

## Issues of improving inter-budget relations between the region and the federal centre

*The article studies the problems of inter-budgetary relations of the subjects of federation and the federal centre. The analysis of financial interaction between the regions of the North-Western Federal District and the federal centre has been carried out on the basis of general scientific methods. The article identifies the positive and negative sides of the development of inter-budget interaction between these regions and directions of its improvement. The results obtained can be used by the federal and regional state power bodies when forming the budget policy in the sphere of inter-budget relations.*

*Federal budget, regional budget, inter-budget relations, budgets' own revenues, transfers, delegated expenses.*



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Recently, the issues concerning the constructive interaction between the authorities of various levels, the development of financial mechanisms, consolidating the federation, and the search for the ways of enhancing Russian statehood are becoming ever more relevant. It should be noted that in modern conditions, the major problems of budget relations between the centre and the regions include:

- ✓ elimination of inconsistency between the volume of expenditure commitments and the value of the budgets' revenue sources;
- ✓ curbing and reducing the level of the regions' differentiation for ensuring sustainable economic development, without a strong inter-regional social tension;

✓ stimulation of territorial "tax efforts" (urging the local authorities to mobilize additional budget revenues on the basis of the more complete use and development of their own revenue potential);

- ✓ orientation of the budgetary policy of the territorial governments toward the implementation of national priorities;
- ✓ elimination of flaws in the tax system.

A most controversial question concerns the limits of the RF subjects' autonomy in exercising their powers, the scope of which has been increasing in recent years, first of all, in the sphere of social policy. However, this process is not supported by the adequate funding.

Nevertheless, the provision of financial independence to the regions gives an opportunity to choose the most efficient ways of handling the issues of territorial scale, forms the prerequisites for the comprehensive socio-economic development, creates incentives to increase revenues and optimize budget expenditures.

The most important indicator of the degree of financial self-sufficiency of the RF subject in its relations with the federal centre is the amount of the regional budget's own revenues<sup>1</sup>. The 2006 and 2007 change in this indicator in the North-Western Federal District (NWFD) was characterized by its increase. But it has declined in 2009 already, due to the financial crisis in all the district's regions, except for the Leningrad Oblast. It was the most significant in the Vologda Oblast (almost 40%), the budget of which depends to a considerable degree on the financial condition of the largest budget revenue generating enterprise OAO Severstal<sup>2</sup>. The minimum decrease in budgetary indicators was observed in the Novgorod (0.2%) and Pskov (0.9%) oblasts, where foreign economic activity is developed poorly. In general, it should be noted that, tax and non-tax revenues in the observed period form over 77% of the North-Western regions' revenues, which is higher than the national average level (*tab. 1*).

The change in the volume of own revenues in the budget system of any region is directly proportional to the dynamics of tax revenues. For instance, the own revenues in the NWFD regions are by more than 80% determined by the tax revenues, in particular, profit tax and individual income tax.

<sup>1</sup> According to the Budget code of the Russian Federation the budgets' own revenues include tax and non-tax revenues, as well as revenues in the form of uncompensated receipts, except for subventions. We regard the budgets' own revenues as the sum of its tax and non-tax revenues.

<sup>2</sup> The share of tax payments of OAO Severstal, that was about 40% of the total tax revenues of the Vologda Oblast's consolidated budget up to 2009, decreased to 24% in 2010 – 2011.

This volume excludes regulatory taxes, the collection of which is not influenced by the regional authorities, and fixed taxes<sup>3</sup>, in respect to which the territories independently set the tax and deduction rates. Of course, the increase in the share of fixed taxes in tax payments enhances the regions' autonomy in conducting economic and social policy. In practice, however, the importance of the regional taxes is low. The aggregate share of their revenues in the total volume of tax revenues in the NWFD regions in 2006 – 2011 in general did not exceed 13% (*tab. 2*).

The given data show that the most part of tax revenues are centralized in the federal budget. The recent years' enhancement of this process is one of the main external threats to the sustainability of the regional budget system and the system of inter-budget relations. So, in the observed period the overwhelming majority of the NWFD regions transferred one-third and more of the tax payments collected on their territories to the federal centre. In 2011, the largest absolute contribution to the formation of the federal budget revenues was made by Saint Petersburg, that transferred to the higher authorities 161 billion rubles of taxes and other obligatory payments collected on its territory. In addition, the top three regions included the Republic of Komi (62 billion rubles) and the Murmansk Oblast (50 billion rubles) (*tab. 3*).

