

# DEVELOPMENT STRATEGY

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## **Accounts Chamber of the Russian Federation: 2014–2016 draft budget will not allow Presidential Decrees of May, 2012 to be executed**

*The article presents the comparative analysis of the conclusions of the Accounts Chamber on the draft laws on the federal budget, executed in 2013 and 2012. The specifics of the conclusion on the draft law on the federal budget for 2014–2016 are characterized. The article highlights critical remarks of the Accounts Chamber of the Russian Federation on the given draft law, in particular with regard to the economic and financial parameters associated with the implementation of the Decrees of the President of the Russian Federation of May 7, 2012.*

*Accounts Chamber of the Russian Federation, draft federal budget, economic parameters, income and expenses, risks.*



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In compliance with the Budget Code of the Russian Federation, the Law “On the Accounts Chamber of the Russian Federation” and other legislative acts of the Russian Federation, the Accounts Chamber of the Russian Federation annually prepares the conclusions on the draft law on the federal budget for the forthcoming and two subsequent years.

On October 14, 2013 the Accounts Chamber executed the conclusion on the draft Law on

the budget of the Russian Federation for 2014–2016 and submitted it to the federal authorities. We have studied the document’s content and compared it with the conclusion made in 2012.

The comparative analysis of the main theses of the conclusions of the Accounts Chamber of the Russian Federation on the draft laws on the federal budget for 2013–2015 and 2014–2016 showed that the comments made by the main controlling body of the country are a lot alike.

First of all, it concerns the following aspects of fiscal policy:

- the presence of system risks of budget implementation related to a slowdown in Russia's economic growth, probable crises in the world commodity and financial markets, high dependence of the economy and the budget system on the foreign economic environment, limited domestic financial resources, insufficient development of the financial infrastructure;

- low quality of macroeconomic forecasts, which is manifested in material inconsistency of the dynamics of forecast and reporting macroeconomic indicators for a number of years;

- certain provisions of the President's budget message have not been implemented by the Government of the Russian Federation;

- existing risks of non-compliance with the Presidential Decrees of May 7, 2013, indicated by the negative dynamics of certain target indicators characterizing economic state (labour productivity, investments in fixed capital);

- income, not substantiated by relevant calculations, amount of which makes annually over 400 billion rubles, or about 3% of the anticipated profits, which reduces the budget transparency and exceeds the indicators of the previous budget cycle;

- growth of interest payments, exceeding the amount of many important funding streams;

- lack of the forecasting of debt sustainability of the Russian Federation;

- failure to provide the required financing of the implementation of federal target programmes;

- annual reduction of budget funds for the implementation of the target investment programme, accompanied by an adequate reduction in the number of commissioned facilities (from 11.6% for 8 months of 2012 to 1.8% for the same period in 2013);

- retention of risks in the stabilization of territorial budgets, related to the growing volume of debt obligations of the subjects of the Russian Federation and annual reduction of interbudgetary transfers.

However, it is impossible to ignore fundamentally new points contained in the conclusion on the draft law on the budget for 2014–2016.

1. This is the first time the Accounts Chamber concluded that the **forecasts, on the basis of which the budget is made up, are insufficiently accurate and reliable.**

The conclusion states the following: “The dynamics of macroeconomic indicators in the forecast does not comply with the dynamics of the corresponding indicators in any of the scenarios, presented in the forecast of socio-economic development of the Russian Federation until 2030”.

**2. The Accounts Chamber questions the possibility of achieving the planned parameters of internal loans and proceeds from privatization.**

In 2012, only 911.9 billion rubles, or 69.6% of the forecasted volume, were attracted to the domestic market, and the income from privatization amounted to 43.9 billion rubles, or to 74.7%. For the eight months of 2013 loan performance in the domestic financial market will make 42.8% and the cash flows from privatization – 38.7%. It can be concluded that in case of shortfalls of proceeds from privatization, the government will have to search for additional sources to cover the 2014–2016 deficit.

3. The auditors of the Accounts Chamber are also concerned with the growth of Russia's foreign national debt: it increased from 28.3 to 31.6% of GDP in 2012, and to 33.5% of GDP for the nine months of 2013. Now this corresponds to average risk, while in 2011, the ratio amounted to approximately 29% and corresponded to low risk in the IMF measurement system.

4. The omissions of the certain provisions of the Budget Message are enumerated in greater detail in comparison with the previous conclusion, in particular:

✓ long-term budget strategy until 2030 has not been approved;

✓ Tax Code has not been amended with regard to taxation of real estate;

✓ the comprehensive system of state programmes that allows the goals and strategic objectives of socio-economic development to be achieved through the complex of interrelated activities and interindustry cooperation, has not been formed. The structure and the content of most government programmes are to be finalized. The transition to performance-oriented budgeting at this stage in most of the state programmes is substituted by the financing from progress (the achieved), and most of the executed programmes to a considerable degree are a set of expenditure requirements, insufficiently substantiated with well-grounded goals, objectives, indicators<sup>1</sup>;

✓ the issue concerning the consolidation of subsidies to the regional budgets, and transfer of accurate information on the volume of interbudgetary transfers to the regions prior to the beginning of territorial budgets formation, has not been solved.

**5. The shortfall in income of the federal budget in case of the changes in macroeconomic indicators is estimated:** from payment of income

<sup>1</sup> From the notes of the statement, made by the Chairman of the Accounts Chamber of the Russian Federation T.A. Golikova during the parliamentary hearings on the draft federal budget for 2014–2016 (October 8, 2013): “At present, the budget parameters exist by themselves, the state’s programmes with their passports, which are additional materials to the draft budget for 2014–2016, exist independently and do not intersect. Yes, Anton Germanovich Siluanov stated that these programmes should be finalized within the specified period (deadline – October 29), but nonetheless, the volume for the finalization is so large (as they don’t match neither to the indicators, stated in the programmes, nor to the budgetary allocations from the 2014–2016 budget) that the shortcomings of the state programmes will most probably not be covered for the current period of one month”.

tax – 380.1 billion rubles, VAT – 2142.6 billion rubles, export duties – 71.9 billion rubles. Total budget is at the risk of not receiving 2.6 trillion rubles.

