

CONTINUING THE THEME OF THE PREVIOUS ISSUE

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Reserves to strengthen the regional budgets out of the crisis

The article continues the discussion of issues touched in the articles by V.A. Ilyin and A.I. Povarova 1, about the problems of formation and functioning of regional budgets. The authors present additional data about the imbalances in the budgetary system of the North-West Federal District of the RF. They make proposals, realization of which will make it possible to increase revenues of regional budgets, to optimize their costs, to raise the influence of regional budgets on innovation development of territories.

Budgets of the Russian Federation subjects, management of the budget process, increase in fiscal efficiency.



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The financial and economic crisis in many countries in the second half of 2008 fundamentally changed the mode of operation of the Russian economy. Lower prices and demand for goods of Russian exports caused a recession in the domestic economy, accompanied by the devaluation of the ruble. The deteriorating situation in the economy

immediately had a negative impact on the budget system of the country: revenues to the budgets of all levels reduced significantly, the performance of expenditure obligations worsened.

In 2009 the federal budget revenues, the most dependent on market conditions, decreased by 23% in real terms, and on the

¹ Ilyin V.A. From the chief editor // Economic and social changes: facts, trends, forecast. – № 2 (14) – 2011. – Pp. 9-14;; Povarova A.I. Ibid. – Pp. 20-36.

contrary, the expenditures increased by almost 25%. The federal budget surplus in 2008 amounting to 4.1% of GDP was replaced in 2009 (the first time in a decade) with deficit amounting to 5.9% of GDP. The government has taken unprecedented measures to moderate the crisis situation. About 3 trillion rubles (7.7 of GDP) were allocated to finance budget expenditures from the Reserve Fund in 2009. However, the attempt to overcome the significant reduction of consumer demand, the contraction of investment processes and the weakening of other factors ensuring economic growth has failed.

Negative processes with great force rocked the budgets of the subjects of the Russian Federation. Their total consolidated budget by revenues decreased by 6.6% of GDP in 2009 compared to 2008. At the same time, unlike the federal level, the total expenditures of consolidated budget of the subjects of the country also decreased by 2.3% of GDP. Budget deficit of the subjects reached 329 billion rubles².

Disorder of the dynamics and structure, growth of misbalance of the regional budgets, which appeared in 2009, determined to a great extent by the specifics of their basic facilities. The revenue opportunities of the budgets of oil-producing regions sharply decreased. But the regions with a high specific weight of intermediate industries with export orientation (iron and steel, basic chemicals, timber industry) bore damages most of all. The decline in export sales, the fall in world prices for these productions caused collapse decline in profits. By turn, this had an extremely painful impact on tax revenues. Thus, in 2009 in the regions with the largest ironworks the volume of tax revenues in regional budgets to the level in 2008 was as follows: in the Vologda region – 59.5%, in the Chelyabinsk region – 66, the Kemerovo region – 68, the Belgorod region – 71, in the

² Drobyshevski S., Sinelnikov-Murylev S., Sokolov I. Evolution of the budgetary policy in Russia in 2000-s: in search of stable national budgetary system // *The issues of economy.* – 2011 – № 1. – Pp.7-8.

Lipetsk and Sverdlovsk regions – 78. And only with the demand for metal production being increased, in 2010 the budget system of these regions began to “recover” step by step.

Overall, for the country the year of 2010 was a transition year from crisis to normal development. According to the estimates from Rosstat, by the end of the year the GDP and industrial production reached 97 – 99% of the values of September 2008, but some industries finished the year of 2010 with a substantial backlog from the pre-crisis level: machine building – 20%, metallurgy – 8%, construction – 5%. Therefore, a full recovery of most industries can be expected only in the second half of the current year or in early 2012³. But it is important that with the improvement of macroeconomic situation, the revenue of federal budget and the budgets of the subjects of the Russian Federation is increasing. The federal budget deficit in 2010 declined to 4.3% of GDP against 5.9% of GDP in 2009⁴. The consolidated budget of the RF subjects in the first half of 2010 by income was by 1.6% more than in the same period of 2009, and by expenditure – by 5.2%. However, the amount of expenditure in this case again fell down by 1.8% of GDP because the regions restricted their own expenditures as the federal government had recommended⁵.