At the same time, the expenditure powers are delegated from the superior budget to the regional level. For 2006 – 2011, their share in the expenditures of almost all the regional budgets of the district has increased significantly, especially in the Kaliningrad Oblast (8.8-fold) and Saint Petersburg (7.8-fold). On the contrary, there was a two-fold decline of this indicator in the Murmansk Oblast (*tab. 4*).

<sup>3</sup> The taxes fixed at the regional level include corporate property tax, transport tax and gambling tax.

Table 1. Tax and non-tax revenues of consolidated budgets in the regions of the North-Western Federal District\*

NWFD Subject	2006		2007		2008		2009		2010		2011	
	Billion rub.	Share, %										
Leningrad Oblast	31,2	87.2	38,9	83.4	51,6	84.7	52,4	89.2	61,5	91.2	69,7	89.5
Republic of Komi	28,4	97.1	30,3	94.7	38,4	90.6	35,2	82.2	41,3	87.9	48,3	87.2
Vologda Oblast	27,7	86.8	35,9	87.9	45,8	93.2	27,9	77.2	35,9	87.9	40,2	86.9
Murmansk Oblast	22,8	88.6	31,2	92.7	33,7	73.6	33,2	74.4	41,5	82.8	45,9	83.8
Saint Petersburg	186,0	87.4	242,4	88.3	290,6	87.6	248,8	83.2	285,4	84.6	327,6	83.2
Novgorod Oblast	9,4	82.1	11,1	80.3	16,14	77.9	16,10	73.0	17,4	84.9	20,6	80.7
Republic of Karelia	11,6	79.5	13,8	76.9	17,8	69.6	16,9	72.2	22,0	77.9	26,1	79.3
Arkhangelsk Oblast	20,0	76.5	28,5	81.7	35,8	72.4	29,6	64.3	39,1	71.2	41,5	71.5
Kaliningrad Oblast	15,7	77.1	20,1	76.0	24,3	67.0	21,9	54.7	26,5	73.0	29,6	65.5
Pskov Oblast	7,5	70.2	9,6	71.0	11,5	66.7	11,4	62.2	13,5	67.8	15,5	62.7
NWFD	367,7	86.4	471,4	86.6	571,6	83.1	499,5	78.1	592,9	83.1	676,2	77.6
RF	3115,1	81.9	4084,7	84.3	4912,4	79.3	4243,3	71.6	4979,9	76.2	5827,3	76.2

\* Calculated on the basis of the accounting report on the execution of budgets of the RF subjects and local budgets. Available at: <http://www.roskazna.ru/reports/mb.html>

Table 2. Regional taxes in tax revenues of the consolidated budgets of the NWFD regions\*

NWFD Subject	2006		2007		2008		2009		2010		2011	
	Billion rub.	Share, %										
Leningrad Oblast	3.6	12.6	4.3	12.3	5.2	11.7	6.3	14.4	7.1	13.5	8.2	13.5
Kaliningrad Oblast	2.0	14.2	2.4	13.8	2.8	13.2	3.3	16.9	3.5	14.4	3.7	13.3
Vologda Oblast	2.0	7.8	2.7	8.1	2.9	6.8	3.5	13.8	3.7	11.0	4.1	10.51
Republic of Komi	2.8	11.0	3.5	12.4	4.1	11.3	4.7	14.3	4.8	12.8	4.8	10.50
Novgorod Oblast	0.8	9.1	1.0	10.5	1.4	9.6	1.6	11.2	1.8	11.8	2.0	10.2
Saint Petersburg	13.0	8.6	19.0	9.6	23.1	9.3	25.1	11.6	25.3	10.2	27.6	9.2
Republic of Karelia	1.2	12.0	1.4	11.8	1.7	11.0	1.8	14.2	1.8	10.7	1.8	8.4
Pskov Oblast	0.6	9.2	0.6	8.3	0.8	8.7	1.0	9.7	1.0	9.0	1.1	8.1
Arkhangelsk Oblast	1.6	9.2	2.0	8.4	2.0	6.2	2.4	8.9	2.6	7.3	2.9	7.4
Murmansk Oblast	2.2	10.3	2.5	8.5	2.9	9.4	3.0	9.6	2.9	7.3	2.9	6.5
NWFD	30.8	9.8	40.9	10.3	49.2	9.9	57.2	13.0	59.5	11.4	64.0	10.3

