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Budget Reforms in Russia: Measures for Budget Consolidation and Enhancement of Budget Expenditure Efficiency

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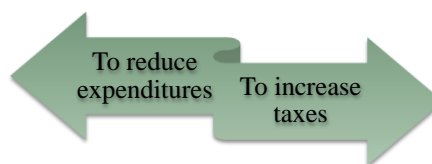
Fiscal Consolidation: the Goal and Approaches to Implementation

The goal of the fiscal consolidation is to decrease the level of the public debt.

Summarizing various economic works one can distinguish the following **main methods for reducing the level of the public debt**:

- Restructuring of the debt;
- **Fiscal consolidation (budget savings measures)**;
- Acceleration of inflation;
- Promotion of economic growth;
- Privatization of public assets;
- Financial repressions;
- Buy back of government debt instruments.

Budget consolidation programs (they are often referred to as austerity measure programs) are based on **reducing public expenditures and / or increasing the revenue part of the budget**.



Major disputes are related to choosing **the most efficient structure** of budget consolidation.

According to A. Biggs, K. Hassett and M. Jensen

“Optimal consolidation”
85% reduction of expenditures 15% increase of revenues

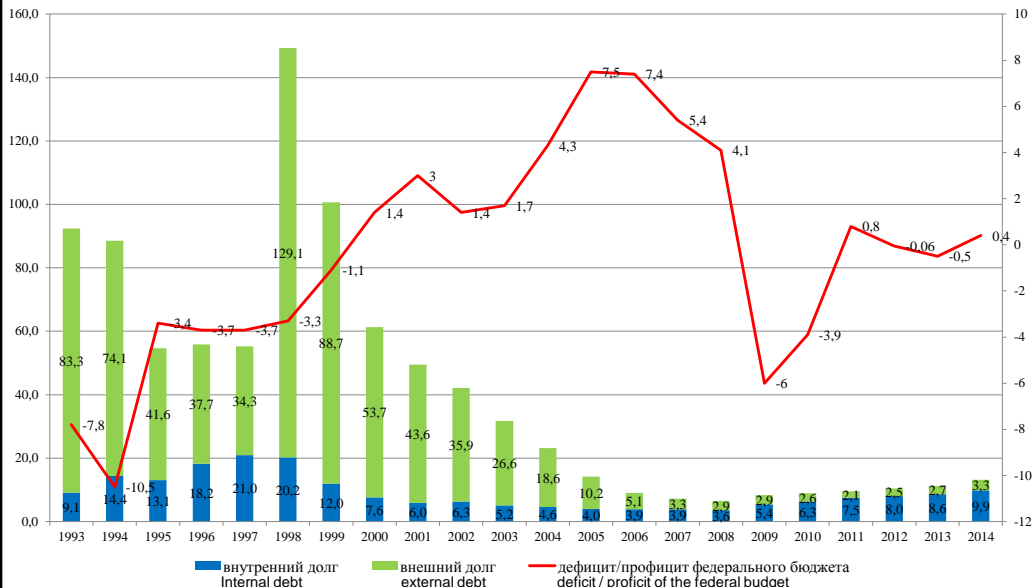
The least effective consolidation
47% reduction of expenditures 53% increase of revenues

According to E. Lílco, E. Holmes, N. Samen, A. Alesina and S. Ardane

“Optimal” consolidation
80% reduction of expenditures 20% increase of revenues

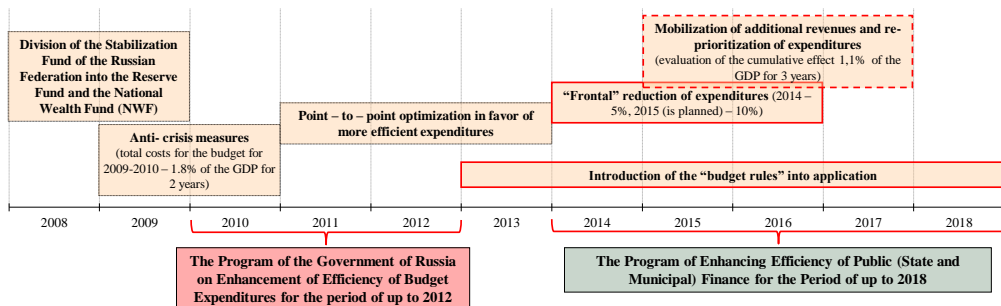
Global experience of implementation of consolidation programs showed that **effectiveness of consolidation increases when measures shift towards reduction of public expenditures**, rather than in case of **increasing tax revenues**, since increase of taxes for households reduced personal consumption, quantity and quality of labor, while increasing corporate taxes leads to decrease of investments in capital assets, and in the long run both tax strategies lead to reduction of the real GDP.

