1992-1994 the banking sector did not undergo any radical reforms, since the major changes had been introduced at an earlier stage, by way of implementation of RSFSR Act on banks and banking activities in the RSFSR, dated December, 1990 and the Act on the Central Bank of the USSR.

Before 1989 the banking system had been a one-level system: there were six governmental specialized banks which shared amongst themselves all existing customers. The central bank, in the proper traditional meaning of the term, did not exist, because the total volume of credits investments, distribution of credit between banks and directions for the use of credit were determined in the governmental plan. Since 1989, first commercial banks begun to appear on the scene, however, their number and the scope of operations of these banks was insignificant

Since 1991, the number of commercial banks started to grow like an avalanche. All subordinated branches of the governmental specialized banks (except the State Bank) were declared independent in accordance with legal prescriptions. They were allowed to choose their own customers and to grant credit in an autonomous manner. The Central Bank of the Russian Federation and its local branches were established, replacing the former State Bank. According to the "Central Bank Law", the Central Bank deals with the refinancing of commercial banks, manages the federal budget accounts, settles accounts between banks, issues licenses for banking activities and supervises the activities carried out by commercial banks.

At first (in 1989), operations performed by commercial banks were limited to the opening of settlement accounts and the granting of credit. Then banks obtained the permission to render cash services for their customers. Since 1991, second-tier banks were allowed to handle foreign currency operations, both inside the country and abroad. Furthermore, commercial banks carry out operations involving government securities and the securities issued by non-financial corporations, as well as leasing and trusteeship operations.

Until 1992 the settlement of accounts between banks was being carried out by way of inter-branch clearings. Such a system of settlements, a remainder from the one-level system, was not consistent with the two-tiers banking system because it gave some banks the opportunity to pay their customers' invoices at the expense of

¹ this section was compiled by G. Gritsenko

other banks, without any formal agreement on interbank credit. For this reason, in 1992 all commercial banks were ordered to perform settlements through correspondent accounts, which were opened either at the Central Bank settlement-cash service centres, or directly by the bank in question with some other bank.

In 1992-1994 the growth of number of new commercial banks was accompanied by the closing down or restructuring of the already existing ones. Restructuring by merger applied to these banks which were unable to meet the requirements of the supervisory authorities as regards liquidity standards, in case when only a merger with another bank could save the bank from closing down. Licenses for banking operations were withdrawn from a number of banks, due either to the insolvency of their customers, or as a result of risky credit operations of these banks which led them to incur heavy losses, resulting in heavy debt in other banks exceeding their reserve accounts.

1.3.3. Liberalization of foreign trade²

By the beginning of 1992 the reform of foreign economic activities in Russia had already gone through a number of stages. At the onset of perestroika the decomposition of the government monopoly over foreign economic activities began, Twenty-one USSR ministries and all the republics of the Union were granted the right to carry out export and import in a direct manner. In 1988, practically all industrial ministries obtained this right by way of government regulations. As early as by the end of 1988 the number of enterprises entitled to direct approach to the world market exceeded 200. By the end of 1990 around 26 thousand such enterprises were registered, but the volume and scope of their transactions still remained rather insignificant (in 1988-1990 their operations accounted for slightly more than 1% of the trade turnover).

In order to develop the money market, free sales and purchases of currency funds in exchange rouble at "contractual" prices were arranged for. Such transactions were carried out at foreign currency auctions that were organised by the Bank for Foreign Economic Activities of the USSR starting from November, 1989. This technique was somewhat modified by the Presidential Decree dated 2nd November, 1990, which provided for the establishment of a special fund to which enterprises involved in export sales had to sell 40% of their currency proceeds, against rouble, at the commercial rate of exchange.

In March, 1989, the list of products (works, services), covered by import and export licences was published. Initially this list of products covered by mandatory export licensing comprised a comparatively small number of items, mainly fuel and raw materials, which accounted for a significant part of export in terms of cost. Later on this list was extended and in 1991 over 90% of export items were subject to licensing.

² this section was compiled by S. Prihodko

In 1992, measures leading to the liberalization of foreign economic activities were accompanied by the toughening of strict administrative regulations. Allocation and licensing of exports was introduced within the territory of the Russian Federation. Since January, 1992, the mandatory sale of 40% of currency proceeds at the special rate and the sale of 10% of proceeds at the market rate was introduced, along with export tariffs.

Until mid-1992, imported commodities were free from customs tariffs, which facilitated the rapid growth of consumer goods import. Nevertheless, a temporary customs tariff was introduced in July, and a regular, permanent tariff was implemented in September. Also in July limits on the export of strategically important raw materials were imposed, by way of the introduction of the special exporter status. On the other hand, the universal floating rate of exchange of the rouble to dollar became effective in July 1992, and the limits imposed on the sale of foreign currencies to private persons and the mandatory sale of currencies at a fixed rate were abolished.

Measures intended to restrain export sales (customs duties, licenses, quotas, mandatory sale of currency) turned out to be more effective than any measures intended to provide positive stimuli. Attempts to stop the sharp decline of exports, causing a reduction of foreign currency inflow needed for imports, failed. Exports of products which were not covered by regulations were decreasing 1.5-2 times faster than the average.

The budget situation was most seriously affected by the introduction of the system of subsidies for centralized purchase of imported goods, which was based upon subsidy coefficients.

In 1993, the stimulation of export activities was carried out by means of strengthened governmental regulation combined with an effort to protect the trade in the power and fuels industry, food and agricultural industry and engineering complexes. As early as by the end of 1992, the institution of "special exporters" was reduced to a considerable extent, and at the beginning of 1993 the allocation procedure for wood and timber exports was restored. At the same time the fuel and power industry was given customs and tax preferences for export deliveries within the scope of governmental needs. By the end of 1993, export tariffs were reduced on the average by 50% and the list of goods subject to export duties was almost twice shorter than it had been initially. Foreign currency revenues from export activities, however, were considerably lower than expected. The system of allocations and export preferences granted to the centralized exporters was not capable of defending itself.

1993 was a hard year for the Russian imports, due to the removal of centralized import subsidies and the implemented customs and tax policy. During 1993, the volume of imports fell by 27%. In the first quarter of 1993 value-added tax was imposed on imported goods and import customs duties were increased. During the whole year the excise rates were revised, and as a result, by the end of that year, they reached prohibitive levels as regards certain types of goods, e.g. vehicles. In November, 1993, customs duties were increased once again, and in December

regulations concerning import activities carried out by natural persons were made more strict.

The Presidential Decree No 1007 on the abolition of allocation and licensing of export deliveries of goods and services, dated 23rd May, 1994, which was slightly amended, became an important document that confirmed the new rules of governing the control over foreign economic activities. Detailed by-laws to the above Decree stated that all the former tariff preferences regarding deliveries of crude oil and petroleum products would remain in force throughout 1994. In 1994, goods exported from the customs territory of the Russian Federation, falling within the limits of export deliveries intended to meet federal government's needs, continued to be exempt from customs duties. Since 1st January crude oil, gas as well as oil and gas processing products were exempt from duties within the framework of export allocation corresponding to the government needs. Fixed assets intended for use in the industry, purchased by oil processing enterprises in exchange for the proceeds from export of crude oil, gas and processed products were exempt from import duties.

In 1994, export was operated according to five different methods, called regimes: crude oil and petroleum products regime; strategically important raw materials regime; regime regulating the delivery of goods exported under international commitments made by Russia; special export procedure (weapons, dual designation goods, medicine, nuclear materials, etc.); and export contracts registration regime.

On 1st July, 1994 new import tariff was introduced in the Russian Federation. New rates had the most impact as regards food products, which until recently had been free from all import duties.

Since 1st January, 1994, a new tax on imported goods was introduced; exported goods, both produced and acquired, exported services and works, certain kinds of goods were exempted from value-added tax in case of their import into Russia.

In 1994, the domestic sale of goods and services in exchange for foreign currencies (cash) was abolished. The procedure governing the transfer of goods which are not intended for industrial or other commercial activities across the customs border, operated by natural persons, was changed: the value of duty-free import was reduced 2.5 times.

1.3.4. Privatization³

Since November, 1991, the activities in the field of practical introduction of privatization gained strong momentum. The government of B. Yeltsin - E. Gaidar, having at the outset proclaimed privatization as one of the key components of the economic reform, pressed for the development of privatization, but at the same time had no real possibility of immediately gaining control over the privatization process. For this reason, one of the peculiarities of the economic reform program pursued by this government was the liberalization of prices preceding the commencement of large-scale official privatization.

³ this section was compiled by A. Radyghin

This resulted from the fact that it was not viable to expect the completion of the "large" privatization due to an extreme deficit of goods in 1991, as well as intensive spontaneous privatization.

As early as on 29th December, 1991, "The main provisions of the privatization programme for governmental and municipal enterprises in the Russian Federation for 1992" were adopted, and their implementation began on 1st January, 1992. The "Provisions" actually became the first document regulating the practical privatization process and initiating programmed (i.e. not spontaneous) privatization in Russia. Nowadays, the normative basis of Russian privatization comprises over 200 key documents alone.

Regardless of all tensions resulting from the political duelling involved in the Russian privatization problems "at high and nether places", the actual privatization process in 1992-1994 was developing with a sufficient intensity. By 1st July, 1994, over 40% of all small enterprises in Russia were privatized within the framework of "small" privatisation; more than 70% of privatization applications had been settled by that time. In the course of "large privatization" over 20 000 joint-stock companies were established on the basis of medium and large state-owned enterprises, by 1st July, 1994. In mid-1994 the number of shareholders in the newly established joint-stock companies or cheque investment funds was about 40 million.

Within the Russian privatization program a special place was assigned to the cheque privatization. Decision on the introduction of the cheque-based model (summer of 1992) as a method of stimulating privatization processes in Russia was adopted under the circumstances of a lack of solvent demand on the part of the population; "zero" interest in the Russian privatization on the part of foreign investors; existence of over 240 000 governmental and municipal enterprises (which required standard privatization procedures); necessity of achieving the maximum pace of the legal privatization process in order to lock the intensive spontaneous privatization and ensure irreversibility of economic reform in general; necessity to create new social Strata which would not be interested in a communist revenge.

All these economic and political factors determined the development and launching of the Russian cheque model. What were its strategic goals?

There was only one real goal: to achieve a temporary, large-scale redistribution and fixation of private ownership rights in Russia, with minimum social conflicts, in order to permit further transactions in favour of really effective and responsible owners. Taking into account the conditions under which the privatization process in Russia had started, and the true goal of the Russian version of mass privatization, cheque method becomes quite admissible.

The first stage of the Russian privatization is connected with end of the functioning of the cheque method. This stage began in 1992 and was completed on 30th June, 1994. Despite numerous economic, political and social costs related to the circulation of cheques, the real principal goal, i.e. mass re-distribution and consolidation of ownership rights on the national scale was achieved. Even if the changes were still somewhat formal and not so "civilized", however, the following

elements already existed in Russia by mid-1994, mainly due to the use of the cheque method:

- corporate sector in economy;
- exchange markets for securities and securities markets outside the scope of the exchange, including infrastructure for the trade in privatization cheques, auction systems for privatization and secondary market for the shares of privatized enterprises;
- institutional system (still transitory, but already rather powerful) in the form of investment funds and other structures;
- a social stratum, which - with numerous reservations and without forgetting its extreme heterogeneity and legal defencelessness - nonetheless may be termed as the owners stratum.

It can already be said that, mainly due to the implemented privatization program of 1992-1994, any reintroduction of the government monopoly and administrative and bureaucratic control over Russian enterprises would be difficult to achieve; however, it is still too early to dismiss such a probability. In a broader sense, enormous changes for the better which took place in the sphere of property relations have created the basis for modifications and relations of power within the Russian society. During that period the issue of organizational restructuring of Russian enterprises and the attraction of investment was not, as a rule, raised in real terms. At best, the only solution as regards these issues was the acquisition of a share in stock by relatively large foreign investors - however, the interest acquired by foreign investors, at least at the first stage, would not be a controlling one.

Thus, a potential investor on the secondary market must take into account the property structure which has already been introduced in Russia and its possible dynamics, as well as changes in privatization ideology introduced in mid-1994.

The second stage, which began in July, 1994, must be oriented precisely towards the redistribution of property rights acquired in the course of the initial distribution, so that the shares reach the really responsible owners. This process should be made effective and should be provided with legal safeguards.

As regards privatization proper, this would mean first of all a transition from the system of property distribution operated free of charge to its real sale, from the accelerated "privatization for the sake of privatization" constituting the quantitative basis for the reform - to a slow privatization directed towards restructuring and investment.

To put this in another way: the new privatization model must be based on two underlying key concepts, determining the methods applied at least within the "large privatization": sales should be investment-oriented, providing the investor with an opportunity of acquisition of the controlling block of shares in the course of the initial share placement.

Apart from the purely privatization-related tasks, there is a number of tasks which it will take longer to fulfil: to ensure a dynamic and effective development of

the Russian share market, real-property markets (including land), development of a network of investment institutions, a civilized system of corporate management, which are the most important conditions for the effective functioning of the Russian privatized enterprises.

1.3.5. Agrarian reform⁴

The main direction of reforms in the agriculture was pragmatically economic-driven - to render agriculture more effective and less heavy for the budget.

The first steps made in this direction were aimed to create development opportunities for family farmer units. The first experimental attempts of this kind were made in 1987-1988. But already during the period of reforming efforts it became obvious that only 10-15% of peasants wished to manage their land independently, and private-owned farming sector would be unable to become the principal force in the nation's agriculture in medium-term prospective. This situation caused the necessity to re-organize the existing collective and Soviet farms and transform them into market-oriented entities.

By the end of 1991 the main decisions that initiated the current stage of reform were made.

All collective and Soviet farms were to be re-organized within a year. In the course of this rather formal procedure their employees were granted collective ownership of practically the entire cultivated land and the funds. All funds were divided amongst workers and pensioners in the form of shares; land was to be divided into equal parts and allocated in proportion to the number of years a given person has worked at the farm. Share owners had the right to take their shares in kind, leave the farm to run their own farming plots, or contribute their shares to the collective entity and remain at work.

Land shares turned out to be, by the Russian standards, not so vast: 6-10 hectares per person. The possibility to sell and rent the shares to a collective or Soviet farm was provided for in order to avoid land fragmentation. Thus, a peasant wishing to establish his own farm, could enlarge his plot by buying or renting his neighbour's shares.

As a result, the number of farmers increased sharply, from less than 50 thousand at the beginning of 1992, to already over 285 thousand farmers today. Problems related to land acquisition ceased to constitute the main source of worries. The farming sector now accounts for about 5-6% of the nation's agriculture.

During the recent years practically all the collective and Soviet farms have been re-organized. At first, they could be transformed into joint stock companies or production co-operatives. A majority of agricultural entities went this way,

Second, in spring of 1992, the government, having encountered a certain resistance on the part of peasants, allowed those farms that were unwilling to be

⁴ this section was compiled by E. Serova

re-organized to maintain their former status. Today about one-third of farms continue in the form of collective and Soviet farms. Nonetheless, even these farms took over land and funds and, as a rule, divided them into shares.

The third, and the most radical re-organization method consisted of a complete liquidation of an old agricultural unit and its division into farming units, agricultural co-operatives or private service companies and co-operatives. As a rule, such enterprises jointly use and maintain the infrastructure of a former farm. The number of farms which were reorganised in this manner amounts to about one thousand (from amongst 27 thousand collective and Soviet farms).

At first, it was supposed that the division of land and funds into shares would create a strong incentive for employees and companies. The objective was to cut agricultural enterprises from the government financing, marketing and procurement systems in the formal and legal way, at the same time waiting for the enterprise to commence its own restructuring effort under the influence of the market, so as to adapt to the new situation.

Such changes were expected in the long run and could not take place rapidly. Nonetheless, three main trends as regards the transformation of former collective and Soviet farms can already be discerned.

The first trend leads eventually into the division of an agricultural enterprise into smaller independent production units - family farms, partnerships, co-operatives, etc.

The second method of economic transformation of large farming enterprises is typical for these areas in which large-scale extensive grain production is located, with skilled personnel, high productivity levels and large funds. Such enterprises undergo the process of property concentration in the hands of a small group of owners who purchase, exchange and rent additional land areas.

Finally, the third way - the least desirable, but evidently unavoidable in the current situation - is rather typical for many areas in Nechernozemye regions of Russia. Most probably, a majority of agricultural enterprises located in this zone will formally preserve the status of a collective enterprise (regardless of their current designation - collective farm or joint-stock company), but peasants will chiefly work on their own small plots of land. Production will drop to the survival level, permitting the subsistence of peasant families. With the growing demand for agricultural products in the medium term, the most viable of these farms will constitute the basis for the future development of farming in these regions.

Besides institutional changes in agriculture, market economy has begun to emerge. The government purchases system undergoes liquidation, in spite of some administrative relapses at the federal and regional levels. Commercial intermediary structures, i.e. organized markets, begin to emerge, along with vertical agro-industrial integration. It must be noted that numerous crisis-related phenomena in the food manufacturing sector are connected with the fact that the government withdrew from the agricultural market more rapidly than the market infrastructure could develop.

As regards purchases, price control as regards wholesale and retail prices in the food sector at the federal level has been fully abandoned. The market for agricultural

machinery and fertilizers is sufficiently liberalized, even though the demand on this market has fallen due to financial restrictions.

The agricultural crediting system remains one of the least reformed spheres of the agricultural sector. With the persisting high rates of inflation agriculture cannot do without the support of governmental credit. Nonetheless, the old system governing the distribution of financing still persists, causing very inefficient use of credit.

Today, the focus as regards reform in agriculture shifts from institutional changes to the creation of an adequate market infrastructure for agricultural producers and consolidation of an effective governmental policy in agriculture.

1.3.6. Budget policy

Basic principles of the tax reform that is being carried out since 1992 were to stabilize tax collections at the level corresponding to the levels that existed in the USSR in 1988-1990; to ensure maximum possible continuity of the tax system as regards the proportion of indirect taxes that allows to ensure the stability of budget revenues while prices are rising; to create equal tax conditions for all forms of ownership.

The financial policy pursued since 1992 has gone through three rather distinct stages. The first stage, from the beginning of the year until the end of spring, featured a relatively strict budget policy; the second, in the summer of the same year was marked by a relaxation of the budget policy and rapid growth of the deficit in the government finance, the third from autumn to December included the adoption of extraordinary restrictive measures and more strict budget policy.

The initial draft budget for the first quarter of 1992 established the budgetary balance by introducing severe expenditure cuts (starting with cuts as regards national economy and defence) and providing for a rather large share of governmental revenue in GDP.

In the first three months of 1992 consolidated budget revenues amounted to 19.1% of GDP, expenditure - 19.5% GDP. Budget deficit in the period from January until March amounted to ca 0.4% of GDP. Budget expenditures were made along with the collection of revenue. In April the relatively strict budget policy was continued and the cash deficit of the budget amounted to 1% GDP.