The intense formation of revenue and expenditures of the regional budgets continue for the coming years, unfortunately. First of all, the trouble is that in 2011 – 2013 the federal budget will be performed in the conditions of severe restrictions of public financial resources. In this context, the stability in the development of regional budgets cannot be supported by a strong federal support as it was recently, and it requires the proper management actions in the regions.

³ Kudrin A., Sergeenko O. The consequences of the crisis and the prospects of social and economical development of Russia // *The issues of economy.* – 2011 – №3. – P. 4.

⁴ Timokhina E. The analysis of the federal budget of Russia in the crisis period // *The issues of economy.* – 2011. – №1. – P. 35.

⁵ Drobyshevski S. and others. The mentioned work. – P. 11.

Таблица 1. Credits and the expenses of their service in the subjects of the North-West federal district in 2008 – 2010

Subjects	Bank and budget credits, milliard rubles			Interest expense, million rubles		
	2008	2009	2010	2008	2009	2010
Vologda region	0.2	6.4	8.5	35	189	493
Novgorod region	1.7	1.5	5.1	150	347	445
Kaliningrad region	1.5	2.3	5.7	139	218	250
Archangelsk region	6.5	13.3	11.6	90.5	769	767
Pskov region	0	0.1	1.4	4,3	2.2	12
The Republic of Karelia	3.2	4.3	7.7	314	750	805
Murmansk region	1.3	5.3	3.6	17.3	69	148
The Republic of Komi	0.3	3.1	3.1	296	691	579
Leningrad region	0.09	1.1	0.7	282	296	318
The city of St. Petersburg	0	1.6	2.0	770	25.6	65.4

What should be the content of these actions in the current situation? The ISEDТ of the RAS conducts a study of this problem using the materials of functioning of the budget systems of the subjects of the North-West Federal District.

First, we note that in 2000 – 2007 and in the first half of 2008 the regional budgets of all district subjects strengthened appreciably. In a comparable assessment in 2008 the budgetary provision per capita (taking into account the federal revenue) increased on the average in the district by twice against 2000. In the regions' budgets the specific weight of their own revenues increased. In most regions the arrears in payments to the budget reduced, the public debt and the cost for its maintenance cut down. The capital budgeting went up appreciably.

However, since September, 2008 filling of the regional budgets has deteriorated sharply. Already this year the budget deficit was observed in half of the regions of the district. And in 2009 – 2010 the number of regions where there was a consolidated budget deficit to their own income went up. According to the established indicators, for 2011 the items of expenditure of all regional budgets in the district were adopted with a deficit to their own income⁶.

In all regions of the North-West district there was a significant increase in borrowing for expenditure commitments (*tab. 1*).

⁶ This situation was described in details by V.A. Ilyin in the mentioned above work.

Focuses on keeping the social stability by increasing the current costs cause the imbalance of the items of budget expenditures, reduce investment attractiveness of the regions and hinder the solution of other economic problems at the expense of public investment. Currently, only two subjects of the district - the Kaliningrad region and St. Petersburg – can be attributed to the regions in which the modernization orientation of budget is relatively expressed. In other subjects at the average only 10 – 15% of the costs go to the budget of development (*tab. 2*).

However, the ISEDТ of the RAS conducts the researches on functioning the regional budget systems of the district which show that the available reserves and possibilities for filling the income and expenditure of the budgets are not used in full. The level of benefit taxation in accordance with regional legislation is unreasonably high (*tab. 3*). So, as a result of providing the benefits on property taxes in 2006 – 2009 the Vologda region lost about 9% of tax income.

The level of budgetary capacity of the areas is undermined seriously by the federal benefits for state and local taxes (*tab. 4*). It is obvious that it takes to perform the work for phasing-out or full compensations of federal benefits for state and local taxes.