Dynamics of external and internal debt of the Russian Federation in 1993 - 2014, in % of the GDP as of the end of the year



Source: calculations on the basis of data of the Ministry of Finance of Russia, of the Federal Treasury and the Central Bank of the Russian Federation

Fiscal consolidation. Experience of Russia.



Anti-crisis reserve:

- 2009 – 125 billion rubles;
- 2010 – 70 billion rubles;
- 2013 – 200 billion rubles;
- 2014 – 344 billion rubles;
- 2015 – 187 billion rubles.

Reduction of expenditures:

- inter- budgetary transfers to state off- budgetary funds of the Russian Federation;
- Frontal reduction of budget appropriations;
- Revision of volumes of state assignments;
- Suspension of certain valid expenditure commitments (for example, indexation of the size of salaries by positions of the federal civil service of the Administration of the President of the Russian Federation, the Administration of the Government of the Russian Federation, the Chamber of Accounts of the Russian Federation, the Ministry of Foreign Relations of Russia).

Mobilization of revenues:

- “tax move” during taxation of production and export of oil (increasing the MET (mineral extraction tax) rate for oil with reduction of the marginal rate of the export custom duty for light petroleum products);
- Increasing excise tax rate for tobacco products;
- Charging the excise tax on natural gas exported through the “Blue Stream” gas pipeline;
- Increase of the tax on profit of organizations from revenues received in the form of dividends;
- Indexation of the size of state duties;
- Indexation of the water tax rates and fees for forest utilization.

Anti-crisis measures in 2009-2010

Traditionally, during post crisis years, the problem of reducing the level of the public debt became a priority for governments of many countries.

For the Russian Federation, because of the low level of the public debt, this goal was not pressing.

In 2009 – 2010, in Russia, the goal of the budget policy was to reduce consequences of the effects of the global financial crises for the financial system of the country and the national economy.

billion rubles

	2009	2010
Support for the financial sector	639,6	-
Support for certain sectors of the economy and implementation of certain projects	396,8	146,9
Support for the social sphere	106,5	15,6
Support for the labor market and promotion of employment	69,7	38,5
Housing construction and housing and public utility sector	-	132,1

Changes of Major Macroeconomic Parameters of the Forecast of Socioeconomic Development of the Russian Federation and Parameters of the Federal Budget

Indicator	2012 *		2013 *		2014		2015	
	Forecast as of 12.04.2012	Actual	Forecast as of 12.04.2012	Actual	Forecast as of 12.04.2012*	Estimate as of 21.11.2014	Forecast as of 12.04.2012*	Forecast of the Ministry of Finance (informal)
1	2	3	4	5	6	7	8	9
GDP, billion rubles	60 590	62 218	65 809	66 755	73 391	72 793	81 486	72 419
GDP growth, %	3,4	3,4	3,8	1,3	4,4	0,5	4,7	-4,0
Budget revenues, billion rubles	12 677	12 856	12 866	13 020	14 063	14 205	15 616	11 972
Budget expenditures, billion rubles	12 745	12 895	13 387	13 343	14 207	13 890	15 626	15 260