\* Calculated on the basis of the accounting report on the execution of budgets of the RF subjects and local budgets. Available at: <http://www.roskazna.ru/reports/mb.html>

Table 3. Taxes and other obligatory payments, received by the federal budget out of the volume of those collected on the territory of the NWFD regions\*

NWFD Subject	2006		2007		2008		2009		2010		2011	
	Billion rub.	Share**, %	Billion rub.	Share, %								
Saint Petersburg	83.5	35.7	99.2	34.2	98.2	28.7	98.2	31.9	100.0	29.1	161.2	36.4
Republic of Komi	51.1	67.0	49.7	64.0	67.4	65.1	35.6	51.0	42.3	52.5	62.0	57.8
Murmansk Oblast	7.8	27.5	8.7	23.2	9.2	23.2	3.9	11.4	40.8	41.7	50.0	43.9
Kaliningrad Oblast	10.9	44.0	16.4	49.3	20.0	48.7	18.4	49.5	25.8	52.7	40.3	61.5
Leningrad Oblast	23.2	43.7	24.8	39.8	31.8	40.6	36.2	43.5	5.6	12.8	8.0	16.1
Arkhangelsk Oblast	3.4	17.9	4.8	20.0	2.2	9.0	4.0	15.8	5.2	16.7	7.4	20.3
Vologda Oblast	9.2	26.5	15.5	32.4	21.7	34.2	4.2	15.0	4.9	13.6	5.4	13.5
Novgorod Oblast	1.9	19.0	1.5	13.4	4.2	23.1	3.2	19.1	3.2	18.9	3.9	19.2
Pskov Oblast	1.4	19.0	1.8	20.0	1.1	11.2	1.2	11.4	2.2	18.1	2.6	19.0
Republic of Karelia	1.8	15.2	1.5	11.6	2.5	14.3	0.5	4.2	1.5	8.8	2.3	11.1
NWFD	194.2	31.6	223.9	30.8	258.3	29.8	217.8	33.7	255.8	33.4	380.7	39.6

\* Calculated on the basis of the report on the charge and inflow of taxes, levies and other compulsory payments into the budget system of the Russian Federation No. 1-NM of the Federal Tax Service of Russia.  
\*\* The share of revenues transferred to the federal budget in the form of taxes, levies and other compulsory payments, collected on the territory of the region.

Table 4. The share of delegated expenditures in the structure of expenditures of the consolidated budgets of the NWFD regions\*

NWFD Subject	2006		2007		2008		2009		2010		2011		2011 to 2006, fold
	Billion rub.	%	Billion rub.	%	Billion rub.	%	Billion rub.	%	Billion rub.	%	Billion rub.	%	
Kaliningrad Oblast	0.4	13.1	1.1	4.2	0.9	3.0	2.1	5.3	2.3	5.5	3.5	7.2	↑ 8.8
Saint Petersburg	0.4	6.4	0.9	2.6	0.9	3.5	1.5	6.4	2.6	3.8	3.1	2.9	↑ 7.8
Vologda Oblast	0.8	2.5	1.8	4.2	1.6	3.8	4.0	8.5	5.3	10.1	4.5	7.7	↑ 5.6
Republic of Karelia	0.6	3.7	2.2	10.2	1.4	5.8	2.4	8.3	3.5	11.0	3.0	8.4	↑ 5.0
Novgorod Oblast	0.6	6.6	1.0	6.7	1.0	5.1	1.7	6.5	2.6	9.7	2.6	9.3	↑ 4.3
Arkhangelsk Oblast	1.4	7.5	4.3	11.7	2.1	7.2	3.3	9.5	6.1	9.9	4.7	6.9	↑ 3.4
Leningrad Oblast	1.3	6.1	2.0	4.4	2.5	4.0	3.6	5.4	3.8	5.6	4.4	5.5	↑ 3.4
Republic of Komi	0.9	3.7	2.2	6.5	1.5	4.0	2.6	5.5	2.6	5.3	2.8	4.7	↑ 3.1
Pskov Oblast	5.8	6.9	6.8	6.5	11.2	5.6	20.8	7.1	13.7	11.1	11.7	11.0	↑ 2.0
Murmansk Oblast	3.4	11.9	6.9	18.0	1.3	3.0	1.7	3.4	1.9	2.4	1.8	3.2	↓ 0.5