By the middle of the summer pressures exerted upon the Government and the President, as regards the provision of financial support for the population and enterprises began to increase. As a result, in the period from May to August, about twenty regulations of the Russian Federation, presidential decrees and government orders were adopted, requiring additional funding in 1992, at over 2% of GDP, to be used for social purposes. Support for the industry, agriculture and other sectors, as well as resources bailing companies out in case of insolvency were granted from expanded Central Bank credit

In comparison with the first quarter, during the first six months of the year the consolidated budget expenditure for the national economy grew from 5.8% up to

8.4% of GDP, social expenditure grew from 5% of GDP to 6.8% GDP and defence spending was up from 3.2% to 4.7% GDP.

These processes, along with a shortage of budget revenues as compared to the plan resulted in a considerable worsening of the financial situation of the budget. Budget deficit in the first half of 1992 amounted to 6.2% GDP. In July the deficit reached 7.7% GDP and over a period of eight first months it amounted to 10.8% GDP.

Accelerated price increases and a decline in the rate of exchange of rouble, recorded in the summer, were caused by the growth of cash resources, which has already been described above, along with the monetization of the budget deficit by way of granting credit to enterprises, as well as the favourable balance of trade with other states belonging to the rouble zone.

Due to the above, the strengthening of the restrictive budget policy in autumn, 1992, became one of the major tasks of the Government. In order to maintain the budget deficit within the range determined by the Act on the 1992 budgetary system of the Russian Federation (901.5 billion roubles) it was necessary to constrain the increase of deficit in September-October to a maximum of 130 billion roubles, which in practice meant a possibility of an absolute increase of the deficit by 13.6% of the planned annual amount.

In September-November state expenditure was cut sharply. At the same time, in October-November 1992, tax proceeds increased to a considerable degree. Budget tax revenues increased from 23% of GDP in September to 26.7% of GDP in November 1992 (Table 1.3.2)⁵.

As a result, in September, the budget deficit of the Republic decreased from 820 billion roubles to 716 roubles, or to 7.5% of GDP. Of course, the situation involved also a certain degree of budgetary debt with respect to social sphere institutions, labour remuneration, settlement of accounts for the delivery of weapons and agricultural enterprises. These expenditures were financed along with the collection of revenues.

In October, 1992, the actual deficit of the federal budget amounted to 4.4% of GDP. In December the budget deficit of the Republic fell to 4.2% of GDP. The federal budget deficit over the twelve months, according to official statistics, amounted to 950 billion roubles (5.3% of GDP); i.e. slightly more than the limiting value of the deficit determined by the Act on the 1992 budgetary system of the Russian Federation. At the same time the expenditure growth in the consolidated budget in December, after the dismissal of E. Gaidar, totalled over 60% of monthly GDP. As regards local budgets, the annual surplus of revenues over expenditure amounted to 316 billion roubles.

The budget policy in 1993 went through two quite distinct periods. The first one lasted from January till September, 1993, until the date of publication of the Presidential Decree No. 1400 on the gradual constitutional reform in the Russian

⁵ enclosed on the end of this part

Federation, dated 21st September. The Decree authorises further expenditure to be made according to the decisions made by all legislative and executive bodies, without any regard to budget revenue. Even though the Russian Ministry of Finance was pursuing a relatively strict policy, the gap between the actual budget deficit and the planned figures was broadened at an accelerating rate. The second period continued from October to December 1993. The radical change of political forces in September allowed to achieve a reduction of the difference between the planned and actual expenditure, thus providing a potential possibility of establishing budget equilibrium.

Since there was no approved budget at the beginning of 1993, budget activities in January were carried out based upon figures calculated as one-third of budget figures which had been set for the fourth quarter of 1992. As a result, in January, a budget surplus in the federal budget was recorded, amounting to 0.5% GDP, while the total level of collected taxes was at 28.7% GDP, and federal budget revenues amounted to 17.6% (Table 1.3.2., Table 1.3.3)⁶.

After that, the Supreme Soviet made the decision according to which the government was allowed to finance undertakings to the amount of one-twelfth of the volume of appropriations provided for in the draft budget of the Russian Federation. This decision did not bear an impact on the budget in February, when the budget deficit of the Republic amounted to 4.8% GDP. However, in March expenditure at all budgetary levels continued to increase. The federal budget deficit reached 10.6% GDP, while the deficit of the consolidated budget amounted to 6.3% GDP. In April the budget deficit of the Republic decreased to 7.1% of GDP, and the consolidated budget deficit fell to 3.4% GDP.

The confrontation between the Parliament and the Government, as well as the strengthening of controversies amongst various groups within the Government did not allow the Parliament to adopt the second version of the Act on the 1993 budget of the Russian Federation until the end of March. The 1993 Budget provided for the budget deficit at ca 18% GDP.

A certain, even though only temporary, strengthening of the reformist forces occurred in April, after the National Referendum, which supported the course of economic reform. As a result, the Central Bank and the Government signed a joint statement on economic policy, imposing limits upon centralized credit. The Presidential Decree No. 842, on some measures implemented in order to restrain inflation was adopted, imposing a moratorium on the expansion of the budget system. The termination of technical credit operations in favour of the CIS countries in May, 1993, constituted yet another positive factor, along with the introduction of inter-state credit granted from the budget of the Russian republic.

The change of the relative power of political forces allowed the Ministry of Finance to stabilize the budget situation. In May, federal budget expenditure on defence and order, as well as on the national economy and expenditure made on the social sphere were somewhat reduced. As a result, the deficit of the federal budget fell

⁶ enclosed on the end of this part

to 5.7% GDP. In June, the slight decrease of spending on the national economy and defence, along with a stabilization of other types of expenditure, continued. As a result, the federal budget deficit in the first half of 1993 amounted to 4.8% of GDP, while the federal budget revenues in the consolidated budget amounted to 26.8% of GDP.

On July 22, 1993, the Supreme Soviet adopted the Act on the revision of 1993 budget indices, setting the target deficit at 22.6% GDP. President B. Yeltsin did not sign the Act and returned it to the Parliament for further consideration. On 27th August the Parliament approved practically the same version of the law, having adopted the Act on the introduction of changes and addenda to the Act on the 1993 budget of the Russian Federation, where the deficit was reduced by a mere 60 billion roubles, i.e. to 22.1% GDP.

The main controversies between the position expressed by the Supreme Soviet and by the Government, as well as the differences of opinion between conservative and radical groups within the Government, were related to the decisions concerning the balance between the financial stabilization and the necessity to support the nation's industry, agriculture and other sectors of economy by issuing money.

In July and August negative trends in the budget situation strengthened. This time the decrease of revenue was to a considerable degree independent from the policy of the Ministry of Finance and was mainly caused by accelerated inflation in the summer of 1993. The consolidated budget deficit (Table 1.3.2.) grew from 2.8% GDP in June to 5% of GDP in July, and 6% of GDP in August. The federal budget deficit grew from 4.8% of GDP in June to 7.2% of GDP in July and to 8.1% of GDP in August (Table 1.3.3.).

Budget system revenues amounted to ca 26% of GDP in July-August (without extra-budgetary funds). The important trend was the decrease of tax collection, from 28.4% of GDP in May to 26.4% of GDP in July, and 26.3% of GDP in August. This resulted mainly from the decrease of tax revenue of the federal budget from 13.9% of GDP in May to 11.8% of GDP in August.

In September the situation continued to deteriorate. The consolidated budget deficit amounted to 8.6% GDP, while federal budget expenditure increased only slightly. Tax revenue of the budget fell to 11.1% of GDP. Additional budget revenue consisted of the Russian Central Bank profit, amounting to 0.5% of GDP. Expenditure was financed from the sale of currencies by the Government, which accounted for 1.6% of GDP during 9 months, sale of precious metals (0.8% of GDP) and IMF credit (1.6% of GDP).

The radical change in the balance of political interests and influences after president B. Yeltsin dissolved the Supreme Soviet and the Congress of People's Deputies in September, 1993, permitted a sharp modification of the budget policy.

The modification did not concern budget performance on cash basis (the federal budget deficit in the fourth quarter was maintained at 8% of GDP), but applied to expenditure-side liabilities of the Government. After the Parliament was disbanded,

the Government had the real opportunity to put budget expenditure in line with revenue and impose limits upon Central Bank credit granted to the Government.

A number of decisions which would lead to expenditure reduction were made. Such decisions concerned primarily the removal of grain price indexation and the indexation of prices of other crops delivered to the State; removal of bread subsidies (with the introduction of bread allowance for certain citizens); removal of import subsidies and of a majority of preferential credit (except for budget credit); increase of the refinancing rate of the Central Bank. Government investment was seriously cut and all expenditure items on the federal budget for the fourth quarter of 1993 were reduced by twenty percent. The pension fund and other extra-budgetary funds were subordinated to the Government, which obtained the opportunity to use their spare resources for financing of the federal budget deficit.

Despite the strict measures adopted in autumn of 1993, previous budgetary decisions concerning expenditure, due to the forces of inertia, led to a sustained high budget deficit. The decline of the share of tax revenue in GDP continued, though at a less rapid pace (Table 1.3.2.). Tax revenue of the Russian consolidated budget fell from 25.4% in January-September to 24.6% in January-December, 1993; the revenue of the budget of the Republic fell from 11.1% to 10.3%, respectively.

As a result of the harsh and extremely painful procedure of expenditure reduction, the 1993 federal budget deficit remained at 9.4% of GDP and a basis for a gradual decrease of the inflation rate (16% in November, 13% in December of 1993) was set.

The situation in the governmental finance in 1993 was largely similar to the situation during the previous year. There was no approved budget at the beginning of the year and the gap between government's obligations and the resources put at its disposal was becoming wider still.

In the first quarter of 1994, the federal budget was performed on the basis of the Presidential Decree issued in December, 1993, setting expenditure at the level attained in the fourth quarter of 1993, taking into account the 1.9 times increase in wages.

In March, 1993, the draft federal budget for 1994 prepared by the Government was presented to the State Duma of the Federal Assembly of the Russian Federation. After discussion in committees and commissions and Government review, the budget was adopted by Duma in its first version on May 11, 1994. The federal budget revenue, as compared with the initial draft, were increased to 17.2% of GDP, in spite of the fact that the implementation of the budget had already demonstrated the lack of realism of such indices: during the three first months of 1994 tax revenues in the republic budget amounted to 8.1% of GDP (1993 - 11.8% of GDP), including tax on profit at 2% of GDP (1993 - 2.4%); value-added tax - 3.5% of GDP (1993 - 4.5% of GDP); excise tax - 0.5% of GDP (1993 - 0.6% of GDP).

In the adopted version budget expenditure was higher than in the initial draft and amounted to 26.8% GDP (194.5 trillion roubles). This resulted mainly from an increase of expenditure for agricultural industry, while the growth of expenditure on the social sphere was obviously insufficient. The federal budget deficit grew from

8.6% of GDP (62.4 trillion roubles) to 9.7% of GDP (70.0 trillion roubles). This version of the budget, with minor changes, was adopted by State Duma on 24th June, 1994 and approved on the same day by the Council of Federation.

| Thus, almost during half a year the nation, similar to the situation recorded in the previous year, operated without an approved federal budget. In the second quarter the budget was implemented on the basis of the Act on the financing of expenditure from the federal budget in the second quarter of 1994. A similar situation was observed as regards the local budgets which were also adopted with a delay.

| The most important feature of the 1994 Budget, which had a multi-faceted influence upon the budget policy, was an erroneous GDP projection, both in real and nominal terms (the decline was under-estimated). Budgetary calculations assumed GDP at 725 trillion roubles and projections were based upon overestimated inflation rates. In fact, the annual GDP in 1994 amounted to 630 trillion roubles.

Due to the restrictive budgetary and monetary policy at the end of 1993, inflation rates in spring-summer 1994 reached their lowest level during the entire reform period. As a result, nominal budget revenue was increasingly lagging behind nominal expenditure as specified in the Budget, The accumulation of unsettled budget liabilities was caused not only by overestimates as regards the share of expenditure in GDP, but also by overestimates as regards the nominal value of spending.

| At the beginning of the year the decline of budget tax revenue was further aggravated. As a result, consolidated budget revenues in the first quarter amounted to 22% of GDP as compared with 28% of GDP in 1993; revenues of the budget of the Republic were at 10.4% of GDP, as compared with 13% in 1993 (Table 1.3.3.).

Under these circumstances, the Government was financing federal budget expenditure from the available credit allocated by the Central Bank. During the first quarter of 1994 government spending fell from 19.2% of GDP in 1993 to 17.1% of GDP. As a result, the federal deficit over the three months of 1994 amounted to 6.7% of GDP, as compared to 7.8% of 1993. The federal budget deficit was financed mainly from the Central Bank credit amounting to 7.5 trillion roubles (7.7% of GDP).

During the second quarter the situation as regards budget revenues improved slightly. The consolidated budget revenues over the half-year period amounted to 24.4% of GDP, over the first seven months of 1994 - 25% of GDP; revenues to the budget of the Republic - 12.1% of GDP and 12.0 of GDP, respectively.

Budget expenditure followed the dynamics recorded by the revenue. Federal budget expenditure grew to 16.6% of GDP in July and 18.3% of GDP in August. Loans, net of repayments, amounted to 2.6% of GDP in July and 3.2% of GDP in August. From January until August, 1994, expenditure on government administration grew to 0.8% of GDP (as compared to 0.5% of GDP in the first quarter), while defense expenditure fell to 4.0% of GDP (4.6 % of GDP in the first quarter), budget expenditures on the social sphere grew to 1.9% GDP (17% of GDP in the first quarter), expenditure for the national economy grew to 3.0% GDP (2.2% of GDP in the first quarter).

The federal budget deficit increased to 7.1% during the first six months and 9.4% during the first seven months of 1994. 80% of the deficit was financed from Central Bank credit (8.8% of GDP), issue of securities (1% of GDP) and foreign financing - 1.3% of GDP (including IMF credit amounting to 0.5% of GDP).

In September and October, 1994, the situation remained virtually unchanged: the tax budget revenue remained at 22.3% - 22.4% of GDP; federal budget deficit was at 9% - 10% of GDP.

The budget situation did not undergo any considerable changes in November. Consolidated budget revenues amounted to 25.9% of GDP, of which tax revenues - 35.5% of GDP (Table 1.3.2.).

Federal budget revenue amounted to 12.1% of GDP and expenditure was at 22.1% of GDP, with the deficit amounting to 10.1% of GDP. Tax revenue of the federal budget, amounting to 10.7% of GDP were rather stable during the last half-year period (Table 1.3.3.).

Budget deficit was financed from credit granted by the Central Bank of Russia (7.6 % of GDP), issue of securities (1.2% GDP) foreign financing (1% of GDP).

Preliminary estimates as regards the implementation of the federal budget during the last twelve months show a similar pattern. The federal budget deficit amounted to some 11% of GDP. Thus, the December warfare in Chechenya begun too late to have a serious impact upon the budget. According to the official information, the financing of military actions would fit within the current expenditure estimates of the relevant ministries and no major expenditure was made as regards assistance to refugees and restoration of the economy.

As regards overall expenditure estimates, as regards the war in Chechenya, figures quoted by different sources vary widely, from 5 to 15 trillion roubles, i.e. 0.5% to 1.5% of planned 1995 GDP and at the moment it would be hardly possible to determine which estimate is correct. For the time being the only thing that is clear, is that expenditure made on both war actions and the subsequent restoration of the destroyed areas will be macroeconomically efficient.

While evaluating financial consequences of the war, it is necessary to take into account the accumulated budgetary debt towards all entities which receive the related resources. The terms and specific amounts of debt repayment will be included in real budget expenditures allocated for the financing of different items. In relation to the war activities it is fully clear that the repayment of budgetary debt to the involved ministries will be assigned top priority.

Appendix

Table 1.3.2. IMPLEMENTATION OF THE CONSOLIDATED BUDGET OF RUSSIA in 1992 - 1994

Table 1.3.3. IMPLEMENTATION OF THE FEDERAL BUDGET OF RUSSIA in 1992 - 1994

Table 1.3.2. IMPLEMENTATION OF THE CONSOLIDATED BUDGET OF RUSSIA In 1992 - 1994

GDP	1992	Jan.-	Jan.-	Jan -	Jan -	Jan -	Jan.-	Jan.-	Jan.-	Jan.-	Jan.-	Jan.-	Jan.-	% GDP
	Jan.	Feb	March	April	May	June	July	August	Sept	Oct	Nov	Dec.		
	479	1080	1834	2633	3459	4599	6018	7576	9502	12227	14890	18063		
	bln	bln	bln	bln	bln	bln	bln.	bln	bln.	bln.	bln.	bln.	bln.	
	roubles	roubles	roubles	roubles	roubles	roubles	roublei	roubles	rouble*	roubles	roubles	roubles	roubles	
1. INCOMES A SUBSIDIES														
1. Income taxes, taxes on profit*	35	93	155,3	305	426	529	715,2	874,7	1029	1450,2	1710,6	2041,1	ИЗ	
1.1. Income tax on physical persons	8	17	32,3	50	69	94	122,2	159,7	203	259,2	322,4	431,1	2,4	
1.2. Tax on profits of enterprises	27	76	123	255	357	435	593	715	826	1191	1388,2	1610	8,9	
2. Taxes of wages fund	0	0	0	0	0	0	0	0	0	0	0	0	0,0	
2.1. Deductions for mandatory health insurance	0	0	0	0	0	0	0	0	0	0	0	0	0,0	
3. Taxes on property	0	0,1	0,262	2,5	4	4,591	11,4	173	41,7	77	107,8	1273	0,7	
3.1. Tax on property	0	0	0	2	3	3,3	9,6	11,6	13,6	38,3	47,7	54,6	0,3	
3.2. Land tax	0	0,1	0,262	0,5	1	0,791	13	5,7	28,1	38,6	60,1	71	0,4	
3.3. Tax on operations with securities	0	0	0	0	0	0	0	0	0	0,1	0	1,7	0,0	
4. Internal taxes	23	73	138,3	215	278,2	372,6	504,4	663,7	912,605	14003	1792,5	2423,8	13,4	
4.1. VAT	16	53	106,6	170	221,9	299	414	549	753	1179	1516	2004	11,1	
4.2. Special Ux	0	0	0	0	0	0	0	0	0	0	0	0	0,0	
4.3. Excises	6	14	23	31	40,3	52	60	77	99	123	152	215	1,2	
4.4. License charge for production & sale of alcohol	0	0	0	0	0	0	0	0	0	0	0	0	0,0	
4.5. Royalty for use of deposits & natural resources	0	4	6	10	12	15	19,8	23	40	61	72,3	104,6	0,6	
4.6. Deductions for regeneration of the minerals & raw materials base	1	2	2,7	4	4	6,6	10,6	14,7	20	34,5	47,2	74	0,4	
4.7. Revenues for the prices regulation fund	0	0	0	0	0	0	0	0	0,605	23	5	26,2	0,1	
5. Tax on foreign trade	1	6	10	39,6	48,2	61,3	79,3	107	181,4	262,2	333,4	467,4	2,6	
6. Government duty	0	0,4	0	0	0	0	0	0	0	0	0	0,4	0,0	
7. other taxes	4	2	3	8	8	11	19	22	24	25	31	43	0,1	
TOTAL TAX REVENUES	63	175	307	570	764	979	1330	1685	2189	3215	3975	5103	28,3	
Non-tax proceeds incl:	14	18,958	42,1	42,8	57,4	58,7	77,2	94,1	97,7	84,6	125,3	148,7	0,3	
other income	11	15	32	31	45	44	62	78,1	81	67	108	129	0,7	
income of Central Bank		0	0	0	0	0	0	0	0	0	0	0	0,0	
Proceeds of the purpose-oriented finances for reduction of budget deficit								0	0	0				
balances of budget finances by beginning of the year	3	3,958	10,1	11,8	12,4	14,7	15,2	16	16,7	17,6	17,8	19,7	0,1	
CAPITAL COSTS	0	0,3	0,72	1	1,7	3,3	6,3	11,1	19	28,4	40,004	62,2	0,3	
1. Income from privatization			0,72	2	1,7	3,3	6,3	11,1	19	28,4	40,004	62,2	0,3	
TOTAL REVENUES	77	193	350	615	824	1041	1413	1790	2305	3328	4141	5314	29,4	