Table 2. The volume and specific weight of consolidated budget expenditures of the subjects of the RF of the North-West federal district for capital investments in 2008 – 2010

Subjects	2008		2009			2010		
	Milliard rubles	Specific weight. %	Milliard rubles	Specific weight. %	to 2008. %	Milliard rubles	Specific weight. %	to 2008. %
The Republic of Karelia	2.9	10.5	1.9	6.6	65.5	1.9	6.0	65.5
The Republic of Komi	4.8	10.8	4.3	9.3	89.6	3.2	6.7	66.7
Archangelsk region	10.2	18.3	5.8	10.4	56.9	6.5	10.7	63.7
Vologda region	7.4	14.7	4.7	10.0	63.5	5.3	10.0	71.6
<i>Kaliningrad region</i>	<i>9.7</i>	<i>26.7</i>	<i>11.4</i>	<i>28.9</i>	<i>117.5</i>	<i>10.8</i>	<i>26.1</i>	<i>111.3</i>
Leningrad region	9.3	15	8.5	12.7	91.4	6.2	8.9	66.7
Murmansk region	5.2	11.0	4.5	9.2	86.5	4.9	10.0	94.2
<i>Novgorod region</i>	<i>3.3</i>	<i>14.5</i>	<i>2.5</i>	<i>9.3</i>	<i>75.8</i>	<i>3.7</i>	<i>14.6</i>	<i>112.1</i>
<i>Pskov region</i>	<i>1.7</i>	<i>9.7</i>	<i>1.4</i>	<i>6.9</i>	<i>82.4</i>	<i>2.1</i>	<i>9.1</i>	<i>123.5</i>
The city of St. Petersburg	120.5	33.5	103.4	31.0	85.8	98.0	27.0	81.3
Total over the NWFD	175.5	23.9	149.5	20.9	85.2	141.1	18.1	80.4

Table 3. The taxes failed to get into the budgets of the subjects of the RF as a result of the benefits on regional legislation in 2006 – 2009

Region	2006		2007		2008		2009		Total for 2006 – 2009	
	Milliard rubles	In % to tax income	Milliard rubles	In % to tax income	Milliard rubles	In % to tax income	Milliard rubles	In % to tax income	Milliard rubles	In % to tax income
Vologda region	2.1	8.0	3.3	10.1	3.0	7.1	2.7	10.7	11.1	8.8
Leningrad region	3.3	11.7	2.6	7.6	3.3	7.5	3.4	7.9	12.6	8.3
Novgorod region	0.8	9.1	0.8	8.4	0.7	4.6	0.9	6.5	3.2	6.8
Archangelsk region	1.6	8.7	1.7	7.3	1.7	5.2	1.3	4.8	6.3	6.2
Murmansk region	1.2	5.9	1.7	6.0	2.1	6.9	2.0	6.4	7.0	6.2
Pskov region	0.5	7.8	0.4	5.8	0.5	5.0	0.5	4.8	1.9	5.6
The Republic of Karelia	0.5	4.7	0.6	6.4	0.6	4.0	0.8	6.0	2.5	4.9
The Republic of Komi	0.8	3.0	1.0	3.7	1.2	3.2	1.2	3.6	4.2	3.4
The city of St. Petersburg	4.9	3.3	4.1	2.1	6.0	2.4	9.35	4.3	24.3	3.0
Kaliningrad region	0.2	1.7	0.4	2.7	0.4	1.7	0.04	0.2	1.0	1.4
Total over the NWFD	15.9	5.0	16.6	4.2	19.6	3.9	22.4	5.1	74.5	4.5

The quality of budget management is reduced for the lack of the system of indicative budget planning at the regional level. The untrue forecasts cause disruptions in the cash costs, which hinder the timely and efficient use of budgetary allocations. A similar situation arises in almost all regions of the North-West. At the same time a significant proportion of unused allocations accounts for inter-budgetary transfers, received untimely from the federal budget (*tab. 5*).

In addition to solving the problems mentioned above one cannot relax attention

to other well-known measures to increase the level of regional budgetary capacity.