\* Calculated on the basis of the accounting report on the execution of budgets of the RF subjects and local budgets. Available at: <http://www.roskazna.ru/reports/mb.html>

Table 5. The ratio of revenues transferred to the federal budget by the NWFD regions to the volume of inter-budget transfers and loans received by them from the federal budget (2006 – 2011)\*

NWFD Subject	Transferred to the federal budget, billion rub.	Received from the federal budget, billion rub.	Ratio of the finances allocated to the finances received, fold
Republic of Karelia	7.8	42.5	0.18
Republic of Komi	244.7	36.5	6.70
Arkhangelsk Oblast	25.4	100.9	0.25
Vologda Oblast	47.5	46.8	1.01
Kaliningrad Oblast	113	77.5	1.46
Leningrad Oblast	180.9	45	4.02
Murmansk Oblast	36.8	64.9	0.57
Novgorod Oblast	15.3	32.2	0.48
Pskov Oblast	9.5	44.2	0.21
Saint Petersburg	586.5	161.1	3.64

\* Calculated on the basis of the RF Treasury accounting report on the execution of budgets of the RF subjects and local budgets. and also on the basis of the Rosstat data.

Currently, the RF subjects have transferred 4659 federal powers<sup>4</sup>, including branch-wise powers. Organizing the efficient implementation of such a volume of powers appears to be quite a challenge.

Moreover, according to the Treasury of the Russian Federation, up to 2.7% of the expenditures transferred to the regional level were not financed in 2006 – 2011. Therefore, the regional budgets are to find their own means to cover the remaining costs (about 30 million rubles).

In order to show the imbalances of the financial flows between the federal budget and the budgets of the NWFD regions more clearly, we shall demonstrate the ratio of the amount of financial transfers to the regions to the amount of financing withdrawn from the regions. During the period under review, more revenues were flown into the federal budget from such regions as the Republic of Komi, the Vologda, Kaliningrad, Leningrad, Murmansk oblasts and Saint Petersburg, than was returned in the form of financial assistance and budget loans (*tab. 5*).

<sup>4</sup> From the speech of R. Panov, the Deputy Minister of the regional development of the Russian Federation at the all-Russian conference “Regional Russia: efficient redistribution of powers between different levels of state authority” (25 November 2011, Moscow). Available at: <http://www.upcoo.ru/175/627>

It is necessary to note that some of the regions in the district did not receive financial aid from the federal budget in the form of subsidies. Donor regions in 2006 and 2007 included St. Petersburg, the Leningrad and Vologda Oblasts, the Republic of Komi. The latter lost the status of an unsubsidized region in 2008 – 2010, and the Vologda Oblast – in 2011. The Pskov Oblast headed the list of subsidized regions in the North-West during the whole analyzed period: transfers aimed at the alignment of its fiscal capacity amounted up to one third of the consolidated budget’s own revenues. Besides the Pskov Oblast, the top three of the NWFD subjects that mostly depend on the named type of financial support by the end of 2011 included the Arkhangelsk Oblast (12.5%) and the Republic of Karelia (10.2%). The level of subsidies for the North-Western regions amounted to an average of 2.8%, while for the country in general – 6.8% (*tab. 6*).

The lowest share of federal financial support is registered in Saint Petersburg and the Leningrad Oblast – less than 10% of the total volume of revenues. Meanwhile, the inter-budget transfers in the Arkhangelsk, Kaliningrad and Pskov Oblasts formed up to 40% of the consolidated budgets’ revenues.

Table 6. The volume of subsidies on the equalization of the fiscal capacity of the NWF D regions\*

NWF D Subject	2006		2008		2011	
	Million rub.	In % to the own revenues	Million rub.	In % to the own revenues	Million rub.	In % to the own revenues
Pskov Oblast	2435.9	32.5	3540.5	30.8	4139.3	25.4
Arkhangelsk Oblast	2591.7	13.0	4705.7	13.1	5466.5	12.5
Republic of Karelia	1116.1	9.6	1533.7	8.6	2765.2	10.2
Novgorod Oblast	847.2	9.0	847.2	5.2	768.0	3.6
Murmansk Oblast	1045.9	4.6	1229.9	3.6	1599.4	3.3
Republic of Komi	0	0.0	314.6	0.8	1473.7	2.9
Vologda Oblast	0	0.0	0	0.0	737.9	1.7
Kaliningrad Oblast	783.3	5.0	1075.0	4.4	498.0	1.6
Leningrad Oblast	0	0.0	0	0.0	0	0.0
Saint Petersburg	0	0.0	0	0.0	0	0.0
NWF D	8820.1	2.4	14620.5	2.6	18805.6	2.8
RF. billion rub.	228.9	7.3	330.0	6.7	398.4	6.8