EXPENDITURES AND SUBSIDIES LESS REPAYMENTS

I. Government expenditures	52.4	182,212	344,389	584,023	833,993	1238,991	1746,062	2310381	2761.1	3433,7	4270	5848.6	32,4
1. Government services of general design	1	4	63	10,9	14,4	21,2	32,6	40	49,9	65	76,8	105,9	0,6
2. For defence	12	38	56,4	99,7	161,8	215,2	288,2	380	453,1	519,2	639	855,3	4,7
3. Expenses for law enforcement authorities		13,9	20,2	30,2	42,1	59,6	85,1	112	133,2	161,4	192	245,2	1,4
4. For science	1	5	8,3	13,7	19,1	25,1	30,5	43	51,4	59,2	79,3	107,6	0,6
5. Social & public services	17,4	50,612	90,789	138,323	194,793	313,491	413,762	599,881	746,1	924,9	1100,4	1460,9	8,1
5.1. Education	10	28,9	48,4	72,3	102,3	177,6	231,7	282,7	348,1	431,6	512,4	679,4	3,8
5.2. Culture, arts, mass media	1	4	6,8	11	17,1	23,9	31,9	42,8	53,4	66,8	81,3	116,2	0,6
5.3. Health care physical culture	6	16,7	32,7	50,4	68,9	102	136	176	228,3	285,8	354,4	467,7	2,6
5.4. Youth policy programme	0	0	0	0	0	0	0	0	0	0	0	0	0,0
5.5. Social insurance	0,4	1	2,7	4,4	6	9,8	12	15,1	20,9	26,2	33,2	65	0,4
5.6. Subsidies for pension fund	0	0	0	0	0	0	0	41,381	41,9	51,2	51,2	51,2	0,3
5.7. Programmes of Chernobyl & Semipalatinsk	0	0	0,074	0,03	0,481	0,074	0,162	38,8	50,2	59,4	64,4	78,1	0,4
5.8. Allowances & compensation for children	0	0,012	0,015	0,193	0,012	0,117	2	3,1	3,2	3,8	3,3	3,3	0,0
5.9. Government services for national economy	17	53	305,6	177,2	263,8	386,8	585	808,2	939,2	1164,4	1473,4	2059	11,4
7. Other functions	4	17,7	56,8	114	138	217,6	310,9	327,3	388,1	539,4	709	1014,7	5,6
7.1. Other expenditures	4	15	41	73	97	166	237	228	272	328	409	598	3,3
7.2. Expenses for foreign economic activities		2,7	15,8	4)	11	51,6	73,9	99,3	116,1	211,4	300	416,7	2,3
7.3. Expenses for services of internal debt	0	0	0	0	0	0	0	0	0	0	0	0	0,0
7.4. Expenses for services of external debt	0	0	0	0	0	0	0	0	0	0	0	0	0,0
7.5. Subventions for close administrative-territorial regions													
II. LOANS LESS REPAYMENT	0	2	13	4	6	18	33	144	88	91	105	106	0,5868
1. for enterprises		2	13	4,1	6	18	33	144	88	91	105	106	0,6
1.1. from budget		2	13	4,1	6	18	33	144	88	91	105	106	0,6
2. incomplete transfer of incomes by CB		0	0	0	0	0	0	0	0	0	0	0	0,0
3. Other crediting operations (balance)													
TOTAL EXPENDITURES AND SUBSIDIES, LESS REPAID	52	184	357	588	840	1257	1779	2454	2849	3525	4375	5955	33,0
INCOMES & SUBSIDIES, LESS EXPENDITURES AND SUBSIDIES, REPAYMENTS DEDUCTED	25	9	-8	27	-16	-216	-366	-664	-544	-197	-234	-641	-34

Table 13.2. IMPLEMENTATION OF THE CONSOLIDATED BUDGET OF RUSSIA in 1992 - 1994

(cont.)

	1993	Jan.-	Jan -	Jan -	Jan	Jan -	Jan -	Jan -	Jan -	Jan -	Jan -	Jan.-	
	Jan.	Feb	March	April	May	June	July	August	Sept.	Oct.	Nov.	Dec.	
	bln.	bln.	bln	bln	bln	bln	bln	bln	bln	bln	bln	bln.	%
	roubles	roubles	roubles	roubles	roubles	roubles	roubles	roubles	roubles	roubles	roubles	roubles	GDP
GDP	4300	9700	15800	24300	33700	45800	59400	72900	90000	109300	131800	162300	
I. INCOMES II SUBSIDIES													
1 Income taxes, taxes On profits	411	1038	2191	3681	4724	6124	7882	9850	11855	14204	17405	21161	13,0
1.1 Income tax on physical persons	107	231	366	566	756	1026	1359	1748	2186	2743	3425	4388	2,7
1.2 Tax on profits of enterprises	304	807	1825	3115	3968	5098	6523	8102	9659	11461	13980	16773	10,3
2 Taxes of wages fund	0	0	0	99	152	225	293	291	108	81	76	66	0,0
2.1. Deductions for mandatory health insurance				99	152	225	293	291	108	81	76	66	0,0
3 Tax* on property	17	48	92	161	190	214	293	386	489	615	810	897	0,6
3.1. Tax on property	13	39	73	144	170	180	240	307	325	392	504	546	0,3
3.2 Land tax	3	5	8	11	14	24	43	66	156	202	252	314	0,1
3.3 Tax on operations with securities	1	4	11	6	6	10	10	13	15	21	24	37	0,0
4 Internal taxes	594	1197	1888	2813	3599	4582	5742	6972	8497	10240	12786	14431	8,9
4.1 VAT	4*9	974	1507	2185	2X26	3612	4527	5487	6679	8083	9699	11271	6,9
4.2 Special UK													0,0
4.3. Excises	41	80	139	292	380	493	628	763	947	1149	1459	1777	1,1
4.4. License charge for production & sale of alcohol	1	2	3	5	6	8	10	12	15	19	22	29	0,0
4.5. Royalty for use of deposits & natural resource*	24	57	96	147	182	238	309	395	499	598	690	844	0,5
4.6. Deductions for regeneration of the minerals & raw materials base	22	42	63	89	101	116	135	165	199	230	259	310	0,1
4.7. Revenues for the prices regulation fund	17	42	80	95	104	115	133	150	188	161	177	200	0,1
5 Tax on foreign trade	118	263	422	584	761	919	1109	1244	1442	1684	1977	2347	1,4
6. Government duty	0												0,0
7. other taxes	18	34	58	113	151	226	355	417	491	646	775	1009	0,6
TOTAL TAX REVENUES	1158	2580	4651	7451	9577	12290	15674	19160	22872	27470	33139	39864	24,6
Non-tax proceeds incl:	53	125	275	259	356	921	1220	1801	2625	2866	3835	5969	3,7
other income	39	95	205	179	264	432	569	664	750	957	1117	1232	0,8
income of Central Bank								264	464	464	1149	2042	1,3
proceed* of the purpose-oriented finance* for reduction of budget deficit						375	530	746	1170	1299	1418	2521	
balances of budget finances by beginning of the year	14	31	71	80	92	114	121	127	141	148	151	174	0,1
CAPITAL COSTS	21	40	57	74	87	106	128	154	189	221	263	319	0,1
1. Income from privatization	21	40	57	74	87	106	128	154	189	221	263	319	0,1
TOTAL REVENUES	1232	2745	4983	7784	10020	13317	17022	21115	25686	30557	37237	46152	28,4

EXPENDITURES AND SUBSIDIES LESS REPAYMENTS

L Government expenditures	1005	2359	5459	7654	10012	13258	17756	22896	29150	34810	42769	53849	33,2
1 Government services of general designation	23	61	145	225	292	377	497	618	801	989	1204	1476	0,9
2 For defence	246	430	949	1166	1540	1905	2361	3033	4070	4811	5699	7210	4,4
3 Expenses for law enforcement authorities	69	151	284	379	519	651	847	1053	1412	1778	2167	2624	1,6
4 For science	23	28	142	170	200	246	317	391	544	640	753	943	0,6
5 Social & public services	312	725	1351	2087	2874	4065	5231	6414	8060	9952	12248	15330	9,4
5.1 Education	148	337	617	970	1343	1973	2524	2992	3747	4631	5636	6956	4,3
5.2 Culture, arts, mass media	24	49	91	134	177	238	325	411	510	651	816	1046	0,6
5.3 Health care physical culture	92	230	437	669	949	1340	1733	2199	2818	3502	4323	5388	3,3
5.4 Youth policy programme		1	1	2	3	4	6	7	10	11	13	17	0,0
5.5 Social insurance	7	20	43	80	116	178	239	317	409	498	618	805	0,5
5.6 Subsidies for pension fund	19	38	63	85	85	85	85	85	85	85	85	85	0,1
5.7 Programmes of Chernobyl & Semipalatinsk	14	27	51	78	98	103	140	184	222	248	309	370	0,2
5.8 Allowances & compensation for children	8	23	48	69	103	144	179	219	259	326	448	663	0,4
5.9 Government services for national economy	197	550	1479	2169	2925	3877	5163	6741	8715	10394	12828	16390	10,1
7 Other functions	135	414	1109	1458	1662	2137	3370	4646	5548	6246	7870	9876	6,1
7.1 Other expenditures	47	110	494	709	853	1096	1717	2555	3183	3587	4652	6091	3,8
7.2 Expenses for foreign economic activities	52	233	376	454	479	636	1153	1541	1733	1987	2364	2764	1,7
7.3 Expenses for services of internal debt	36	71	239	295	329	403	495	540	617	651	827	989	0,6
7.4 Expenses for services of external debt													0,0
7.5 Subventions for close administrative-territorial regions					1	2	2	10	150	21	27	32	0,0
a LOANS LESS REPAYMENT	106	497	524	963	1016	1351	1620	1961	2002	2582	2939	3041	1,8737
1 For enterprises	106	142	187	460	559	594	1138	1611	1891	2159	2664	2719	1,7
1.1 from budget	106	142	187	460	559	594	1138	1611	1891	2159	2664	2719	1,7
2. Incomplete transfer of incomes by CB		100	337	503	457	757	432	350	111	423	275	322	0,2
3 other crediting operations (balance)													
TOTAL EXPENDITURES LI SUBSIDIES, LESS REPAID	1111	2856	5983	8617	11028	14609	19406	24857	31152	37392	45708	56890	35,1
INCOMES & SUBSIDIES, LESS EXPENDITURES AND SUBSIDIES, REPAYMENTS DEDUCTED	121	-111	-1000	833	-1008	-1292	-2384	3742	-5466	-6835	-8471	-10738	-6,6

Table 1.3-2 IMPLEMENTATION OF THE CONSOLIDATED BUDGET OF RUSSIA in 1992 - 1994

(cont)

GDP	1994	Jan	Jan	Jan -	Jan	Jan	Jan	Jan	Jan	Jan	Jan	Jan	% GDP
	Jan	Feb	March	April	May	June	July	August	Sept.	Oct.	Nov	Dec	
	26000	58000	94200	140500	187500	235500	285500	341500	403100	467700	542900	630000	
	bln	bln	bln	bln	bln	bln	bln	bln	bln	bln	bln	bln	
	roubles	roubles	roubles	roubles	roubles	roubles	roubles	roubles	roubles	roubles	roubles	roubles	
1 INCOMES & SUBSIDIES													
1 Income taxes, taxes on profits	2451	5148	9331	14389	19229	24060	29047	35742	41647	47858	56368	66325	103
1 1 Income Tax on physical persons	620	1393	2357	3507	4585	5917	7352	8961	10756	12519,135	14593,552	17509302	2,8
1 2 Tax on profit* of enterprises	1831	3755	6974	10882	14644	18143	21695	26781	30892	35338,865	41774,751	48815,611	7,7
2 Taxes of wages fund	6	14	27	35	47	60	80	96	107	136	154	184	00
2 1 DC duct] ons for mandatory health insurance	6	14	27	35	47	60	80	96	107	135,706	153,637	184,117	0,0
3 Taxes on property	51	125	262	560	1212	1633	2168	3106	3951	4748	6026	6950	1,1
3 1 Tax on property	33	84	167	445	1049	1395	1788	2538	2918	3418,518	4263363	4831,408	0,8
3 2 Land tax	11	22	39	56	89	120	196	343	768	1009X7	1396,71	1661,062	0,3
3 3 Tax on operations with securities	7	19	56	59	74	118	184	224	266	319,855	365,878	457,694	0,1
4 Internal taxes	1997	3972	6711	9888	13269	16740	21395	25888	31195	37988	44539	53639	83
4 1 VAT	1674	3313	5221	7319	9790	12078	15453	18567	22227	27082,148	31378,698	37334,134	5,9
4 2 Special tax			300	846	124g	1673	2233	2785	3380	4143,06	4832,054	5690303	0,9
4 3 Excises	230	17)	850	1212	1656	2204	2719	3358	4085	4834,828	5909,885	7424,571	1,2
4 4 License charge for production & sale of alcohol	11	19	28	41	44	55	67	78	90	104,244	116,055	133,653	0,0
4.5 Royalty for use of deposits & natural resources	57	115	246	392	433	600	762	894	1144	1496358	1847,53	2420,736	0,4
4 6 Deductions for regeneration of the minerals & raw materials base	20	45	66	78	98	130	161	207	271	327,436	454381	635,831	0,1
4 7 Revenues for the prices regulation fund	5	6 0	0	0	0	0	0	0	0	0	0	0	00
5 Tax on foreign trade	220	511	759	1083	6283	7215	7926	8842	10511	10511	14727	19166,838	3,0
6 Government duty	21	46	81	113	147	187	232	283	329	368,432	415,679	468,895	0,1
7 other taxes	218	432	814	1185	1443	1850	2366	2915	3422	40883145	4773,466	5850,783	0,9
TOTAL TAX REVENUES	4964	10248	17985	27253	41630	51745	63214	76872	91163	105698	127003	152585	24,2
Non-tax proceeds incl other income	352	758	3446	4069	6051	7733	7816	8895	10333	11731	12930	16017	2,3
income of Central Bank	270	662	1002	147g	2583	3293	4435	5379	6355	7430,2525	8573,262	10535,614	1-7
proceeds of the purpose-oriented finance* for reduction of budget deficit		0			1580	1580	1618	1646	1670	1693,68	1580	1581,395	0,3
balances of budget finances by beginning of the year	82	96	428	468	481	609	624	634	699	737,881	781,557	859353	0,1
CAPITAL COSTS	47	82	117	173	223	273	342	403	483	553,366	624,855	748,409	0,1
1 Income from privatization	47	82	117	173	223	273	342	403	483	553366	624,855	748,409	0,1
TOTAL REVENUES	5363	11088	21548	31495	47904	59751	71372	86170	101980	117982	140558	169350	26,9

EXPENDITURES AND SUBSIDIES LESS REPAYMENTS

I Government expenditures	7068	16927	27025	47347	55882	70385	83467	107544	127316	149797	173545	210531	33,4
1 Government services of general designation	256	591	980	1450	1994	2529	3614	3962	4428	5048,679	5947,11	7097,812	1,1
2 For defence	940	3136	4435	£390	7921	9639	11505	14327	16622	19559392	22274,862	28018,101	4,4
3 Expenses for law enforcement authorities	454	1076	1683	2502	3287	4078	5062	6042	7048	8417,016	9603,846	11426,692	1,8
4 For science	171	365	526	805	988	1160	1389	1776	2080	2365,368	2639,699	3114,973	0,5
5 Social & public services	2288	5425	8853	13090	17200	22527	27114	32488	38458	44470	51460	60734	9,6
5.1 Education	1093	2569	4026	6018	7950	10760	12819	15086	17698	20252,134	23466,984	27452,695	4,4
5.2 Culture, arts, mass media	141	363	578	842	1167	1509	1900	2701	2719	3294,907	3840,426	4626362	0,7
5.3 Health care physical culture	833	1914	3031	4405	5733	7218	8688	10674	12563	14491,52	16764,25	19706,872	3,1
5.4 Youth policy programme	2	3	8	13	21	34	45	56	65	73,985	93,741	110,178	0,0
5.5 Social insurance	76	214	425	639	779	1100	1324	1604	2014	2346,613	2727,443	3372,834	0,5
5.6 Subsidies for pension fund	0	0	0	0	0							0	0,0
5.7 Programmes of Chernobyl & Semipalatinsk	69	99	230	311	384	440	568	678	770	959,421	1036,85	1289,796	0,2
5.8 Allowances & compensation for children	74	263	555	862	1166	1466	1770	2190	2630	3051,056	3530,734	4175,063	0,7
5.9 Government services for national economy	1682	4293	7282	11675	15721	19816	25866	31935	37933	44857,09	52930,625	63428,82	10,1
7 Other function*	1277	2041	3266	4435	8771	10636	13917	17015	20746	25080	28689	36711	5,8
7.1 Other expenditures	346	928	1743	2676	4558	5482	7180	8600	10352	12797,294	14800,102	20537343	3,3
7.2 Expense* for foreign economic activities	818	321	867	£84	1478	1806	2104	2419	3104	3689,725	4270,221	4956335	0,8
7.3 Expenses for services of internal debt	96	269	618	808	1663	2203	2896	3629	4301	5295,409	6146,197	7498,404	1,2
7.4 Expenses for services of external debt	17	17	17		1006	1054	1603	2191	2771	2854,674	2947,499	3132,538	0,5
7.5 Subventions for close administrative-territorial regions	00	6	21	67	68,0	91,0	134,0	176	218	443,171	524,494	586,065	0,1
II. LOANS LESS REPAYMENT	223	1011	986	2111	5298	6233	8342	11970	14337	18755	19374	22926	3,6
1 forenterprises	74	473	735	1383	1552	2748	3821	7912	10060	12125	13353	15116	2,4
1.1 from budget	74	473	671	989	1552	2748	3821	7912	10060	12125,438	13352,781	15115,936	2,4
2 incomplete transfer of incomes by CB	149	538	251	728	1379	632	1109	1017	855	2173,318	1280,808	1773,349	0,3
3 other crediting operations (balance)					2367	2853	3412	3040	3921	4455,879	4730,992	6037,151	
TOTAL EXPENDITURES A SUBSIDIES, LESS REPAID	7291	17938	28011	42458	61180	76618	96809	119514	142153	168552	191919	233457	37,1
INCOMES II SUBSIDIES, LESS EXPENDITURES AND SUBSIDIES, REPAYMENTS DEDUCTED	-1928	-6850	-6463	19963	-13276	-16867	25437	-33344	-40173	50570	-52361	-64107	10,2