First of all, it is diversification of the income potential of the regions. The solution to this problem is in the development of responsible structural policy and the planned support for business, in the development of competitive business structures interested in innovations. It is necessary to increase the activity of small business small by upgrading the patent tax system and reformatting the regional programs of entrepreneurship. Revenues from this sector should become more valuable sources of the territorial budget.

Table 4. The taxes failed to get into the budgets of the subjects of the RF as a result of the federal benefits on regional taxes in 2008 – 2009

Region	2008		2009		Total for 2008 – 2009	
	Million rubles	In % to tax income	Million rubles	In % to tax income	Million rubles	In % to tax income
Novgorod region	1146.3	8.0	1598.1	11.2	2744.4	9.6
The Republic of Karelia	1201.6	7.7	1207.6	9.3	2409.2	8.4
Leningrad region	2955.2	6.6	3038.2	7.0	5993.4	6.8
Vologda region	1523.9	3.6	2984.1	11.8	4508	6.6
The Republic of Komi	1708.4	4.8	2022.6	6.1	3731	5.4
Archangelsk region	1102.0	3.4	1212.8	4.5	2314.8	3.9
Pskov region	300.7	3.2	432.4	4.4	733	3.8
Murmansk region	765.3	2.4	1072.8	3.4	1838	3.0
Kaliningrad region	587.7	2.8	858.0	4.4	1145.8	2.8
The city of St. Petersburg	3495.3	1.4	3996.9	1.8	7492.2	1.6
Total over the NWFD	14790.7	3.0	18427	4.2	33218.6	3.5

Table 5. The unused budgetary allocations of the consolidated budgets of the subjects of the North-West federal district, % to the approved allocations

Subjects	2008	2009	2010
Kaliningrad region	13.2	12.1	14.2
Murmansk region	4.5	6.0	7.8
Archangelsk region	8.3	5.3	7.7
The city of St. Petersburg	6.0	5.4	7.0
The Republic of Karelia	5.5	8.0	6.6
Pskov region	8.0	4.5	6.3
Leningrad region	8.4	6.1	6.1
The Republic of Komi	5.2	6.1	4.7
Vologda region	3.0	4.3	4.3
Novgorod region	5.8	5.3	3.6

An improvement of tax collection as an important reserve for reinforcement of the revenue base is still urgent. In our opinion, for this purpose the tax services in the region should use their rights to collect the undisputed arrears in payments to the budget more actively. The potential additional revenue of the consolidated budget of the Vologda region at the expense of the elimination of the total debt liabilities to the budget is 2 billion rubles, including arrears – 0.9 billion rubles⁷.

As a result of non-transparency of salary schemes, particularly in the commercial structures, the consolidated budget of the region receives less than 40% personal income tax, according to the calculations by the ISEDT of the RAS.

⁷ The data taken from the Department of Federal Tax Service of the Vologda region as of 01.02.2011.

It is necessary to raise the level of costs execution. With significant amounts of undeveloped allocations the Vologda region returned almost 600 million rubles of unused transfer of target character to the federal budget in 2009 – 2010 in accordance with federal law.

In many ways, this situation is caused by the fact that a part of the target transfers (grants and subsidies) is transferred by the Ministry of Finance to the regions in the IV quarter of the fiscal year. As a result the budget, mainly the municipalities, cannot ensure their timely use. Solving of the problem is seen in the legislative adjustment of the order of return of the target transfers' remains, particularly subsidies to co-finance the programs of socio-economic development of the regions.

And, of course, even in the period of rapid economic growth the budgetary policy must be based on the assumption that this growth cannot be endless and the fluctuations in economic conditions are inevitable. A similar approach can be implemented subject to the policy of budget management, the key components of which should be:

- The use of market-determined revenue for those directions, which do not give new costs, and which reduce the amount of

liabilities in the future without serious social consequences (capital expenditures, financing of housing programs, etc.).

- Creating of financial reserves, which in case of crisis make it possible to continue the implementation of expenditure priorities.

- The scenario approach to budgeting, which guarantees the performance of socially important liabilities under unfavorable economic state of the market and which let us see, what costs should be canceled under worsening of economic situation.

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