\* Calculated on the basis of the accounting report on the execution of budgets of the RF subjects and local budgets. Available at: <http://www.roskazna.ru/reports/mb.html>

In this connection, the solvency of the regions is to a certain extent conditioned by the transfers, as the sources of the regional budgets' revenues. Therefore, the issue of the timeliness of their transfer is particularly important. Intergovernmental transfers are provided to the regional budgets unevenly, which, taking into account the price factor, creates the risks of inefficient use of the budget funds. The main reasons for such a situation include organizational flaws, caused first of all by the fact that the competitive procedures for the allocation of transfers are carried out in the second half of the year, besides, the circulation of documents is long, the contracts on the performance of works (rendering of services) are not concluded on time, the suppliers don't comply with the terms of delivery of equipment and materials. All this leads to the fact that a significant share of the annual federal transfers is allocated to the regions in the 4th quarter of the year (*tab. 7*).

The system of inter-budget relations should be aimed chiefly on the increase in the supply of public goods at the sub-national level. Therefore, it is important to determine the

dynamics of budgetary sufficiency with per capita incomes. In 2006, the NWF D top five regions by the absolute value of the average per capita income included Saint Petersburg, the Republic of Komi, the Murmansk, Vologda and Leningrad oblasts. In 2009, the Vologda Oblast was only the last but one in this rating. By the end of 2011, the highest growth rates were registered in the Kaliningrad, Pskov and Novgorod oblasts (*tab. 8*).

It is impossible to satisfy the population's demand for budget services to the fullest without the transfer to the territorial level of the resources, sufficient for the realization of spending powers. In this context, the indicator of the coverage of expenditures with own revenues that allows evaluating the budget's ability to realize the spending powers at the expense of its own tax and non-tax revenues becomes very important. Judging by the end of 2011, the Leningrad and Murmansk Oblasts, Saint Petersburg and the Republic of Komi possess the highest indicators in the NWF D, the Arkhangelsk, Kaliningrad and Pskov Oblasts have the lowest ones (*figure*).

Table 7. The share of inter-budget transfers allocated in the 4th quarter, in % to the annual transfers\*

NWFD Subject	2006	2007	2008	2009	2010	2011
Republic of Karelia	30.0	42.0	37.1	21.3	26.5	23.9
Republic of Komi	31.0	33.6	24.0	26.9	17.8	22.7
Murmansk Oblast	30.6	46.1	37.6	32.7	37.6	26.4
Arkhangelsk Oblast	32.6	39.4	33.7	26.9	27.5	26.8
Novgorod Oblast	23.7	28.9	31.8	26.3	18.6	27.5
Leningrad Oblast	43.1	46.7	47.3	25.7	20.9	27.6
Vologda Oblast	23.6	30.4	30.0	23.3	24.3	27.7
Pskov Oblast	23.8	24.9	19.5	17.9	17.1	33.9
Kaliningrad Oblast	46.2	48.6	45.7	13.9	27.5	41.4
Saint Petersburg	38.5	38.1	43.8	21.0	20.0	16.8

\* Calculated on the basis of the accounting report on the execution of budgets of the RF subjects and local budgets. Available at: <http://www.roskazna.ru/reports/mb.html>

Table 8. The per capita budget sufficiency with the incomes of the NWFD regions\*

NWFD Subject	2006		2009		2011	
	Thousand rub.	In % to the previous year	Thousand rub.	In % to the previous year	Thousand rub.	In % to the previous year
Kaliningrad Oblast	22.2	137.7	44.8	112.8	51.6	126.2
Pskov Oblast	15.6	124.0	28.8	110.8	41.5	124.2
Novgorod Oblast	18.3	109.4	36.9	109.5	44.5	122.2
Republic of Komi	<b>30.8</b>	124.0	47.7	104.1	64.6	117.4
Saint Petersburg	<b>47.8</b>	153.0	69.5	92.8	83.3	115.1
Leningrad Oblast	<b>22.6</b>	132.3	38.3	98.5	48.0	115.1
Republic of Karelia	21.9	110.5	37.6	95.7	55.8	112.9
Vologda Oblast	<b>26.5</b>	124.9	32.9	79.3	42.2	110.9
Murmansk Oblast	<b>34.0</b>	171.0	55.4	99.1	71.2	108.9
Arkhangelsk Oblast	21.5	123.3	39.3	96.3	51.3	103.3
NWFD	32.6	141.1	50.9	96.0	67.3	120.6