Figure 1.3.3. IMPLEMENTATION OF THE FEDERAL BUDGET OF RUSSIA in 1992 - 1994

	1992	Jan -	Jan -	Jan -	Jan -	Jan -	Jan -	Jan -	Jan -	Jan -	Jan -	Jan -	Jan -	
	Jan	Feb	March	April	May	June	July	August	Sept	Oct	Nov	Dec		
GDP	479	1010	1834	2433	3459	4599	6018	7576	9502	12227	14890	18063		
	bln	bln	bln	bln	bln	bln	bln	bln	bln	bln	bln	bln	bln	%
	roubles	roubles	roubles	roubles	roubles	roubles	roubles	roubles	roubles	roubles	roubles	roubles	roubles	GDP
1. INCOMES & SUBSIDIES														
1. Income taxes, taxes on profits	12	38	65,5	131,4	179,3	206,9	272,4	316,5	358,9	530	593	679,5	3,8	
1.1. Income tax on physical persons	0	0	0	0	0	0	0	0	0	0	0	0	0,0	
1.2. Tax on profits of enterprises	12	38	65,5	131,4	179,3	206,9	272,4	316,5	358,9	530	593	679,5	3,8	
2. Taxes of wages fund														
2.1. Deductions for mandatory health insurance														
3. Taxes on property	0	0	0	0	0	0	0	0	1,7	5,2	7,4	18,4	0,1	
3.1. Land tax	0	0	0	0	0	0	0	0	1,7	5,2	7,5	17	0,1	
3.2. Tax on operations with securities	0	0	0	0	0	0	0	0	0	0	0	1,6	0,0	
4. Internal taxes														
4.1. VAT	15	44,9	84,7	135,9	175,6	229	316,1	418,1	573,4	921,2	1162,9	1500	8,3	
4.3. Excises	4	11,1	14,2	17	21,6	24	25,8	32,5	41,4	51,8	66,2	100,4	0,6	
4.5. Royalty for use of deposits & natural resources	0	0	0	0	0	0	0	0	0	0	0	0	0,0	
4.6. Deductions for regeneration of the minerals & raw materials base	1	1,5	2,7	3,5	4	6,6	10,6	14,7	20	34,5	47,2	73,4	0,4	
4.7. Revenues for the prices regulation fund	0	0	0	0	0	0	0	0	0	2,8	5	26,2	0,1	
4.2. Special tax														
5. Tax on foreign trade	0	5,3	10	39,5	48,2	61,7	78,5	105,7	179	259,5	328,1	459,3	2,4	
6. Government duty	0	0	0	0	0	0,1	0	0	0	0	0	0	0,0	
TOTAL TAX REVENUES	32	100,8	177,1	327,3	428,7	525,3	703,4	887,5	1174,4	1805	2209,9	2857,4	15,8	
Non-tax proceeds incl.	7	13	24,9	28	38,1	36	52,2	65,8	67	45	81,2	92,7	0,5	
other income	4	13	24,9	28	38,1	36	52,2	65,8	67	45	81,2	92,7	0,5	
income of Central Bank														
proceeds of the purpose-oriented finances for reduction of budget deficit	0	0	0	0	0	0	0	0	0	0	0	0	0,0	
balances of budget finances by beginning of the year	4	0	0	0	0	0	0	0	0	0	0	0	0,0	
CAPITAL COSTS														
1. Income from privatization	0	0,151	0,151	0,151	0,438	0,9	1,7	4	6	9	12,2	18,9	0,1	
TOTAL REVENUES	40	113,951	202,151	355,451	467,238	565,2	757,3	957,3	1247,4	1859	2303,3	2969	16,4	
EXPENDITURES AND SUBSIDIES LESS REPAYMENTS														
1. Government expenditures	30	113,431	200,448	388,284	560,531	829,6	1171,4	1622,8	1853,209	2272	2795,3	3839,1	21,3	
1. Government services of general designation	1	2	2,2	5,5	7	10	15	17	22	29	33	42	0,2	
2. For defence	12	38	57	98,7	162	215	288	380	453	520	639	855	4,7	
3. Expenses for law enforcement authorities	4	14	20	30	42	59	84	111	132	159	190	241	1,3	
4. For science	1	5	8	13	19	24	30	42	50	57	77	104	0,6	
5. Social & public services	4	17,431	24,3	35,131	54,131	98,1	125,7	242,8	281	335	374	488,2	2,7	
5.1. Education	2	11	16	23	35	71	91	114	132	155	176	230	1,3	
5.2. Culture, arts, mass media	1	3	3	5	9	12	15	22	26	31	39	59	0,3	
5.3. Healthcare physical culture	1	2	5	7	10	14	17	23	27	34	39	53	0,3	
5.4. Youth policy programme	0	0	0	0	0	0	0	0	0,009	0	0	0	0,0	
5.5. Social insurance	0	0,131	0,3	0,131	0,131	1	0,7	0,8	1	2	2	14,7	0,1	

Figure 1.3.3. IMPLEMENTATION OF THE FEDERAL BUDGET OF RUSSIA in 1992 - 1994

(roubles)

GDP	1993	Jan -	Jan -	Jan -	Jan -	Jan -	Jan -	Jan -	Jan -	Jan -	Jan -	Jan -	%
	Jan	Feb	March	April	May	June	July	August	Sept.	Oct.	Nov	Dec	
	4300	9700	15800	24300	33700	45800	59400	72900	90000	109300	131800	162300	
	bln.	bln.	bln.	bln.	bln.	bln.	bln.	bln.	bln.	bln.	bln.	bln.	%
	roubles	roubles	roubles	roubles	roubles	roubles	roubles	roubles	roubles	roubles	roubles	roubles	GDP
1. INCOMES & SUBSIDIES													
1. Income taxes, taxes on profits	154	377	741	1269	1504	1827	1511	2758	3237	3887	4657	5472	3.4
1.1 Income tax on physical persons	0	0	0	0	0	0	0	0	0	0	0	0	0.0
1.2 Tax on profits of enterprises	154	377	741	1269	1504	1827	2311	2758	3237	3887	4657	5472	3.4
2. Taxes of wages fund	0	0	0	99	152	225	293	291	73	28	21		
2.1 Deductions for mandatory health insurance				99	152	225	293	291	73	28	21		
3. Taxes on property	2	2.6	4	6	7	9	12	14	20	35	44	77	0.0
3.1 Land tax	1	1	1	1	2	2	3	4	6	17	23	41	0.0
3.2 Tax on operations with securities	1	1.6	3	5	5	7	9	12	14	18	23	36	0.0
* Internal taxes	457	820	1212	1807	2294	2854	3587	4330	5276	6395	7503	8908	5.5
4.1 VAT	392	695	1003	1437	1848	2338	2914	3517	4289	5239	6125	7251	4.5
4.3 Excises	26	41	66	168	213	274	349	425	522	626	757	899	0.6
4.5 Royalty for use of deposits & natural resources	0	0	0	18	28	41	56	73	108	139	185	248	0.2
4.6 Deductions for regeneration of the minerals & raw materials base	22	42	63	89	104	116	135	165	199	230	259	310	0.2
4.7 Revenues for the prices regulation fund	17	42	80	95	104	115	133	150	158	161	177	200	0.1
4.2. Special tax													
5. Tax on foreign trade	114	258	415	573	743	890	1069	1190	1380	1611	1896	2256	1.4
5.1 Government duty	0	0	0	0	0	0	1		14	21	28	37	0.0
TOTAL TAX REVENUES	729	1457.6	2372	3754	4700	5835	7273	8593	10000	11949	14130	16750	10.3
Non-tax proceeds incl:	21	65	153	78	131	523	707	1136	1866	1948	2786	4812	3.0
Other income	21	66	153	78	131	147	177	126	132	185	219	249	0.2
income of Central Bank					0			264	464	464	1149	2042	1.3
proceeds of the purpose-oriented finances for reduction of budget deficit	0	0	0	0	0	376	530	746	1270	1299	1418	2521	1.6
balances of budget finances by beginning of the year	0	0	0	0	0	0	0	0	0	0	0	0	0.0
CAPITAL COSTS													
1. Income from privatization	6	11	16	19	21	25	29	33	41	48	56	66	0.0
TOTAL REVENUES	756	1534.6	2541	3851	4852	6383	8009	9762	11907	13945	16972	21628	13.3
EXPENDITURES AND SUBSIDIES LESS REPAYMENTS													
1. Government expenditures	648	1533	3658	4722	5895	7248	10114	13541	17525	20512	24937	31170	19.2
1.1 Government services of general designation	12	26	79	108	141	173	221	254	386	477	571	658	0.4
2. For defence	246	431	949	1166	1540	1905	2361	3033	4070	4811	5699	7210	4.4
3. Expenses for law enforcement authorities	68	148	277	367	500	624	813	1012	1358	1709	2078	2513	1.5
4. For science	23	27	140	166	194	235	303	373	521	609	716	894	0.6
5. Social & public services	120	208	367	497	645	831	1102	1342.0	1650	2000	2392	2917	1.8
5.1 Education	50	88	155	204	292	432	578	661	812	973	1135	1356	0.8
5.2 Culture, arts, mass media	15	23	38	45	53	65	101	134	160	215	267	341	0.2
5.3 Health care physical culture	14	32	59	73	97	113	141	193	265	355	447	563	0.3
5.4 Youth policy programme								0					0.0
5.5 Social insurance	0		1	13	22	35	59	87	109	128	155	210	0.1

Figure 1.3.3. IMPLEMENTATION OF THE FEDERAL BUDGET OF RUSSIA in 1992 - 1994

(cont.)

	1994	Jan -	Jan -	Jan -	Jan -	Jan -	Jan -	Jan -	Jan -	Jan -	Jan -	Jan -	
	Jan	Feb	March	April	May	June	July	August	Sept.	Oct.	Nov	Dec	
	bln	bln	bln	bln	bln	bln	bln	bln	bln	bln	bln	bln	bln
	roubles	roubles	rouble	roubles	roubles	roubles	roubles	roubles	rouble!	roubles	roubles	roubles	roubles
GDP	26000	58000	94200	140500	187500	235500	285500	341500	403100	467700	542900	630000	

													GDP
1. INCOMES & SUBSIDIES													
1. Income taxes, taxes on profits	742	1384	2680	4165	5309	6435	7774	9493	10741	12465	14868	17239	2,7
1.1 Income tax on physical persons	0	0	0	25	39	69	93	102	100	110.804	114,975	114	0
1.2 Tax on profits of enterprises	742	1384	2680	4140	5270	6366	7681	9391	10641	12354,256	14753,464	17125,5	2,7
2. Taxes of wages fund													
2.1 Deductions /or mandatory health insurance													
3. Taxes on property	8	20	37	59	72	104	141	178	72	299	375	488	0,1
3.1 Land tax	1	2	2	3	3	4	5	7	17	43.068	76,27	110,8	0,0
3.2 Tax DC operations with securities	7	18	35	56	69	100	136	172	55	256,159	298,325	377,3	0,1
4. Internal taxes	1343	2521	4380	4387	8605	10558	13424	16344	19204	23866	27979	33432	5,3
4.1 VAT	1177	2198	3474	4903	6608	7929	10260	12182	14461	17543,534	20200,147	23735,7	3,8
4.3 Excises	122	243	484	686	950	1246	1544	1859	1851	2653,727	3418,675	4456,1	0,7
4.5 Royalty for use of deposits & natural resources	19	26	56	108	72	93	118	151	196	256,75	298,758	378,9	0,1
4.6 Deductions for regeneration of the minerals & raw materials base	20	48	66	78	98	130	161	207	271	327,436	454381	635,8	0,1
4.7 Revenues for the prices regulation fund	5	5	0	0									
4.2 Special tax			300	612	877	1160	1543	1946	2428	3084,616	3607,195	4225,1	0,7
5. Tax on foreign trade	213	471	705	1004	6195	7093	7813	490	10343	12525,688	14573,745	18991,8	3,0
6. Government duty	10	19	34	45	59	77	95	116	133	143374	157,957	178,9	0,0
TOTAL TAX REVENUES	2314	4415	7834	11640	20240	24247	29449	34822	40515	49299	57954	70330	11,2
Non-tax proceeds incl.	51	230	2205	2414	4125	5272	4826	5347	6212	6905	7487	9306	1,5
other income	51	230	188	291	1139	1441	2069	2465	2933	3341,938	3799,796	4684,8	0,7
income of Central Bank	0	0	0	0	1580	1580	1618	1646	1670	1693,68	1692,31	1581,4	0,3
proceeds of the purpose-oriented funds for reduction of budget deficit	0	0	2017	2123	1406	2251	1139	1236	1609,4	1868,882	1995,056	3040,2	0,5
balance of budget firm by beginning of the year	0	0	0	0	0	0	0	0					
CAPITAL COSTS													
1 Income from privatization	10	17	23	32	38	48	60	69	79	86,16	101,795	116,3	0,0
TOTAL REVENUES	2377	4662	100*4	1410*	24403	295*7	34335	40238	4*80*	5*290	65543	79753	12,7
EXPENDITURES AND SUBSIDIES LESS REPAYMENTS													
1. Government expenditures	4020	10572	15671	23536,1	33013	40815,3	52283,3	62555	73040	8711*	100694	123114	19,5
1. Government services of general designation	147	306	490	755	1071	1361	2185	2226	2345	2691,475	3233,747	3847,2	0,6
2. For defence	940	3136	4435	6390	7922	9638	11505	14327	16622	19559,392	22274,862	28018,1	4,4
3. Expenses for law enforcement authorities	434	1022	1567	2331	3057	3772	4655	5535	6464	7817,74	8919,648	10753,7	1,7
4. For science	168	355	503	772	941	1107	1324	1698	1986	2261,592	2511,92	2964,6	0,5
5. Social & public services	402	1108	1622	2460,1	3281	44743	5501,3	6320	7350	8873	10214	11746	1,9
5.1 Education	196	575	758	1177	1622	2368	2816	3159	3547	4149,221	4814,092	5488,1	0,9
5.2 Culture, arts, mass media	40	132	182	256	381	511	692	718	926	1225,841	1396,839	1655,0	0,3
5.3 Health care physical culture	94	262	337	524	695	829	1026	1290	1495	1800,931	2066,455	2320,9	0,4
5.4 Youth policy programme				0,1		0,3	0,3	0,556	2,028	3,519	13,569	14,1	0,0
5.5 Social insurance	4	43	119	198	206	335	409	486	623	750,106	886,378	999,2	0,2

5.6 Subsidies for pension fund	0	0	0	0	0	0	0	C	G	0	0	0.0	0.0
5.7 Programmes of Chernobyl & Semipalatinsk	68	%	226	305	377	431	558	666	756	943,531	1036,15	1268,1	0.2
5.6 Allowances & compensation for children					0	0	0	0,068	0,088	0,088	0,096	0.1	0.0
6. Government services for national economy	363	1391	2128	4115	5317	6313	8683	9737	11084	13350,611	15787,051	18211,4	2,9
7. Other functions	1566	3254	4926	6713	11424	13920	18430	22710	27189	325*1	37753	47573	7.6
7.1. Other expenditures	117	440	753	1041	2467	2938	4240	517*	6276	8159,521	9291,314	11124,3	1.8
7.2. Expenses for foreign economic activities	817	817	846	855	1424	1750	2043	2350	3026	3511,301	4084,124	4721,7	0,7
7.3. Expenses for services of internal debt	96	269	618	808	1661	2203	2896	3629	4301	5295,499	6146,157	7498,4	1,2
7.4. Expenses for services of external debt					1006	1054	1603	2191	2771	2854,674	2947,499	3132,5	0,5
7.5. Subventions for other levels of budget, incl:	536	1728	2709	4009	4866	5975	7648	9364	10815	12741	15284	21096	3,3
subventions for local budgets	129	218	345	533	761	941	1268	1468	1748	2081,9	2431,58	2621,6	0,4
interbudgetary payment (balance)	407	1503	2343	3233	3704	4394	5504	6726	7723	9026,046	10359,75	15986,0	2,5
finances of the fund of financial support	0	0		176	288	481	648	FO	972	1182,445	1967,765	2249,8	0,4
subventions for closed federal administrative-territorial regions	0	7	21	67	113	159	228	298	367	443,171	524,494	235,7	0,0
II LOANS LESS REPAYMENT	178	914	907	2*42	5233	6413	8997	12573	15424	19031	19454	21930	3,5
1. at other levels of government administration	25	42	114	222	256	488	772	1025	1153	1150	1014	148	0,0
1.1 Short term loans, given to local budgets	25	42	114	222	272	512	796	1029	1177	1174,064	1038,23	211,1	0,0
1.2. transferred to federal budget for repayment of subsidies	0	0	0	0	-16	-24	-24	-24	-2*	-24	-24,4	-63,2	0,0
1.3 Loans for local budgets	0	0					0	0	0	0	0	0,0	0,0
2. For enterprises	4	334	542	1092	1233	2439	3704	7511	9497	11252	12420	13972	2,2
2.1 from budget	4	334	478	698	1233	2439	3704	7511	9497	11251,743	12418,69	13971,8	2,2
2.2. Government credit	0	0	64	394.0									0,0
for conversion													0,0
for investment													0,0
3. incomplete transfer of incomes by CB	149	538	251	728	1379	632	1109	1617	855	2173,318	1280,408	1773,3	0,3
4. other crediting operations (balance)					2365	2354	3412	3040	3921	4455,179	4739,292	6037,2	1,0
TOTAL EXPENDITURES & SUBSIDIES, LESS REPAYED	- 4198	11486	16578	25578,1	38246	46998,3	61280,3	75127	8846-	106146	122149	145044	130
INCOMES & SUBSIDIES, LESS EXPENDITURES AND SUBSIDIES, REPAYMENTS DEDUCTED	-1821	-6824	-6514	-11472,1	-13843	-17411,3	-26945,3	-34889,363	-41661,029	-49856,093	-54605,661	-65291,189	#####
III FINANCING	2158	6881	7620	117*5	7003	24866	32068	39161	444*4	52122	54729	63256	10,0
1. Internal financing	2158	6881	7620	11785	3895	21550	28333	36236	40764	46527	49240	57019	9,1
1.1 Through other levels of budget													0,0
1.1 Through Central Bank (net)	2100	6800	7500	11538	1580	18100	25100	31100	34600	39150	41155	48083,2	7,6
1.2. Through international financing organizations					1158	1158	0						
1.3 Sale of securities	58	81	120	247	997	2132	2833	4187	4977	6151,14	6657,172	6910,7	1,1
1.4 Other					160	160	400	545	1187	1224,06	1227,55	2025,2	0,3
2 External financing (net)	0	0	0	0	3108	3316	3637	2945	3945	5356	5584	5648	0,9
taking credits													
repayments													
3. Credits of Bank for foreign trade (balance)							98	-25	-25	199,4	57,3	589,3	0,1
AS REFERENCE													
Credits for +A16 CIS, for investments, for conversion, credits in currency less repayments					2367	2853	236	250					0,0

2. Organization of the budget system and the budget processes, characteristics of the budgetary classification

Before 1991, the budget system of the USSR constituted an aggregate of all national budgets incorporated into the state budget of the USSR. In 1991, as has been pointed out above, budgets of the particular republics were separating themselves from the aggregate and, by the end of the year, the former budget system ceased to exist. Nonetheless, let us first review the budgetary arrangements in the USSR at the beginning of 1991.