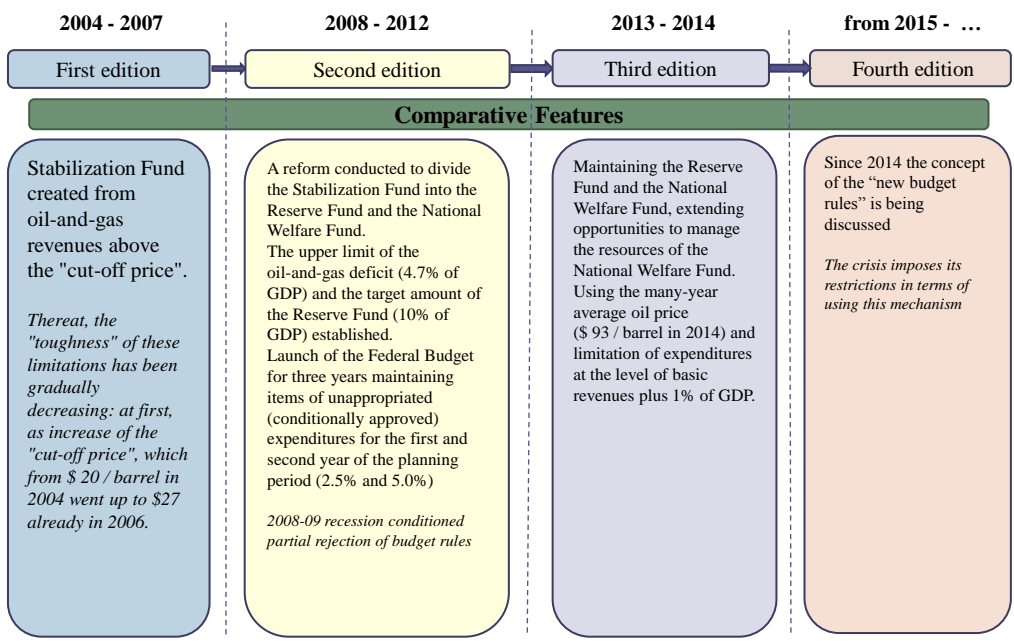
* Without taking into consideration the Crimean Federal District

Actual socioeconomic situation of the Russian Federation significantly differs from the forecast estimate based on which most decisions leading to increase of expenditure obligations were made

Main Approaches to Ensuring Equilibrium and Sustainability of Budgets at Different Levels of the Budget System:

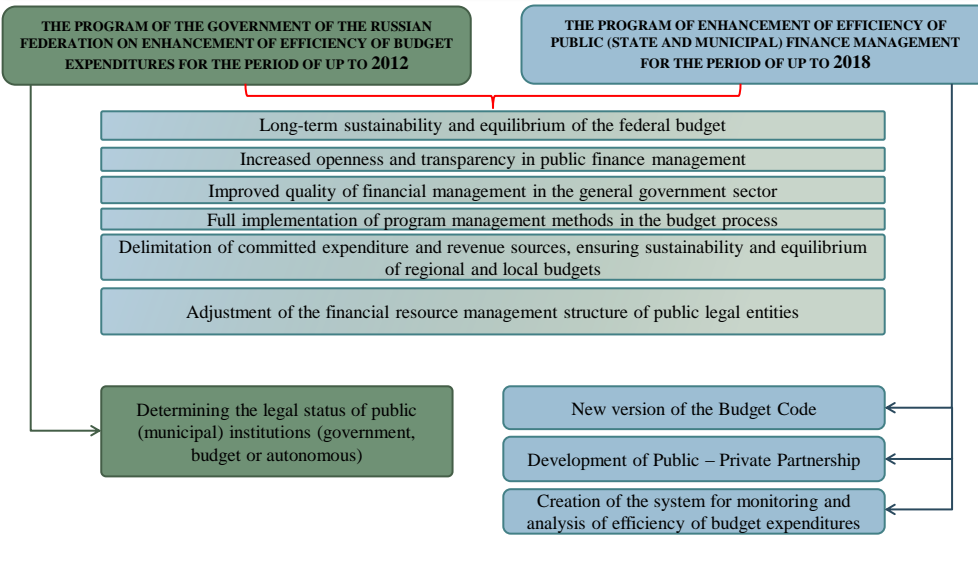
- Compliance with budget rules;
- Annual preparation of the long-term budget forecast and budget risk assessment;
- Use of a “conservative” version of the forecast of socioeconomic development of the Russian Federation when forecasting main characteristics of budgets;
- Decreasing dependence of budgets of state off-budgetary funds of the Russian Federation on transfers from the federal budget;
- Maintenance of equilibrium of regional and municipal finance;
- Improvement of the public debt management.