\* Calculated on the basis of the RF Treasury accounting report on the execution of budgets of the RF subjects and local budgets. and also on the basis of the Rosstat data

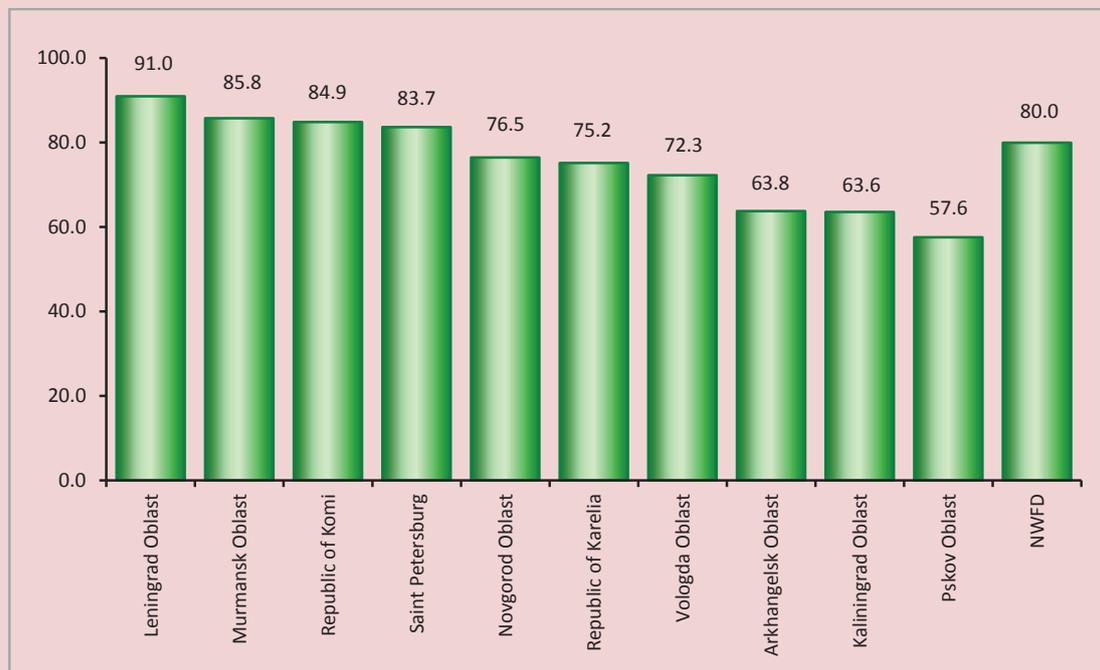
Thus, the analysis of the formation of inter-budget relations between the NWFD regions and the federal centre reveals the positive and negative sides of this system.

The positive factors include the big (over 77%) share of own tax and non-tax revenues in the total revenues of the budgets of the NWFD regions and, as a consequence, their relatively low dependence on financial assistance. For instance, in 2006 – 2011 only about 2 – 4 regions out of 10 received subsidies

on the equalization of budget sufficiency, and their share in the budgets' own revenues was below 4%.

At the same time, the increase in the efficiency of the financial cooperation between the North-Western territories and the federation is hampered by the strong inter-regional differentiation according to the level of per capita fiscal capacity of incomes (from 41.5 thousand rubles in the Pskov Oblast to 83.3 thousand rubles in Saint Petersburg in 2011).

The coverage of current and capital expenditures with own revenues of the consolidated budgets of the NWF D regions, %\*



\* Calculated on the basis of the RF Treasury accounting report on the execution of budgets of the RF subjects and local budgets, and also on the basis of the Rosstat data.

The limiting factor is the recent years' increase of the budget deficit in the NWF D subjects: its amount in the Republic of Karelia, the Arkhangelsk, Vologda and Novgorod oblasts exceeds 15% of the volume of the own revenues<sup>5</sup> (tab. 9).