The USSR state budget consisted of the Union budget, state budgets of the republics belonging to the Union and the state social insurance budget. State budgets of each of the Republics within the union consisted of the budget of the republic, state budgets of autonomous republics included in the given republic, and local budgets. As regards local budgets, three different groups can be identified: budgets of regions and territories, budgets of republican subordinated cities, and area budgets (in these republics in which the administrative division into regions did not exist).

In addition to that, regional budgets included budgets of regions and budgets of territories (by analogy with the structure of state budgets of union republics). In this case, however, a second group of local budgets should be identified: regional budgets, territorial budgets (incorporated into budgets of regions and territories), budgets of autonomous regions (districts), budgets of cities of regional and territorial subordination, area budgets.

Area budgets included regional budgets, budgets of cities covered by relevant subordination, budgets of settlements and rural budgets.

The revenue of the USSR budget came from the following sources:

- Payments from profits (deductions from profits generated by state enterprises and organizations, payments for the use of principal factors of production and rated current assets, fixed (rent) payments, available profit balance. In 1991 this group of payments was replaced by the tax on profits.
- Turnover-related payments from enterprises and organizations (turnover tax, tax on the revenue from film screenings). In 1991, the tax on sales was applied, governed by rules similar to the value-added tax.
- Payments made from enterprise revenue (income tax from co-operative enterprises, collective farms, forest tax (payment for timber), payment for water), as well as payments included in cost (deduction from prospecting).
- Charges and payments for services rendered by governmental organizations (state customs duty, road police charge, other charges and non-tax payments).
- Payments from the population (income tax, tax on single and childless persons, agricultural tax paid by collective farmers and farm owners, tax from house-owners,

land tax (which was not paid by collective farms and persons exempt from agricultural tax), tax on vehicles.

In general, the distribution of the above revenue between budgets at various levels was as follows: revenues transferred to the union budget (less the share transferred to the budgets of union republics) included the tax on profits from enterprises and organizations subordinated to the union, personal income tax, contributions to the state social insurance and customs payments.

The following revenues were transferred to the budgets of union republics:

- a part of the tax on profits from enterprises and commercial organizations subordinated to the republic,

- forest revenue,
- income tax from collective farms,
- co-operative and social enterprises,
- agricultural tax,
- share in turnover tax and

- other sources of Union revenue to the amount specified in the USSR State Budget for the given year and some other payments.

The following payments were transferred to the budgets of autonomous republics, territories and regions:

- payments made out of profits of subordinated enterprises and a part of payments made from the profit of enterprises and organizations subordinated to the union industries and authorities transferred to these budgets,

- state duties, revenue from film screening,
- local taxes and charges.

Payments from profits made by enterprises of local subordination and transfers from higher-tier budgets also constituted the revenue of local budgets.

The revenue of the state social insurance budget consisted of contributions made by enterprises. The contributions varied depending on the industrial branch and were defined in terms of a percentage of the wage fund. Other contributions included payments for recreation vouchers and amounts allocated from the union budget (with the share of 52% of the social insurance budget).

The extra-budgetary stabilization fund was supplied from the following sources: contributions from enterprises at 11% of their wage fund, 20% of depreciation write-offs for the full reconstruction of capital assets covered by all property types; profit made by enterprises from an increase of contractual prices over the specified profitability level, etc.

By the end of 1991 a new Act specifying the basis for budgeting arrangements and budget processes in the RSFSR was adopted. In accordance with this Act, the

following budgets are included into the RSFSR budget system and constitute its independent parts:

- the RSFSR budget, budgets of republics belonging to the RSFSR,
- budgets of territories,
- regional budgets,
- budgets of Moscow and Saint-Petersburg,
- the autonomous region budget,
- district budgets,
- city budgets,
- area budgets,
- city area budgets,
- local budgets of settlements and
- rural settlements.

It should be noted that independent budgets include the RSFSR budget, budgets of RSFSR republics and budgets of nationality, state, and administrative entities.

In accordance with the Act, the unity of the Russian budgetary system is ensured by the application of an universal legal basis, use of a unified budgetary classifications, uniform format of budgetary documents, consistent presentation of budget statistics at all levels of the budget system, permitting the consolidation of the RSFSR budget.

In 1991, the Russian Federation adopted the Act on the principles of the tax system, which specifies the principles of the Russian tax system and types of taxes as well as determines charges, duties and other payments. The Act was later replaced by the Act on the introduction of changes into the Russian tax system, dated 16th July, 1992, and the Act on the introduction of changes and addenda to some tax laws of the Russian Federation, dated 22nd December, 1992.

The above Act identifies three groups of taxes: federal taxes, taxes imposed by the republics of the Russian Federation, and local taxes imposed by territories, regions, autonomous regions and autonomous districts.

In 1992-1993, there were 89 second-tier budgets, corresponding to the number of entities within the Russian Federation, i.e. 21 republics, 10 autonomous districts, 6 territories, 1 autonomous region, 51 regions and Moscow and Saint-Petersburg as separate entities.

In 1992-1994 the rules governing tax distribution amongst budgets at various levels remained rather stable, despite some adjustments. Data concerning taxes constituting federal budget revenues and those feeding into the budgets within the Federation is presented in Table 2.1.

Apart from taxes, collected in accordance with separate Acts and feeding into budgets at various levels, other payments include customs duties that are transferred to the federal budget. The procedure governing the collection of these payments is regulated by the Customs Code and other documents issued by the State Customs Committee of the Russian Federation.

A considerable part of the Russian consolidated budget, together with local and federal budgets, consists of extra-budgetary funds that can be divided into funds allocated for social and industrial purposes.

Extra-budgetary funds include the employment fund and the mandatory health insurance fund.

The Act adopted in RSFSR on 20th November, 1990, regulating the governmental pension system in RSFSR stated that pensions were to be paid through the Pension Fund of RSFSR. In 1991, social pension contribution rate from enterprises and organizations was set at 26% of wages. In addition to that, employed citizens pay their own contribution at 1% of their earnings.

Amendments to the Act were introduced on 27th December, 1991. The rate of contribution to the Pension Fund was set at 31.6%.

On 25th December, 1992 further amendments were introduced, by way of the Act on the introduction of amendments into Clause 8 of the Act on governmental pensions in RSFSR. Contribution rate was changed to 28% and the contribution basis was broadened to include wages and remunerations paid on work contracts and commissions.

At the end of 1991 Social Insurance Fund contributions were set at 5.4%. This rate did not change. Resources from this fund are allocated for the payment of temporary disability allowances, as well as, in certain instances, for the payment for medical treatment and therapeutical diet. In 1992 no penalties were stipulated for as regards enterprises which failed to calculate and transfer adequate insurance contributions. It was not until 1993, when mandatory registration of individual enterprises at branch offices of the social insurance fund was introduced, that the mass transfer of fund resources began (including amounts payable and outstanding for 1992).

Contributions to the employment fund amount to 2% of the wages fund, while contributions to the mandatory health insurance amount to 3.6% of the wages fund.

The Russian Federation Employment Act, dated 19th April, 1991, outlined the procedure for the establishment of the Governmental Employment Fund. In April, 1991, mandatory monthly contributions made by employers, at the level of 1% of wages, were introduced. Starting from the second quarter of 1993 until present the standard contribution to the Employment Fund amounts to 21% of calculated wages.

A number of extra-budgetary funds have been established for industrial purposes. Road funds were established under the Act on road funds of the RSFSR, dated 18th January. These funds are used for the financing of expenditure on maintenance, repairs, reconstruction and construction of public roads.

Table 2-1. Taxes in Russia (cont.)

	RATES:			SHARE TRANSFERRED TO		
	federal budget	federation subjects budget	local authority budget	federal budget	federation subjects budget	local authority budget
1	2	3	4	5	6	7
1. FEDERAL TAXES						
Federal taxes charged for federal budget						
Value added tax (basis proceeds from realization of works services and some financial operations)	10-20%	-	-	-	25%	-
Excises for						
-oil, gas, coal, petrol	5-30%	-	-	-	100%	-
-ethyl alcohol	90%	-	-	-	50%	-
-spirits	30-55%	-	-	-	50%	-
-vehicles acquired for personal use	specified rates	-	-	-	-	-
-other goods (basis: sale prices at enterprise)	-	-	-	-	-	-
tax on operations with securities	0,5% of amount of emission 03% from each participant of transaction	-	-	-	-	-
Special tax (basis-similar to VAT)	2,40%	0,60%	-	-	-	-
Customs duties						
a) export duty	specified rates acc. to groups of goods in % of customs value	-	-	-	-	-
including						
-crude oil	23 ECU/t	-	-	-	-	-
-natural gas	5 ECU/t	-	-	-	-	-
-uranium ores	3200 ECU/t	-	-	-	-	-
b) import duty	specified rates acc. to groups of goods	-	-	-	-	-
-minimum rates (plants, seeds certain kinds of foodstuff raw materials ores, oil, certain kinds of machines equipment instruments spares)	1-5%	-	-	-	-	-
-maximum rates (weapon, ammunition, ethyl alcohol, precious metals articles vehicles electronics)	40-100%	-	-	-	-	-

Table 2.1. Taxes in Russia (cont.)

1	2	3	4	5	6	7
	Federal taxes charged for several budgets					
Tax on profits (basis: profits of realization)	13%	25% for enterprises 30% for banks				
Tax on surplus of wages fund over specified minimum (basis to fund wages fund exceeding standard wages fund)	13%	25%				
Taxes on profits:						
-dividends and interest for equities bonds and other securities	13%	2%				
-proceeds from videorooms rent of video & audio cassettes	13%	57%				
-casinos gambling	13%	77%				
-income tax on physical persons (scale minimum rate - 30%; basis: aggregate annual income)	1%	11%				
Charges for regeneration of raw materials-minerals base (basis: cost of realized minerals)	specified rates for lands of raw materials					
For instance:						
-crude oil, gas condensate	10%					
-iron and chromium ore	3,7%					
-ferrous and rare metals	8,2%					
-precious roetals	7,80%					
Royalty for use of natural resources						
a) royalty for prospecting	-		rates are imposed by local ftiiihonaes			
b) royally for extraction						
-oil, natural gas	10%			40%	30%	30%
-coal	1-3%					
-iron ore, copper	4%					
-gold, platinum, silver	7-10%					
-construction materials	3%					
-minerals of general use	-					100%

Table 2.1. Taxes in Russia (cont.)

1	2	3	4	5	6	7
Federal taxes charged for local budget						
Tax on property ceded to heirs and as gifts (cost of inheritance and gift is calculated in minimum monthly salaries MMS)						
-immediate heirs up to 1700	-	-	5%	-	-	-
-1700-2550	-	-	10%	-	-	-
-over 1550	-	-	15%	-	-	-
-other heirs	-	-	10-40%	-	-	-
Gift:						
-Children & parents:						
-850 MMS	-	-	3%	-	-	-
-over 2550 MMS	-	-	40%	-	-	-
-Other persons	-	-	10-40%	-	-	-
Land tax & rent pay for arable land (per unit of area)	-	-	basis rates 665-4950 roubles indexation of basis rates is used	50-20% for arable lands	20% for city lands	20%
Custom property legal actions	-	-	specified rates up to 10% of amount action	-	-	-
2. TAX OF REPUBLICS OF RUSSIAN FEDERATION						
Tax on property of enterprises (book cost of property)	-	2%	-	-	50%	50%
Charges (duties) for regeneration guarding and protection of forests (in % of cost of timber procured by enterprise)	-	5%	-	-	-	-
Forest duties	-	subjects authorities specify rates	-	-	-	-
Payment for water taken in by industrial enterprises from systems (per standards-included into expenses, over standard - for account of profit of enterprise)						
Education dues (taxation basis wages fund)	-	1%	-	-	-	-
3. LOCAL TAXES						
Tax on property of physical persons						
-structures premises (in % of inventory cost)	-	-	0-1%	-	-	-
-transportation means (in % of minimum monthly wage, per each horse power)	-	-	3-10%	-	-	-
Registration fee from physical persons involved in entrepreneurial activity						
Tax on advertising (in % of advertising expenses)	-	-	5%	-	-	-
Tax on housing fund and social & cultural facilities (taxation base volume of realized products)	-	-	1,5%	-	-	-
Other local taxes (Now local authorities have right to impose independently taxes within profits remaining at disposal of enterprises after settlement of tax on profits)						

Table 2.1. Taxes In Russia

1	2	3	4	5	6	7
	Extra-budgetary funds					
Pension fund (contributions are paid from all kinds of wages)						
-contributions of employers						
-standard rate	28%	-	-	-	-	-
-in agriculture	20,6%	-	-	-	-	-
-persons involved in individual labour activities	5%	-	-	-	-	-
farmers lawyers						
--workers & employers	1%	-	-	-	-	-
Social insurance fund (in % of wages calculated on all bases)	5,4%	-	-	-	-	-
Employment fund (conbutions are raid by employers from all kinds of wages every month)	2%	-	-	-	-	-
Charges for mandatory health insurance (contribution from wages fund is raid by employer every month)	0,2%	-	3,4%	-	-	-
Road funds						
a) tax on realization of fuel & lubricants (% of amount of their realization)	25%	-	-	-	-	-
b) tax on road users (in % of volume of production)	-	0,4%	-	-	-	-
-forprocurement-marketing & trading	-	0,3%	-	-	-	-
c) tax on owners of vehicles (every year as per horse power)	-	specified rates acc. to kind of vehicle	-	-	-	-
-cars	-	0,5-3,1 roubles	-	-	-	-
-lorries & tractors	-	2-7.15 roubles	-	-	-	-
d) tax on acquisition of vehicles	-	specified rates acc. to kind of vehicle	-	-	-	-
-cars	-	40%	-	-	-	-
-lorries	-	20%	-	-	-	-
-trailers	-	10%	-	-	-	-
excises on sale of vehicles for personal use	specified rates as per kinds of vehicle	-	-	-	-	-
OA2	10%	-	-	-	-	-

The Act introduced several taxes: tax on sales of fuels and lubricants, tax from vehicle owners, tax on the acquisition of vehicles (except for motor cars purchased for personal use), excise tax on cars purchased for personal use.

Apart from the road funds, the major industrial funds include the Research and Development Fund, Fund for financial regulation of the situation in metal industry, Fund for the financial regulation in power and fuel industries and certain other funds. During an analysis of these funds, it is difficult to determine the degree of resource centralization, due to the rather significant share of purpose-oriented resources which remain at enterprises. The use of fund resources permits to defer the payment of the tax on profits.

Starting from 1995 all extra-budgetary industrial funds are to be abolished, except for the funds allocated for the financing of general or sector-oriented R&D and schemes allocated for new product development and marketing. Such funds are formed at the level of 1.5% of product (services) cost. Ten percent of the collected resources are transferred to the Russian extra-budgetary R&D fund ("Russian Fund for Technological Development") at the Ministry of Sciences of the Russian Federation.

Uniform accounting rules and principles in the Russian Federation were introduced by the order issued by the government, dated 16th February, 1992, with subsequent revisions and amendments. Accounting regulations are mandatory for all enterprises, organizations and institutions that constitute legal entities according to the applicable laws of the Russian Federation, including enterprises operating on the basis of foreign investment, international associations and entrepreneurial organizations.

In spring, 1992, a new Act was introduced, regulating budgetary rights and the rights to establish and use extra-budgetary funds by legislative and executive bodies of the republics belonging to the Russian Federation, autonomous regions, autonomous districts, territories, regions, Moscow and Saint-Petersburg, as well as local self-government bodies. This Act regulates the overall budget processes in Russia, determines the competencies of authorities various levels, as regards the receipt of revenue for the appropriate budgets and expenditure made from these resources. However, amendments to the budget procedures are introduced by numerous other Acts, e.g. as regards the amounts and the procedure governing transfers from the federal budget to lower level budgets and distribution of federal taxes between budgets at different levels, which are specified annually in Federal Budget for given respective year.

Budget classification and accounting are regulated by Ministry of Finance of the Russian Federation. By the end of 1992, the main accounting rules and procedures were replaced by the letter issued by the Ministry of Finance on the monthly accounting related to the performance of budgets in the Russian Federation. Budget revenues and expenditure classification was approved by the end of 1990 and changed in the summer of 1992. Since then, the classification has undergone various minor and major modifications, resulting in the creation of a universally approved classification. By the end of 1994, the new budgetary classification, effective from 1st January,

1995, was introduced by way of an Order issued by the Ministry of Finance, dated 29th December, 1994.

Presented figures referring to the state of government finance during the period under analysis differ from the official statistics due to the fact that our calculations take into account a series of operations conducted by the government that had been omitted in the reports of the Russian Ministry of Finance, in accordance with the budget classification which was currently in force.