Evolution of "Budget Rules" in the Russian Federation

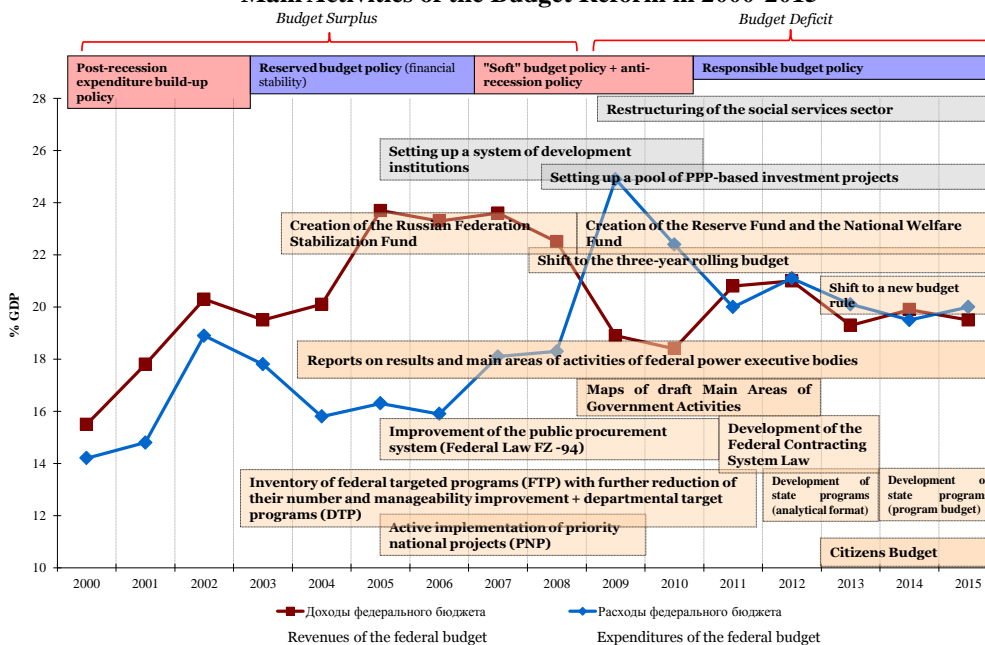


Programs for Enhancing Efficiency of Budget Expenditures

The goal of budget reform programs in Russia is comprehensive enhancement of efficiency, transparency and accountability of use of budgetary funds



Main Activities of the Budget Reform in 2000-2015



Main Results of the Program for Enhancing Efficiency of Budget Expenditures

For the purpose of enhancing long-term equilibrium and sustainability of the budget system, the rules for determining the marginal volume of the federal budget expenditures have been set (“**budget rules**”).

Conversion to the program budgeting took place. **39** state programs of the Russian Federation were approved. The coverage of expenditures of the federal budget with programs is at the level of 58%.

In the framework of improvement of **delineation of authorities** between public legal entities, authorities related to ensuring provision of medical assistance, state guarantees of generally accessible and free pre-school education were delineated, and in addition, comprehensive changes were made that were aimed at increasing fiscal capacity of local budgets, and the patent system of taxation was introduced.

For the purpose of development of the system of **state (municipal) financial control** federal laws on the Chamber of Accounts of the Russian Federation, about General Principles of Organization and Activities of Control and Calculating Bodies of Constituents of the Russian Federation and of Municipal Formations .

For the purpose of **establishing a complex contract system**, in the Russian Federation the Federal Law was adopted on the System of Public Procurement Contracts for Products, Works, Services for State and Municipal needs.

For the purpose of establishing a legal system for development, building up and functioning of the comprehensive system of state strategic planning, the Federal Law on Strategic Planning in the Russian Federation was adopted .

Main Areas of Activities to Enhance Efficiency of Budget Expenditures for the Period up to 2018

Approval and realization of the long-term **budget forecast** of the Russian Federation

Development of the **system of related documents** of strategic and budget planning

Adoption of the **new version** of the Budget Code of the Russian Federation

Introduction and development of the practice of applying the **common methodology** for exercising internal state (municipal) financial control.

Ensuring **correlation** of state (municipal) programs and state (municipal) assignments through inclusion in the programs aggregate indicators of state (municipal) assignments related to provision of state (municipal) services (execution of works)

Preparation of a **consolidated list of public and municipal services and works** on the basis of **basic (sector specific) lists of state and municipal services and works**

Improvement of **transparency of and accessibility of the Budget Law**

Application of comprehensive **administrative sanctions** for making **inefficient procurements** (inclusion in the procurement plan of items that do not correspond to the purposes of making procurements, to set normative costs, to requirements; non-compliance with the procedure and form of justifying procurements; acceptance of commodities, works, services that do not comply with the conditions of the contract)