It should be noted that the reform of inter-budget relations still hasn't solved the problems hindering the implementation of such fundamental principles of fiscal federalism, as the independence of budgets, the compliance of the assigned expenditure commitments with revenue powers, as well as the uniformity of budget sufficiency of different territories. Particular importance is attached to the problem of optimizing tax and non-tax inflows in the budgets of different levels.

<sup>5</sup> According to Article 92.1 of the RF Budget Code, the deficit of the budget of a constituent entity of the Russian Federation must not exceed 15% of the total amount of budget revenues regardless of the volume of gratuitous receipts.

The distribution of taxes should guarantee constitutional autonomy to the regions, simultaneously enhancing the authorities' responsibility for carrying out the active economic and financial policy. As the experience of developed states proves, under a stable market economy, the tax distribution of budget revenues virtually allows the formation of sustainably independent budgets taking into account the financial capacities and requirements of the territory.

For all the complexity of the situation, in the conditions of fiscal risks, it should be recognized that the sphere of improving inter-budgetary interaction between regions and the federation has actual reserves:

1. *The expansion of the regional authorities' powers on the management of their revenue base that will promote the implementation of initiatives and will become the first step toward the decentralization and strengthening of the*

Table 9. The amount of the consolidated budgets' deficit in the NWF regions \* (in % to the own revenues)

NWFD Subject	2006	2007	2008	2009	2010	2011
Murmansk Oblast	0.0	0.0	0.9	7.7	0.0	0.0
Leningrad Oblast	0.0	0.0	0.0	8.6	0.0	0.0
Novgorod Oblast	0.0	0.0	6.7	10.3	<b>20.3</b>	0.0
Kaliningrad Oblast	0.0	0.0	1.0	0.0	11.2	0.1
Republic of Karelia	9.1	6.9	2.0	<b>20.1</b>	2.2	0.6
Saint Petersburg	0.0	0.0	5.7	2.6	4.1	1.1
Republic of Komi	0.0	0.0	1.1	3.0	2.4	2.5
Pskov Oblast	0.0	0.0	0.0	6.5	5.3	2.8
Arkhangelsk Oblast	0.0	0.0	12.1	<b>21.7</b>	<b>15.1</b>	12.8
Vologda Oblast	0.0	0.1	0.0	<b>23.1</b>	<b>18.7</b>	<b>18.1</b>
NWFD	0.0	0.0	3.7	6.2	3.5	1.9

\* Calculated on the basis of the RF Treasury accounting report on the execution of budgets of the RF subjects and local budgets, and also on the basis of the Rosstat data

political system. Thus, providing the authorities of the subjects of the federation with the rights of the regional taxes management will contribute to the improvement of their collection and strengthening the budget's revenue base.

2. *A clear distinction of spending powers* between the federal and regional authorities in accordance with their *revenue sources*.

3. The adoption of measures in the sphere of tax policy, directly or indirectly promoting the attraction of additional revenues in the regional budget:

✓ transfer of additional tax sources to the regional level;

✓ introduction of a progressive taxation scale for individual income tax and sumptuary tax;

✓ simplification of tax reporting, etc.

4. *Optimization of preferential treatment policy*, which consists in the abolition of inefficient federal tax concessions and development of a mechanism compensating the loss of revenues that the regional budgets suffer due to the provision of benefits under the federal law.

5. *An inventory of the remaining unfunded mandates and their provision with funding sources*. We believe that this requires a more clear definition of the goals and directions of

subventions and methods of determining their amount. All this gives the opportunity to restrict on a legal basis the amount of government powers transferred to the regional level.

6. *Improvement of the transfer mechanism*, consisting in the transition from the target-oriented transfers to modular transfers<sup>6</sup>.

7. Improvement of the policy of regions' stimulation:

✓ by expanding the list of the recipients of incentive grants for the progress achieved in improving the quality of budget management;

✓ by encouraging the regions to create and implement innovation projects.

No doubt that the implementation of all the proposals stated above could to a certain extent mitigate the negative consequences of the existing threats to the system of inter-budget relations between the regions. In this regard, the legal framework should be established at the federal level, maximum efforts should be undertaken at the regional level to increase the budget's revenues and optimize the expenses in order to enhance the financial stability of the territories.

<sup>6</sup> We consider that the essence of a module transfer lies in the provision of financial resources in the framework of a consolidated subsidy or subvention, these resources are gratuitous and non-repayable, but they can be directed to the funding of certain objectives.

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