Data on the situation of the 1991 Russian budget are based on the official statistics of the Ministry of Finance of the Russian Federation, complete with reports on extra-budgetary funds. It was not possible to find credible data which would fully account for foreign economic activities and the Central Bank operations that should be treated as budget operations. As regards the assessment of the consolidated budget of the late USSR, it is based on the data related to the implementation of the union budget and the available data related to the budgets of former union republics.

Data describing the state of the Russian government finance in 1992-1994 are far more credible. Nevertheless, the budget classification used in Russia in 1992-1994 substantially departed from the universally accepted principles. For this reason, the attempt to reconstruct the consolidated budget, included not only statistics compiled by the Ministry of Finance but also data made available by the State Committee for Statistics of the Russian Federation, Tax Board, Ministry for Foreign Economic Relations of the Russian Federation, Ministry of Economy, and information concerning extra-budgetary funds. In addition to that, it is important to note that before 1993, statistical reports of the Ministry of Finance did not cover the collection and presentation of data on the economic classification of budget expenditures. The available economic classification of 1993 expenditures is limited to the federal budget alone and is presented in an extremely aggregated manner.

The 1992 budget statistics of the Ministry of Finance were adjusted both as regards the evaluation of budget revenue and expenditures. During budget revenue evaluation, sources of revenue were re-grouped in such a manner which permitted separate analysis of different taxes (tax on enterprise profits, personal income tax, property tax, tax on goods and services, foreign trade tax) and the non-tax revenue.

While estimating revenue, apart from changes in the formal classification, it is also necessary to take into account the resources received by the government in the first six months of 1992 as a result of the mandatory exchange of a part of foreign currency amounts earned by exporters, at the over-estimated rate of exchange (0.018 USD/rouble). These budget revenues in the first six months of the year amounted to 110 billion roubles (or 2.4% of GDP), including both: revenues of the currency reserve of the Republic and a part of foreign currency revenues left abroad by exporters, to be used for centralised purchases of food products, medicines, mineral fertilizers, etc.

The evaluation of 1992 expenditure must take into account import subsidies that were not included in the statistics compiled by the Ministry of Finance. In the first six months of the year import subsidies were provided through the sale of currencies to importers operated at an over-estimated rate of exchange (which in January-July

averaged 0.05 USD/rouble). Starting from the second half of 1992 a unified rate of exchange of the Russian rouble was introduced. It was assumed that from then on importers would buy currencies at the market rate of exchange, and sell imported goods at prices lower than contractual prices re-calculated according to the rate of exchange. In such instances the difference would be subsidised from the budget. In practice, however, the procedure was altered. Currencies were allocated for importers, however, the importers failed to immediately repay the resulting liabilities. Goods were imported and then sold at a settlement price, which averaged 30% of the contractual price converted into rouble. The resulting proceeds were transferred to the budget. As a result, prices for imported goods financed from government credit were subsidized at about 70%.

It should be pointed out that the amounts of foreign financing of which we have been informed, as well as the price subsidies, are clearly over-estimated, due to fact that the current rate of exchange of rouble to the US dollar was applied for subsidy evaluation. The rate reflects the situation as regards currency demand and supply, which was determined by internal to external prices ratio for a narrow group of goods sold and purchased on the international commodity exchange. At various points during the period under consideration, the dynamics of the rate of exchange was considerably different from the parity of the buying capacity of rouble as related to foreign currencies. During the entire 1992 the real rate of exchange of rouble increased about seven times. In 1993 and 1994 the real rate of exchange of rouble continued to grow (the figures are to be inserted here), however, also at the beginning of 1995, Russian prices corresponded to only 30-35% of American prices.

Thus, the conversion of foreign financing in 1992, from the dollar equivalent into roubles, largely over-estimates its real size. In our opinion, the results would have reflected the reality in a far more correct manner if other, artificial methods, such as the settlement parity of the buying capacity of rouble and dollar, were used for this conversion, instead of the current rate of exchange of rouble, as quoted on the Interbank Market.

Presented 1993 data also differ from the official statistics as published by the Russian Ministry of Finance. The Ministry used the following method in order to reflect foreign economic operations of the Government in budget performance reports: revenues from import and exports duties were used to cover, in roubles, foreign currency expenditure on centralised import purchases. Expenditure included the purchase of goods for centralized export operations and the purchase of currency for the currency reserve of the republic.

Such a classification obscures the economic meaning of these operations; for this reason we have expanded the revenue category including import and export duties, revenue from the realization of government monopoly over centralized export operations (revenue from the sale of goods net of expenditure incurred for their purchase). Expenditure now includes the purchase of currencies for the currency reserve of the republic.

As a result, even though the 1993 report prepared by the Ministry of Finance shows the revenue from foreign economic activities at 1.4% of GDP, our estimates indicate its level at 4.1% of GDP.

Due to the lack of the precise data we could not correctly account for the entire foreign economic activities of the state. First, the revenue from government monopoly over centralized exports was realised in unequal amounts throughout the year. **However**, foreign currency revenue was converted into rouble at the mean annual rate of exchange. Second, a part of this revenue never actually flowed into the country but remained on accounts with foreign banks and was used for debt servicing and repayment. Thus, the corresponding expenditure could not be accounted for or compared with revenue. Third, the revenue from the export of goods and products as well as the expenditure incurred by the government in order to pay manufacturers for the delivered products have been accounted for at the time when the shipment of products was operated, in spite of considerable delays in actual payments. Fourth, it turned out not to be feasible to perform a quantitative evaluation of budget expenditure financed from the revenue from state monopoly over centralized exports. In this study such expenditure was allocated for external debt service and repayment, financing of non-commercial operations, import subsidies and the creation of the currency reserve of the republic.

A part of expenditure incurred in relation to these operations was not reflected in official statistics. Our tables take into account their estimated value under foreign economic activities expenditures, as well as under "other expenditure".

It also should be noted that the statistics compiled by the Ministry of Finance show sales of foreign currencies from the government reserve within the financing section. In our analyses, these sales are accounted for in the section related to the government monopoly over centralized export.

Essential changes in budgetary classification were introduced in 1994. In May, 1994, the revenue from centralised export sales were included in the item "Revenue from foreign economic activities", along with export and import duties and other sources of revenue. The item "Allocation of purpose-oriented resources for the reduction of the budget deficit", which until May, 1994, included currency sales, together with the sale of currencies from centralized export, was removed from the classification. Data starting from May, 1994, show exchange rate differences realised in Government foreign currency operations, which in the official statistics of the Ministry of Finance are defined as the difference between the "Sale of Currency" and "Purchase of Currency." The increase of budget revenues since May is thus defined at about 1% GDP.

In addition to that, the accounting for extra-budgetary funds was also modified in 1994 statistics. The State Committee for Statistics of the Russian Federation stopped collecting data on the "availability and movements of governmental extra-budgetary funds" (form No. 8-F) from enterprises. As a result, the only data available, are limited to the receipts and payments regarding centralized resources of extra-budgetary funds, while no data are collected as regards the collection and use of such financing at the enterprise level.

3. Revenue, expenditures and deficit of government finance

As has been pointed out above, it is impossible to provide accurate assessments as regards budget parameters for Russia and the USSR in 1991. Approximate estimates show that without taking into account foreign economic activities and the series of quasi-budgetary activities of the government, the budget system deficit in former USSR republics was approximately 15%. Taking into account the above elements, the deficit would amount to ca 30% GDP. Consolidated budget revenues amounted to some 38% GDP, and expenditures (including extra-budgetary funds) - about 53% of GDP.

The deficit of the Union budget, including the economy stabilization fund, accounted for ca 6% GDP of the former USSR (where GDP amounted to 2100 billion rouble). In the same period revenues amounted to 7.5% GDP. The overall Russian budget deficit, including expenditures which were inherited in the fourth quarter from the union government and taking into account subsidies to prices of agricultural products granted on the account of Central Bank credit reached 7.3% of the Russian GDP (GDP - 1300 billion rouble), including the deficit of the republic budget - 8.5% of GDP. Russian budget revenues amounted to 25% GDP.

The reconstruction of the government finance system in 1992 (Table 3.1.) shows that budget receipts and extra-budgetary funds accounted for ca 50% of GDP. This corresponds approximately to the level recorded in the USSR in 1980-1985, i.e. a relatively good period for the state finance. Figures reached in 1992 were considerably higher than in 1991. The level of collected taxes which to a certain extent contradicts the difficult situation as regards the state finance, calls for a more detailed comment. First, it cannot be excluded that an under-estimated GDP was used for 1992. The State Statistical Committee of the Russian Federation initially published data assessing GDP at 14.5 trillion roubles. This level was then increased to 18.063 roubles. Second, the following circumstance should be taken into account: a considerable surplus of revenue over expenditures in extra-budgetary funds, accounting for 5.1% of GDP, was not used for the financing of the budget deficit. Third, contributions to the industrial extra-budgetary funds do not constitute taxes in the strict understanding of the term. A considerable part of these amounts remained at enterprises, on condition that they had to be allocated to certain specified purposes.

Revenues of the Russian consolidated budget included extra-budgetary funds at 18.6% GDP, of which 11.9% social funds.

Expenditure of the consolidated budget in 1992 amounted to 60% of GDP, while expenditure and loans, less repayments, was at 65.2% GDP. Expenditure of the Russian consolidated budget included also extra-budgetary funds - 13.4%.

As shown in the Table, in 1992 the balance of revenues and expenditures in the federal budget, including loans net of repayments amounted to 23% GDP. As regards the influence of the government finance deficit upon the monetary situation, a better index can be calculated on the basis of federal budget balance, including loans net of repayments, but without taking into account subsidies granted to importers. Such an

Figure 3.1. RECONSTRUCTION OF GOVERNMENT INCOME AND EXPENDITURES IN RUSSIAN FEDERATION IN 1992

	Federal budget bln. roubles	% GDP	Local Budgets bln. roubles	** ODP	Extra-budgetary funds bln. roubles	% GDP	Consolidated budget bln. roubles	% of total
I. TAX REVENUES								
1. Income taxes, taxes on profits	646	3.6	1353	7,5			1999	22,4
1.1. Income tax on physical persons			431	2,4			431	4,8
1.2. Tax on profits of enterprises	646	3.6	922	5,1			1568	17,6
2. Deductions for social insurance fund*					2150	11,9	2150	24,1
2.1. The employed					72	0,4	72	0,8
2.2. Employes					2078	11,5	2078	
Pension fund					1716	9,5	1716	19,3
Social insurance fund					293	1,6	293	3,3
Employment fund					59	0,3	59	0,7
Population social support fund					10	0,1	10	0,1
4. Taxes on ownership	19	0,1	109	0,6			128	1,4
4.1. Taxes on property			55	0,3			55	0,6
4.2. Land tax	17	0,1	54	0,3			71	0,8
4.3. Tax on operations with securities	2	0,0	0	0,0			2	
5. Internal taxes	1701	9,4	720	4,0			2421	27,2
5.1. VAT	1501	8,3	498	2,8			1999	22,4
5.2. Excises	101	0,6	111	0,6			212	2,4
5.3. License charge for production & realization of alcohol			1	0,0			1	
5.4. Royalty for use of deposits and natural resources			110	0,6			110	1,2
5.5. Deductions for regeuerstio of the minerals - raw materials base	73	0,4					73	0,8
5.6. Proceeds for the fund of regubtion of prices	26	0,1					26	0,3
6. Tax on foreign trade	689	3,8	8	0,0			697	7,8
6.1. Import duty	63	0,4					63	0,7
6.2. Export duty	289	1,6	8	0,0			297	3,3
6.3. Other proceeds of foreign economic activities	227	1,3					227	2,5
6.4. Proceeds from monopoly of government for operations in respect of centralized exports	110	0,6					110	1,2
7. other taxes	93	0,5	81	0,4			173	1,9
7.1. Government duty								
7.2. Other taxes & charges	93	0,5	72	0,4			164	1,8
7.3. Turnover tax			4	0,0			4	0,4
7.4. Sales tax			5	0,0			5	0,6
8. Extra-budgetary funds					1212	6,7	1212	14,0
8.1. Road funds					287	1,6	287	3,2
8.2. R&D financing fund					114	0,6	114	1,4

8 3 Funds of financing regulation at fuel-power complex					5*4	3,1	564	6,3
8 4 Funds of financing regulation in metallurgy								
\$6Other					102	0,6	102	1,1
TOTAL TAX REVENUES	3148	17,4	2271	12,6	143	0,8	145	1,6
NON-TAX PROCEEDS					3362	18,6	8780	98,6
1 Balances of budget finances by beginning of a year, circulating for coverage of expenses	34	0,2	10	0,1			44	0,5
2 Income of Central Bank			20	0,1			20	0,2
CAPITAL INCOMES	19	0,1	43	0,2			62	0,7
1 Income from privatization	19	0,1	43	0,2			62	0,7
TOTAL INCOMES	3201	17,7	2344	12,0	3362	18,6	8906	1,0
SUBSIDIES			299	1,7	51	0,3		
1 From other levels of government administration								
1 1 Subventions for local budgets			299	1,7	5	0,3		
1 2 Loans for local budgets			299	1,7				
GOVERNMENT EXPENDITURES & SUBSIDIES					51	0,3		
LESS REPAYMENTS								
1 Government expenses	6471	35,8	2253	12,5	2412	13,4	11136	1,0
1 Government services of general designation (government bodies, authorities and administration)	42	0,2	64	0,4			106	1,0
2 for defence	855	4,7					855	8,3
3 for law enforcement authorities, including	240	1,3	5	0,0			245	2,4
4 for science	104	0,6	3	0,0			107	1,1
5 social & public services, incl.	489	2,7	971	5,4	1618	9,0	3078	2,9
5 1 education	230	1,3	449	2,5			679	6,6
5 2 Culture, arts, mass media	59	0,3	57	0,3				1,1
5 3 Health care & physical culture	53	0,3	415	2,1			468	4,6
5 4 youth policy programme								
5 5 Social insurance	18	0,1	50	0,3			68	0,7
5 6 Subsidies for Pension fund	51	0,3					51	0,5
5 7 Chernobyl & Semipalatsk programmes	78	0,4					78	0,8
5 8 Social services for account of extrabudgetary funds, incl. Pension fund					1618	9,0	1618	15,7
6 Government services for national economy incl.	2995	16,6	964	5,3	754	4,4	4773	46,3
Investments	315	1,7					315	3,1
Compensation for price gap	313	1,7					313	3,1
Subsidies for importers	1900	10,9					1900	18,5
For account of extrabudgetary funds					794	4,4	794	7,7

7 other functions	1184	6,6	246	1,4			1430	11,0
7.1 Other expenditures	228	1,3	246	1,4			473	4,6
7.2. Expenditures for foreign economic activities	417	2,3					417	4,1
7.3 Expenditures for servicing of internal debt	120	0,7					120	1,2
7.4 Expenditures for servicing of government's external debt	120	0,7					120	1,2
7.5 Subventions for other levels of state administration from budget of republic	299	1,7						
8 Other expenditure	562	3,1					562	
SUBSIDIES LESS REPAYMENTS	907	5,0	40	0,2			947	
1. for other levels of state administration	31	0,2	6	0,0			37	
2. For enterprises	876	4,9	34	0,2			910	
2.1 from budget	72	0,4	34	0,2			106	
2.2. Credits by CB	804	4,5					804	
TOTAL EXPENDITURES & SUBSIDIES, LESS REPAID	7378	40,8	2293	12,7	2412	13,4	12083	
INCOMES & SUBSIDIES, less EXPENDITURES & SUBSIDIES, REPAYMENTS DEDUCTED	-4171	-23,1	350	1,9	1001	5,5	-2820	
III FINANCING	4177	23,1	49	0,3				
I. Internal financing	1912	10,6	49	0,3				
1 Through other levels of state administration			49	0,3				
2. Through Central Bank (net)	1912	10,6						
2.1 for the purpose to cover budget deficit (net)	1108	6,1						
2.2. for the Government, incl.	804	4,5						
for conversion	77	0,4						
for investment	105	0,6						
prospecting	22	0,1						
for regeneration of the TO & materials	600	3,3						
2. External financing (net) incl.	2265	12,5						
credits granted	2502	13,9						
credits repaid	-374	-20,7						
delayed payments	2955	16,4						
interest	1025	5,7						
increasing of the delayed debt.	788	4,4						
AS REFERENCE	18063							

Figure 3.2. RECONSTRUCTION OF GOVERNMENT INCOME AND EXPENDITURES IN RUSSIAN FEDERATION I, 1993

	Federal budget bln. roubles	% GDP	Local Budgets bln. roubles	% GDP	Extra-budgetary funds bln. roubles	% GDP	Consolidated budget bln. roubles	% ODP	% of total
I. TAX REVENUES									
1. Income taxes, taxes on profits									
1.1. Income tax on physical persons	5472	3,4	15690	9,7			21162	11,0	45,9
1.2. Tax on profits of enterprises			4388	2,7			4388	2,7	9,4
2. Deductions for social insurance funds	5472	3,4	11302	7,0			16774	10,1	22,6
2.1. The employed			66	0,0	15547	9,6	15613	9,6	21,1
2.2. Employers					487	0,3	487	0,3	0,7
Pension fund			66	0,0	15060	9,1	15126	9,1	20,4
Social insurance fund					10213	6,3	10213	6,3	13,8
Employment fund					2434	1,4	2434	1,5	3,1
Population social support fund					628	0,4	628	0,4	0,8
Government fund of mandatory health insurance					487	0,3	487	0,3	0,7
3. Tax on wages fund			66	0,0	1298	0,8	1364	0,8	1,8
4. Taxes on ownership									
4.1. Taxes on property	77	0,0	820	0,4			897	0,6	1,2
4.2. Land tax			546	0,3			546	0,3	0,7
4.3. Tax on operations with securities	41	0,0	173	0,1			314	0,2	0,4
5. Internal taxes							37	0,0	0,0
5.1. VAT	8908	5,4	5523	3,4			14431	8,9	19,4
5.2. Excises	7251	4,5	4020	2,4			11271	6,9	15,1
5.3. License charge for production & realization of alcohol	899	0,6	878	0,5			1777	1,1	2,4
5.4. Royalty for use of deposits and natural resources			29	0,0			29	0,0	0,0
5.5. Deductions for regeneration of the minerals - raw materials base	248	0,1	596	0,4			844	0,4	0,4
5.6. Proceeds for the fund of regulation of prices	310	0,1	0	0,0			310	0,2	0,4
6. Tax on foreign trade	200	0,1	0	0,0			200	0,1	0,3
6.1. Import duty	6716	4,1	91	0,1			6807	4,2	9,2
6.2. Export duty	888	0,4					888	0,5	1,2
6.3. Other proceeds of foreign economic activities	1783	1,1					1783	1,1	2,4
6.4. Proceeds from the duty of government for operations in respect of centralized exports	19	0,0	91	0,1			110	0,06778	0,1
7. Other taxes	4026	2,4					4026	2,5	5,4
7.1. Government duty	37	0,0	1018	0,6			1055	0,7	1,4
7.2. Other taxes & charges	37	0,0	94	0,1			131	0,1	0,2
8. Extra-budgetary funds			924	0,6			914	0,6	1,1
8.1. Road funds					9902	6,1	9902	6,1	13,4
8.2. R&D financing fund					3246	2,0	3246	2,0	4,4
8.3. Funds of financing regulation in fuel power complex					812	0,4	812	0,4	1,1
8.4. Funds of financing regulation in metallurgy					2597	1,6	2597	1,6	3,5
					974	0,6	974	0,6	1,3

8.5 Re-generation of the mineral raw materials base					325	0Д		325	0Д	0,4
8.6 Other					1948	1Д		1948	1Д	2,6
TOTAL TAX REVENUES	21210	13,1	23208	14,3	25449	15,7		69867	43,0	94,3
NON-TAX PROCEEDS										
1. Balances of budget finances by beginning of a year, circulating for coverage of expenses			174	0,1				174	0,1	0Д
2. Income of Central Bank	2042	У						2042	У	23
3. Interests of credits granted for other countries	360	0,2						360	0Д	0,5
4. Other non-tax revenues	249	0Д	1098	0,7				1347	0,3	13
CAPITAL INCOMES										
1 Income from privatization	66	0,0	153	0,2				319	0Д	0,4
TOTAL INCOMES	23927	14,7	24733	15,2	25449	15,7		74109	45,7	100,0
SUBSIDIES										
1. From other levels of government administration			4296	2,6	359	0Д	x			
1.1 Subventions for local budgets			4296	2,6	359	0Д	x			
1.2 Subsidies for Pension funds							s			
TOTAL INCOMES 4 SUBSIDIES	23927	14,7	29029	17,9	25808	15,9	x	74109	45,7	100,0
GOVERNMENT EXPENDITURES & SUBSIDIES LESS REPAYMENTS										
I. Government expenses	36465	22,5	26972	16,6	19807	12,2		78589	48,4	95,4
1. Government services of general designation (government bodies, authorities and administration)	658	0,4	818	0,5				1476	0,9	1,8
investment	14	0,0						14	0,0	0,0
2. for defence	7210	4,4						7210	4,4	83
3 for law enforcement authorities, including investment	2513		111	0,1				2624	1,6	3Д
	85	0,1						85	0,1	0,1
4 for science	894	0,6	49	0,0				943	0,6	1,1
5 social & public services, incl. investment	3191	2,0	12413	7,6	13647	8,4		28892	17,3	35,1
	51	0,0						51	0,0	0,1
5.1 education	1386	0,8	5599	3,4				6955	4,3	8,4
5.1. Culture, arts, mass media	341	0,2	706	0,4				1047	0,6	1,3
5.3 Health care & physical culture	563	0,3	4815	3,0				5388	3,3	6,5
5.4 youth policy programme			17	0,0				17	0,0	0,0
5.5 Social insurance	210	0,1	595	0,4				805	0,5	1,0
5.6 Subsidies for Pension fund	359	0,2					x			
5.7 Chernobyl & Semipalatinsk programmes	362	0,2	8	0,0				370	0Д	0,4
5.8 Allowances & compensations for children			663	0,4				663	0,4	0,8
5.9. Social services for account of extrabudgetary funds, incl.					13647	8,4		13647	8,4	16,6
Pension fund					10387	6,4		10387	6,4	12,6
Social insurance fund					2597	1,6		2597	1,6	3Д
Employment fund					628	0,4		628	0,4	0,8
Fund for social support of population					35	0,0		35	0,0	0,0
6. Government services for national economy, incl.	6473	4,0	11847	7,3	5024	3,1		23344	14,4	28,3
Prospecting	332	0,2						332	0Д	0,4
Compensation for prices gap	1860	1,1						1860	1,1	2,3
Governmental subsidies	209	0,1						209	0,1	0,3
Investments	1321	0,8						1321	0,3	1,6

Subsidies for importers	1930	1,2					1930	1,2	2,3
for account of extrabudgetary funds, incl.									
road funds					5024	3,1	5024	3,1	6,1
R&D fund					2272	1,4	2272	1,4	2,8
fund for fiaivni regulation in foci -power complex					162	0,1	162	0,1	0,1
fund for finaiwati regulation in metallurgy					1948	1,2	1948	1,2	2,4
7 other functions					642	0,4	642	0,4	0,8
7.1. Other expenditures	15526	9,6	1734	1,1			12964	8,0	15,7
7.2. Expenditures for foreign economic activities	3680	2,3	1582	1,0			5262	3,2	6,4
7.3. Expenditures for servicing of internal debt	6111	3,8	60	0,0			6171	3,8	7,5
7.4. Expenditures for servicing of government's external debt	989	0,6					989	0,6	1,2
7.5. Subventions for other levels of state administration from budget of republic	450	0,3					450	0,3	0,5
7.6. Subventions for federal budget to finance state programme	4296	2,6					x		
8. Other extra-budgetary funds			92	0,1			92	0,1	0,1
SUBSIDIES LESS REPAYMENTS					1136	0,7	1136	0,7	1,4
1 for other levels of state administration	3293	2,0	586	0,4	0	0,0	3803	2,3	4,6
2. For enterprises	76	0,0					x		
3 incomplete transfer of incomes by CB	2834	1,7	586	0,4			3420	2,1	4,2
4 For foreign governments	322	0,2					322	0,2	0,4
granted	-450	-0,3					-450	-0,3	-0,5
repaid	180	0,1					180	0,1	0,1
5 for CIS states	630	0,4					630	0,4	0,8
TOTAL EXPENDITURES A SUBSIDIES, LESS REPAID	511	0,3					511	0,3	0,6
INCOMES ± SUBSIDIES, less EXPENDITURES & SUBSIDIES, REPAYMENTS DEDUCTED	39758	24,5	27558	17,0	19807	12,2	82392	50,8	100
III FINANCING	-15831	-9,8	1471	0,9	6001	3,7	-8283	-5,1	-10,1
1 Internal financing	15831	9,8							
1.1. Through Central Bank (net)	12631	7,8							
for the purpose to cover deficit (net)	9860	6,1							
for conversion	8960	5,5							
for investment	300	0,1							
for enterprise* of fuel-power complex	400	0,1							
1.2. Sale of securities	200	0,1							
1.3. IMF's credits	185	0,1							
1.4. Sale of precious metals out of the Government's reserve	1451	0,9							
2. External financing (net) incl.	1185	0,7							
credits granted	3150	1,9							
credits repaid	4950	3,0							
	-1800	-1,1							
AS REFERENCE:									
GDP	162300								

index, amounting to 12.6% GDP in 1992, provides more valuable information than the budget deficit calculated by the Ministry of Finance.

Table 3.2 shows a reconstruction of the consolidated budget of the Russian Federation for 1993. First, the analysis shows that the rather high level of tax collection was maintained. In 1993 the share of taxes and revenues in extra-budgetary funds of GDP amounted to 43% of GDP. The share of government's revenues was at 45.7% GDP. Revenues of extra-budgetary funds remained at the 1992 level some 16% GDP.

Expenditures of budgets and extra-budgetary funds amounted to 48.3% GDP, while expenditures including loans, net of repayments were at 50.3% GDP. The federal budget deficit reached 9.8% GDP, and the deficit of government finances - 3.6% of GDP.

4. National Debt

Until 1993 it is difficult to discuss the internal public debt. A majority of the debt consisted of the loans taken by the government from the Central Bank. This part of debt was not reflected in any official agreements. It was not until 1993 that a clear structure was imposed upon the whole volume of the government debt.

In spite of the considerable volume of the governmental borrowing in 1992 and 1993, the problem of internal debt service not yet become too serious. This can be explained by the fact that a majority of the internal financing of the federal budget deficit was provided on the account of credit from the Russian Central Bank, with interest rate several times lower than the refinancing rate of the Central Bank (usually 10% annually). As a result, the real value of internal debt was not growing as quickly as could have been expected.

Russian internal debt is peculiar in one respect; on several occasions, just prior to price liberalization, during the period of the most severe goods shortages, the State undertook to repay its debt in durable consumer goods (cars, washing machines, refrigerators, etc.). Such loans included, e.g. the purpose loan in 1990, purpose deposits, "Harvest-90" cheques, etc. The level of relative prices for such goods rose sharply after prices liberalization on 1st January, 1992. As a result, a major part of debt turned out to be considerably indexed and the indexation has continued until present. The problem concerning repayment of this debt (about 2% of GDP in 1993) had been the source of acute social conflicts, before relevant decisions were made as regards the general conditions of payment.

At the beginning of 1994, external government debt amounted to 35 trillion rouble (about 22% GDP in 1993) and budget expenditure allocated for debt servicing was 0.6% of GDP.

By the end of 1992 the Russian external debt amounted to 110.5% billion USD (104.4% GDP), or 743 USD per capita (5 times more than the value of a similar index calculated in the USSR in 1980). In 1993 and 1994 Russian external debt amounted to 112.81 and 119.3 billion dollars, respectively. Along with the growth of the nominal value, the share of debt in GDP decreased from 104.4% in 1992 to 42.9% in 1994.

5, Financing the budget deficit

The budget deficit in the union and in Russian in 1991 was financed on the account of the federal Bank as well as from foreign credit. As has already been mentioned, credible information is lacking as regards governmental quasi-budgetary operations and with respect to the foreign economic activity of the governments in 1991. For this reason, financing of the budget deficit can only be discussed starting from 1992.

In 1992 the federal budget deficit reached 23% of GDP. The deficit was financed from external credit (12.5% of net GDP) and Central Bank credit (10.6% of GDP). As has already been mentioned, we must adopt a cautious approach as regards the value of foreign financing, due to differences between the current rate of exchange and the parity of the purchasing capacity of the rouble. Credit granted through the Russian Central Bank includes both credit granted to the government in order to cover the budget deficit and credit which was officially not included into the 1992 budget and which was allocated for the support granted to the enterprises implementing schemes providing for the conversion of military production (0.4% GDP), investment (0.6% of GDP), prospecting (0.1% of GDP), and the replenishment of current assets held by enterprises (3.3% of GDP).

In 1993, the situation as regards the financing of the budget deficit changed considerably. The share of external financing was reduced from 54% to 20% of the total financing. The change was to a considerable extent caused by a real growth of the exchange rate of rouble as well as by a related reduction as regards the estimated value of external borrowing in USD. Internal financing amounted to 7.8% of GDP, including Central Bank credit for the government - 6.1% of GDP, sale of securities - 0.1% of GDP, IMF credit - 0.9% of GDP, sales of gold and currency assets - 0.7% of GDP.

6. Composition of budget revenues

In 1990 legal bases were laid for tax reforms were created and RSFRS adopted the Union laws on the personal and enterprise income taxes and their application. In general, the main directions of the tax reform implemented in Russia conforms with the directions followed in the reform implemented in the Eastern Europe. The reform included the transformation of the tax on profits and turnover tax and the mechanism for the collection of proceeds from foreign trade, modification of the personal income tax by the introduction of tax returns, modification of the social insurance system, etc.

In 1991, main sources of budget revenue included the tax on profits, turnover tax, tax on sales, income tax levied from the population, proceeds from foreign economic activities and non-tax revenues.

The law on the enterprise tax provided for a tax amounting to 22% of profit payable to the budget, as well as a tax not exceeding 23% of profits payable to the state budgets within the Union, to autonomous republics and for local budgets. The tax was to be levied from enterprises belonging to all sectors of the national economy (except for certain groups of payers to whom different tax rates applied). 1991 was the

first year of application of the profit tax, instead of the deductions payable to the budget which had been calculated for each enterprise separately. Meanwhile, unified tax rates in 1991 could not be effectively applied, due to the rigid prices which were maintained for a vast range of commodities, mandatory inclusion of government orders and then implementation in the production plans of enterprises. Under such circumstances, the financial situation of enterprises could evolve in two different directions. This differentiation of the financial condition resulted from the administrative control over prices and decisions made by authorities. The first trend included further rapid reduction of imposed mandatory tasks and the acceleration of price liberalization, permitting an equalisation of enterprise profitability. The second trend meant the granting of tax preferences to certain entities, on the basis of arbitrary decisions made by the government and its economic authorities.

Practice has shown that in 1991 neither the Union government, nor the Russian government had a sufficient degree of political decisiveness to liberalize prices and the economic activity of state-owned enterprises. The arbitrary policy based on subsidies and tax preferences was not introduced at a large scale. These facts are explained by the fact that the disintegration of administrative control over the national economy, in particular control over prices and implementation of governmental tasks, sharply accelerated due to the dissociation of the Union. As early as in mid-1991 the structures of the Union government stopped to operate, while the Russian structures had not yet taken over the necessary functions. As a result, the activities of enterprises and their financial results were less dependent upon the state-approved plan for 1991 than could have been expected by the end of 1990.

In 1991 the tax on profits in RSFSR was levied depending on the administrative subordination of enterprises. Depending on the particular situation, taxes were levied according to the Union law or to the Russian law. Russia, having preserved the 45% rate of tax on profits, reduced it for the enterprises subordinated to the republic down to 38% in order to provide incentives for enterprises to switch over to the Russian jurisdiction. Under the Russian law the entire revenue from tax on profits was to be transferred to RSFSR budgets. *

In general, in 1991, Russian budget revenues from tax on profits amounted to 7.1% GDP, estimated revenues to the budget of former republics of the USSR - 8.2% of GDP, which corresponds to 28% of budget revenue net of extra-budgetary funds.

According to the law regulating the enterprise tax, all enterprises manufacturing and selling products which were subject to turnover tax, constituted payers of the turnover tax. Tax rates were defined as a percentage of the value of sales subject to tax or as a fixed amount per unit.

As regards products for which industry wholesale prices and enterprise wholesale prices could not be specified, the tax was calculated on the basis of the difference between wholesale and retail prices, taking into account trade and wholesale discounts. In practice, in 1990-1991, over 90% of turnover tax was calculated using the method based upon the difference between wholesale and retail prices that were centrally fixed. As has already been mentioned, this mechanism was utterly destroyed by the relaxation of price control. For this reason, during the entire

1991, revenues from turnover tax continued to fall. Their volume in the consolidated budget of the former USSR amounted to 6.3% of GDP, or 21% of the budget revenues.

The USSR law on citizens' income tax, adopted in April, 1990, came into effect on 1st July, 1990. Even though the law introduced a general personal income tax (with a progressive scale and the minimum 13% rate), it also provided for different tax scales for various categories of payers. The largest group of tax payers included persons receiving salaries under employment contracts.

The RSFSR law on the application of the Union law on the citizens' income tax managed to a certain extent to reverse the discriminating nature of the union law as regards persons employed in certain sectors of economy. Such sectors were given different treatment as regards the ownership structure and the progressive tax rates. The minimum income exempt from taxation was raised, and the maximum tax rate was set at 50%.

Revenue from national income tax in the consolidated budget of the former USSR in 1991 amounted to 3.3% GDP or 11.3% GDP.

In general, in 1991 the share of tax revenues in the GDP of the former USSR amounted to 28.1%. Taking into account deductions for the economy stabilization fund and the pension fund tax revenue accounted for 3.7% of GDP. Together with non-tax revenues, budget system revenues accounted for 39.6% of GDP.

The tax system implemented in 1992 is based on the package of the RSFSR tax laws adopted by the end of 1991. The Act on the principles of the tax system in the Russian Federation plays a very important role amongst Acts belonging to this package. It specifies the structure of the tax system, distribution of tax proceedings as regards the level of administration (federal taxes, taxes levied by the republics of the Russian Federation, territories, regions and autonomous administrative units and local taxes), rights and responsibilities of tax payers.

In 1992 the tax technique was constantly amended by way of instructions issued by the Ministry of Finance and the Taxation Board of the Russian Federation. The most significant amendments were introduced in the Act on the introduction of changes and addenda to the Russian tax system, dated July, 1992, and the Act on introduction of changes and addenda to certain tax laws of the Russian federation, dated December.

As a result of such major and minor changes introduced into the tax laws and regulations determining taxation methods, the share of budget revenues was constantly changing. Similar, rather sudden variations were recorded in the tax system structure (Figures 6.1., 6.2.).

The most serious change introduced into the tax system in 1992 was the introduction of value-added tax and excise tax instead of the turnover and sales tax. Value-added tax in Russia is paid by all legal entities and citizens involved in entrepreneurial activities. &&&Turnovers connected with realization of goods, works and services, including realization of the goods inside the enterprises themselves (if costs and expenses are not transferred to the cost value) and their employees, are

subject to taxation. In industry the difference between the tax calculated on products supplied to customers and the tax paid to the suppliers of material resources, fuel, works and services, constituting the cost of products sold is payable to the budget. In 1992 it was not permitted to deduct the tax paid to suppliers of basic factors and intangible assets from the tax liability towards the budget

In 1992 revenue from value-added tax amounted to 11.7% of GDP (22.4 % of budget revenues), i.e. 5.4% of GDP more than the revenue from turnover tax in 1991.

Simultaneously with value-added tax, excise tax was introduced, constituting an ad valorem tax levied at different rates depending upon the product group in question. Excise tax was imposed on spirits, tobacco goods and a number of durable commodities. Excise tax is collected when the goods are sold in retail trade network and is defined in terms of a percentage of the price of sale (i.e. as opposed to VAT, excise payer transfers to the budget a specified part of the price of sale which includes excise). Similar to the situation as regards VAT, imported goods were exempted from excise charges until 1993. Revenue from excise tax in 1992 amounted to 1.2% GDP (2.4 % of total budget revenues).

Similar to the situation in 1991, the tax on profits is paid by all enterprises constituting legal entities. Taxable profit consists of profits from product sales and income from other operations, less cost of such operations. Profits from the sales of products are equal to revenue from the sales of products (less value-added tax and excise), minus production and sales cost included in the cost value. In 1992 revenues from the tax on profits amounted to 8.7% GDP (17.6 % of total budget revenue). Thus, the share of tax on profits in GDP was maintained approximately at the 1991 level (8.2% of GDP).

In 1992 basic principles governing personal income tax did not undergo any serious changes in comparison with 1991. Revenue from the tax on profits in the Russian budget system amounted to 2.4% GDP (4.8 % of total budget revenue).

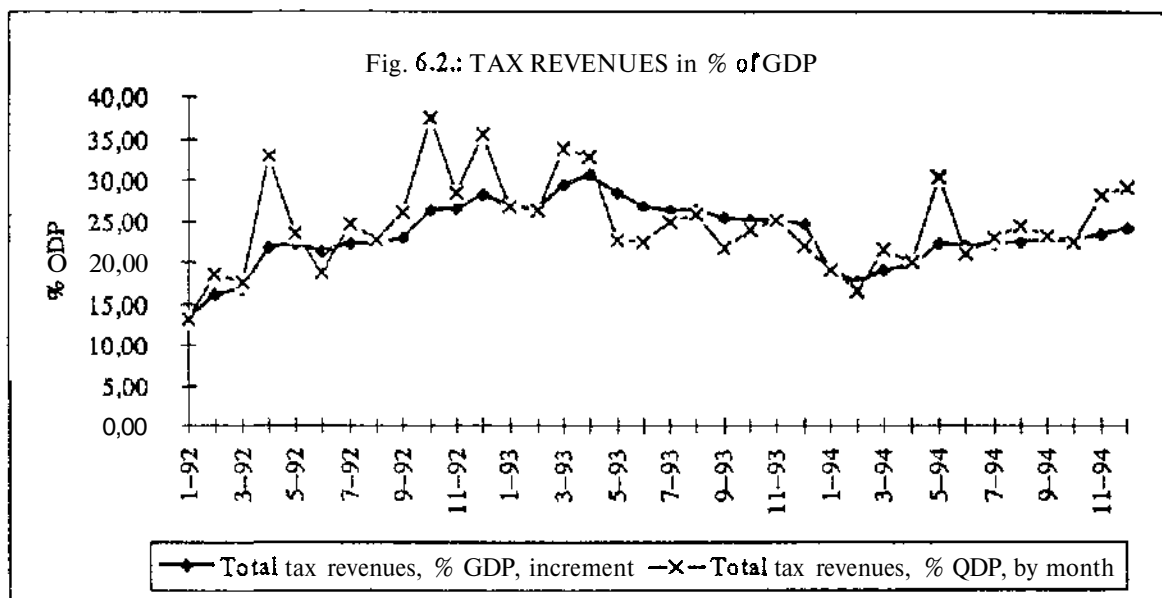
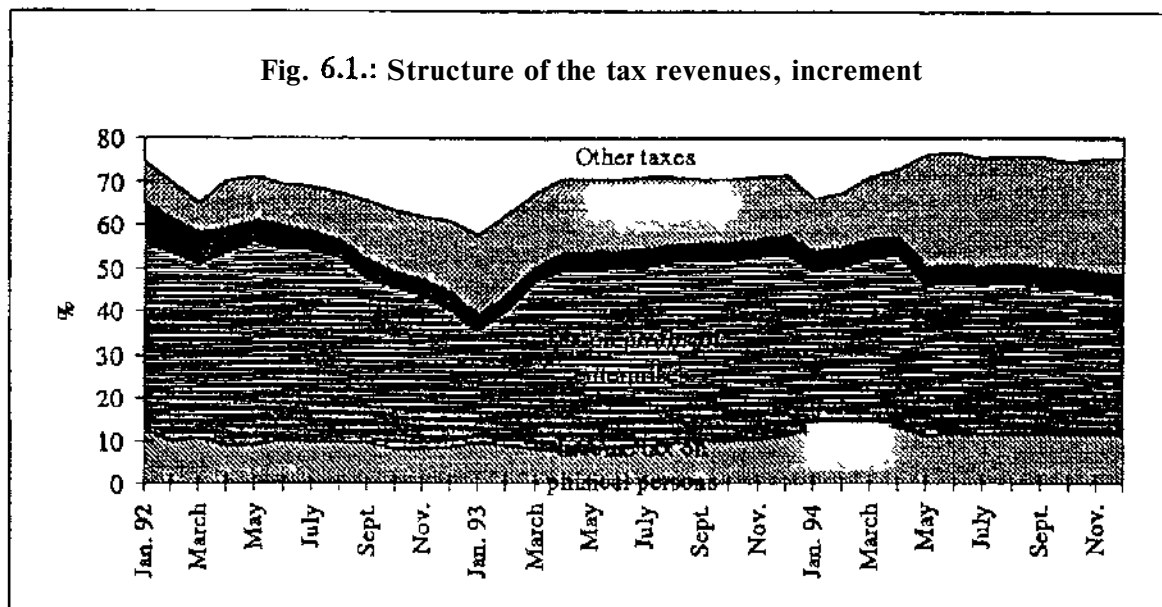
The four types of taxes described above accounted for 78% of republic and local budgets revenue and for 48% of the revenues of the Russian budget system. Apart from that, contributions to extra-budgetary funds should also be accounted for, as well as the following taxes included in the budget system:

- Tax on enterprise property which is levied on the balance of property cost, adjusted for depreciation. In 1992 the tax rate was determined by legislative authorities of republics, territories and regions of Russia at 1%.

- Contributions to road funds of the Russian Federation, including the tax on road users (0.4% of the volume of marketed products), tax from vehicle owners (rouble per one horse power unit), tax on acquisition of automotive vehicles (for motor cars - 40% of the cost of a car without VAT), tax on sale of fuels and lubricants (federal tax - 18% of the sales amount, territorial - 7%).

- Taxes that regulate use of natural resources, including payment for land (land tax on land-owners and land-users, imposed as a fixed payment per unit of land. Land tax rates in agricultural areas are specified on the basis of the cadastre assessment which varies in different regions. Land tax rates in cities and settlements are specified

by relevant authorities); payments for the discharge of polluting substances into the air and water (the amount of such payments is determined together with authorised limits of pollution per unit of discharge; if the limit is exceeded, the rate is raised five times); payment for the water used by enterprises, taken from water systems (these rates are differentiated according to the types of water systems); payment for the use of natural resources (payments for the rights for prospecting and mining, deductions for regeneration of raw materials base, charges for issue of licenses, oil and gas extraction excise).



The reconstruction of the government finance system in 1992 (Table 3.1) shows that revenues of the budget and extra-budgetary funds accounted for about 45.5% of GDP. This corresponds approximately to the level attained in 1980-1985, i.e. during a period which was relatively good as regards the state finance. 1991 levels are considerably exceeded. In 1992, tax revenues of the budget of the republic and local budgets amounted to 28.3% of GDP.

As regards 1992, the following trends can be discerned with respect to the tax revenue structure: decrease of the share of tax on profits (from 11% of tax revenue in the first quarter to 8%, with an increasing total, in the third quarter), the decrease of the share of tax on profit after its growth during the first six months of the year, decrease of VAT revenue starting from the third quarter (maximum VAT revenue was recorded in November-December 1992), regular decrease of the share of excise tax during the entire year, increase of the share of taxes on property and foreign trade, which in figures 6.1, 6.2 are included in "other taxes".

As a whole, such a dynamics of tax volume and structure can be considered as a proof of success attained by the tax policy implemented during the first year of radical reform. Tax revenues, even though they were not sufficiently stable in time, allowed to ensure a high level of budget expenditures, which were very difficult to reduce due to their rigidity, especially under the current political situation.

On 1st January, 1993, VAT rate was reduced from 28% to 20% for all goods (works, services) except food products (and goods subject to excise tax) and products used for children, for which the rate amounted to 10%. The list of VAT preferences was cut and made more specific. Starting from 1st February VAT was imposed on goods that were imported into the Russian Federation. The VAT credit procedure and the terms of its settlement were changed. As a result, the volume of proceeds from this tax diminished considerably.

In 1993, preferences for the tax on profits were changed (tax exemption which so far had only covered production-related investment was extended to cover also investment which was not directly production-related). A procedure was introduced, regulating the payment of additional interest charged on the difference between advance payments related to the tax on profits and the actual amount of tax payable. Interest rate was equal to the re-financing rate applied by the Central Bank.

In spite of the reduction of the VAT rate, tax proceeds in January, 1993 were quite high, due to the fact that it was charged at the previous-year rates. Nonetheless, 1993 marked the beginning of a noticeable decrease of VAT share in the total volume of tax revenues of the consolidated budget and the accompanying growth of the share of other taxes (tax on profit, income tax and other).

Apart from that, the composition of taxes levied in 1993 did not undergo any essential changes and the main tax laws remained virtually unchanged. As has already been mentioned, a gradual decrease of the share of tax revenues in GDP was recorded in 1993. The process concerned practically all kinds of taxes. In 1993, tax revenues amounted to 24.6% of GDP, tax on profits was at 41.8% of the budgets, tax revenues (10.3% of GDP), VAT- 28.1% (6.9% of GDP), income tax - 10.9% (2.7% of GDP), excise - 4.5% (1.1% of GDP). '

Extremely low tax revenues were recorded in the first months of 1993. The situation began to improve in April - May, though in comparison with 1993 figures, the share of collected taxes in GDP over the first six months of the year declined from 28% to 21-22%. The most significant change in the composition of tax revenues that occurred in May 1994 (fig 6.1,6.2) resulted from the above-mentioned change in the classification of budget revenues. In the beginning of 1994 the share of VAT slightly

grew (from 39% in 1993 to 42% in January 1994), which was due to the broadening of the taxable basis by including all resources received from other enterprises as well as some other changes.

The slight growth of personal profit tax revenue (by 0.3% of GDP) was caused by changes in the taxation basis - the income received by the population. Moreover, in the beginning of the year, the budget received income tax calculated on the basis of annual tax returns.

Since the increase of enterprise wage expenditure was exempted from the tax on profit up to the level covering six minimum wage rates, the share of the tax on profit fell to 36% in January, 1994, as compared to 42% in 1993.

In general, changes in tax revenue composition recorded in 1994 were insignificant. Tax revenue of the Russian budget amounted to 22.3% GDP. Tax on profits - 34% of tax revenues (7.6% of GDP), VAT - 26% of tax revenues (5.8% of GDP), income tax - 12% (27% of GDP), excise - 5% (1% of GDP).

The dynamics of tax revenues in 1992-1994 cannot be explained purely in terms of changes introduced into the taxation technique. Taxes collected during the entire period were affected by numerous macro- and microeconomic factors. Besides, if in 1992 it was quite difficult to trace such influences without undertaking special in-depth studies, due to an extreme instability of tax law and by-laws, in 1993, under conditions of relative legislative stability, the downwards trend as regards tax revenues in the federal and local budgets manifested itself vividly. In winter and spring, 1994, the trend continued, while in the summer it was reversed, with a certain improvement in the amount of collected taxes. The most important factors that affect the dynamics of tax revenues are listed below:

- A high rate of inflation in Russia resulting in distortion of taxation basis and tax rates with respect to practically all taxes. Inflation was also causing inflationary devaluation of tax revenues in the period from the date when tax liability arose until the date on which the tax payment reaches the budget.

- The condition of payment and settlement relations in the national economy. Value of enterprises' defaults as regards the settlement of their budget liabilities strongly depends on the value of unsettled debt (bad debts incurred by enterprises), because insolvency of enterprises directly affects the solvency of their creditors and their relations with the budget.

- Adaptation of economic agents to the tax system and its changes. Minimization of taxes and contributions to extra-budgetary funds constitutes one of the priority goals of an enterprise. Methods used for income under-estimation and over-estimation of expenses can be divided into the following groups: accounting methods allowing maximum delays as regards the recording of earnings and the fastest possible recording of expenses; utilization of preferential treatment granted by the law; use of discrepancies in the tax laws; unlawful tax evasion.

Budgetary non-tax revenues in 1992 amounted to ca 0.6% of GDP; in 1993 - 2.3% of GDP. This growth is mainly due to such sources of income as the profit of

the Central Bank transferred to the federal budget and a certain growth of proceeds from privatization.

7. Composition of budget expenditure

An analysis of the expenditures of the Russian budget in 1991 is also hampered by the dissociation of the USSR and lack of the necessary statistics. In accordance to the official statistics the Russian budget expenditures, taking into account the expenses related to the prices of agricultural products, granted from the Central Bank resources, amounted to 30.4% GDP. Including Pension Fund, expenditures reached 37.2% of GDP. At the same time expenditure on the national economy was at 10.1% of GDP (27% of budget expenditure), expenditure on social purposes - 14.7% of GDP (39% of the budget - including Pension Fund).

In our opinion, however, these figures are not very informative and would require an additional consideration and evaluation of expenditure of consolidated budgets of the former USSR republics. In 1991 such expenditure 48% of GDP (estimate of GDP of the former Union republics - 2100 billion rouble). At the same time budget expenditure amounted to 40.5% GDP, the expenditure of the Pension Fund - 7.4% of GDP. Amounts spent on the national economy, without expenses on the subsidies related to prices of agricultural products (4.7% of GDP) amounted to 12.9% of GDP, social purposes - 9.8% of GDP, defence - 4.9% of GDP.

As has already been mentioned, no analysis of 1992-1994 budget can be performed without taking into account the over-estimated assessment of those revenues and expenditures that initially had been determined in terms of foreign currency. Considering this, expenditures of the consolidated budget and loans, net of repayments, in Russia in 1992 amounted to 66.9% of GDP (Table 1.3.2).

Expenditure on the national economy reached 26.3% of GDP, including import subsidies - 10.5% of GDP, expenditure on non-budgetary funds - 4.4% of GDP. In performing an assessment of import subsidies we took into account import operated in exchange for funds left abroad by exporters (101 million USD), import financed from the foreign currency reserve of the Republic (606 million. USD), import financed from foreign credit, to be repaid by the government (7.1 billion USD in the first half-year period; 8.8 billion USD for three quarters and 10.8 billion USD in the entire 1992). As a result, subsidies to the prices of imported products amounted to 1600 billion roubles, mostly financed from foreign credit.

Expenditure on government authorities in 1992 amounted to 0.6% of GDP, spending on law enforcement bodies - 1.4% of GDP, science - 0.6% of GDP, servicing of the national debt - 1.5% of GDP. Social expenses - 17.1 % of GDP (including those financed from the extra-budgetary fund - 9% of GDP), Subsidies, net of repayments made in 1992, amounted to 5.2% GDP.

In 1993 (see table 7.1.) the composition of governmental spending underwent considerable changes. The expenditure on the national economy largely decreased (up to 14.4% of GDP). This was mainly due to a decrease of import subsidies (to 1.2% of

GDP). Investment in the national economy, financed from the federal budget, also decreased (from 1.7% to 0.8% of GDP).

Table 7.1. Expenditures of federal budget of Russia in 1993 (economic classification)

	bln. roubles	in % to total
Current expenditures	27.585	81,0
1. Expenses for goods and services	20.029	58,8
1.1. Wages	1.898	5,6
1.2. Wages charges	633	1,9
1.3. Purchase of goods and services	788	2,3
1.4. Other	18.149	53,3
2. Payment of interest	1.439	4,2
3. Subventions & current transfers	4.678	13,7
3.1. for enterprises	3.716	10,9
3.2. for population	628	1,8
3.3. for other levels of administration		
3.4. other	334	1,0
CAPITAL COSTS	6.485	19,0
1. Purchase of equipment	149	0,4
2. Government investment	2.818	8,3
3. Overhauls	39	0,1
4. Capital transfers	8	0,0
5. Other capital costs	3.471	10,2
TOTAL EXPENDITURES	34.069	100,0

Expenditure on government and administrative authorities went up by 0.3% of GDP (to 0.9% of GDP), state social expenditure was up by 0.7% of GDP and reached 18% GDP, including services financed from extra-budgetary funds - 8.4% of GDP. In 1993 defence expenditure slightly decreased to 4.4% of GDP. Expenditure on law enforcement bodies rose to 1.6% of GDP, expenditure on science remained at the constant 0.6% GDP level.

In general, expenditure in 1993 amounted to 48.3% of GDP, expenditure including loans, net of repayments - 50.3% GDP. Loans net of repayments decreased from 5.2% of GDP in 1992 to 2.0% of GDP in 1993.

A study of the economic classification of budget expenditure in 1993 (table 7.1) shows a considerable share of capital expenditures of the federal budget (19% of total expenditure), which in industrialised countries rarely exceeds 8-9%. A relatively small value of subsidies and current transfers (14%) can be explained by the fact that a majority of such expenditure was aggregated under the item "other expenditure for goods and services." The low amount of interest payment on the national debt was justified by arrangements authorising providing deferred servicing of external debt and defaults (in 1993, out of the total 31 billion dollars required for national debt service, including interest and principal, 20 billion dollars were deferred, and 9 billion dollars constituted overdue debt) as well as by extremely low interest rate charged by the Central Bank on credit granted to the Government, accounting for a major part of internal borrowing.

8, Perspectives for the budget policy

The draft budget for 1995 was presented to the State Duma on 5th November, 1994. After discussion carried out in committees, the draft was rejected in the first reading. A conciliatory commission was established in order to review the main indices included in the draft. The draft was finally adopted on 23rd December, 1994 after the first reading, and sent to the Government for corrections. On 9th January, the Ministry of Finance presented Duma with its the reviewed comments on the draft, and on 25th January the Federal Budget for 1995 was adopted in the second reading. This means an approval for figures concerning budget revenues - 175 trillion rouble (18.4% of GDP), expenditure - 248 trillion rouble (26.7% of GDP), and the maximum deficit - 73 trillion rouble (7.7% of GDP).

The draft budget was prepared by the Government in the context of the macroeconomic programme for 1995. The main objective of the programme, in accordance with the wording used in the report of Finance Ministry, is the completion of macroeconomic stabilization in spring-summer of 1995. Mean monthly rate of inflation in 1995 must not exceed 2%.

To fulfil this objective, the Government proposed the following:

- to finance the budget deficit from new issues of government securities and foreign financing;
- to ensure low growth of net Central Bank credit granted to commercial banks;
- to ensure a positive real rate of refinancing, to develop credit auctions;
- to implement the policy of a decreasing floating rate of exchange of the rouble.

Today it is absolutely clear that inflation rates in 1995 will be higher than provided for in the programme. In January inflation amounted to 17.1%. Nonetheless, the underestimated inflation rates and GDP volume taken into account in the calculations performed by the Ministry of Finance allow to avoid the situation which was encountered last year, when unrealistic nominal amounts of budget revenues and expenditure were approved. With real inflation rates at half the amount specified in the programme, the nominal budget revenues that are much lower both in real terms

and in terms of GDP share, will allow the financing of the nominal approved budget expenditure without increasing the deficit.

The financing of the budget deficit in 1995 constitutes a complicated problem. The budget provides for its non-inflationary financing, without using Central Bank credit. Calculations are based on the receipt of **external** financing at 12.3% billion USD and internal borrowing on financial markets at 41.4 trillion roubles. We believe that such a level of internal borrowing will pose problems, unless there is a considerable rise of the real interest rate which would lead to an increase of expenditure on the servicing of the national debt and suppression of the investment activities. Purchase of a certain volume (15-20 trillion roubles) of government securities by the Central Bank accompanied by an increase of the monetary base and payment of the Central Bank profit to the budget.

Today the budget is performed on the basis of the Act on the financing of government **expenditure** from the federal budget in the 1st quarter of 1995, adopted on 23rd December, 1994. Under **this** Act, financing is performed on the basis of projections for the 1st quarter, which have been presented by the Government to **Duma**, with taxes and financing received by the budget at 18 trillion rouble (including Central Bank credit - 5 trillion rouble).

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