6. It is indicated **that the submitted draft law does not assess the impact of special procedure of tax computation by consolidated taxpayer groups on the volume of profits from income tax of organizations** (in the author’s opinion, the reasons are clear: the first year of CTG operation has shown the ineffectiveness of this institution).

7. The section devoted to subfederal budgets is presented more fully. The attention is given to **the change in the government debt structure of regions towards the increase in the number of credits** received in commercial banks (the proportion of borrowings rose from 25.6% to 32.4% for 2011–2012). In the future it may negatively affect the stability of not only the budget, but the banking system as well.

The amount of subsidies to regions is reduced by 10 as compared to 2013-level (from 93 to 83). And only 10 subsidies are distributed in terms of the subjects of the Russian Federation. The rest are not distributed, that, undoubtedly, will affect the formation quality of territorial budgets.

**8. The methodology of the federal budget formation has been criticized:** methodological guidelines for income calculation have not been developed; the budget classification in terms of reflecting programme expenditures has not been amended<sup>2</sup>; the target indicators assessing the effectiveness of providing single subventions to the regions has not been approved. All this reduces the budget transparency.

<sup>2</sup> From the notes of the statement, made by the Chairman of the Accounts Chamber of the Russian Federation T.A. Golikova during the parliamentary hearings on the draft federal budget for 2014–2016 (October 8, 2013): “Unfortunately, at present the budget classification, that was applied to the state programmes, has not worked. It is almost impossible for non-specialists to compare the indicators of 2014, 2015 and 2016 with the indicators of 2013”.

The government of the Russian Federation ignored the repeated recommendations of the Accounts Chamber to elaborate a set of specific measures aimed at the development of the income potential of the country's budget system, including those relating to the curtailment of the shadow economy; evasion of taxes and other obligatory payments, including both transfer pricing and operations through offshore zones; improvement of the control work of tax and customs authorities, enhanced performance of tax control with regard to VAT refund from the federal budget; optimization of the existing system of privileges and preferences; reduction in tax and non-tax liabilities; revenue increase

from the management and disposal of the state property; enhancement of the state control efficiency in the sphere regulating production and turnover of alcohol and alcohol-containing products.

The supreme executive branch ignored the recommendations on the adoption of measures to maintain the moderate debt burden both on the federal and on the regional budgets, to affect appropriately the debt policy of the corporate sector, and to improve the quality of debt sustainability forecasting.

The Annex to the article provides a comparison of the conclusions of the Accounts Chamber on the draft laws on the federal budget for 2013–2015 and 2014–2016.

Annex

Comparison of the main theses of the conclusions of the Accounts Chamber of the Russian Federation on the draft laws on the federal budget for 2013–2015 and 2014–2016

Conclusion on the budget plan for 2013–2015	Conclusion on the budget plan for 2014–2016
<p>The forecasted volumes of investments in the fixed capital could be insufficient for settlement of the tasks, set by the President of the Russian Federation, aimed at modernization, technical re-equipment and transition of the economy to the innovative path of development. <b>Basic production assets to a large extent are physically out of date, and the process of their renewal is going very slowly. Besides the main part of investments is forwarded not to the high-technology spheres, but to the spheres, connected with production of goods with low share of added value.</b></p>	<p>The forecasted volumes of investments in the fixed capital could be insufficient for settlement of the tasks, set by the President of the Russian Federation, aimed at modernization, technical re-equipment and transition of the economy to the innovative path of development. Taking into account the state of basic production assets, it is necessary to emphasize that the insufficient volume and efficiency of investments in fixed capital reduce the improvement pace of economic structure, the growth of labour productivity and do not allow overcoming raw-material orientation.</p>
<p>Comparative analysis of the dynamics of macroeconomic indicators established over the past years, shows their significant deviation from the forecast values.</p>	<p>Comparative analysis of the dynamics of macroeconomic indicators, established over the past years, shows their significant deviation from the forecast values. <b>This indicates that the forecasts under development are insufficiently accurate and reliable.</b></p>
<p>Comparison of the forecasts, made by the Government of the Russian Federation and leading international economic organizations, suggests that Russia's position regarding economically developed countries by important macroeconomic parameters will not improve fundamentally in the short term. In addition, the dynamics of macroeconomic indicators of Russia is much less than of the number of developing countries, including some CIS countries.</p>	<p>Comparison of the forecasts, made by the Government of the Russian Federation and leading international economic organizations, suggests that Russia's position regarding economically developed countries by important macroeconomic parameters will not improve fundamentally in the short term. Moreover, the dynamics of macroeconomic indicators, characterizing socio-economic development of the Russian Federation, is significantly exceeded by the dynamics of the corresponding indicators of the number of developing countries, including some CIS countries.</p>
<p>However, the work on the implementation of certain provisions of the Budget message was not completed, when elaborating the draft of the federal budget for 2013 and for the planned period 2014 and 2015 (data as of October 1, 2012).</p>	<p>However, the work on the implementation of certain provisions of the Budget message was not completed, when elaborating the draft of the (data as of October 1, 2013).</p>

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<p>The government of the Russian Federation, federal and regional executive authorities have been carrying out work to implement the decrees of the President of the Russian Federation of May 7, 2012. However, <b>it seems difficult to achieve the parameters, set by the President of the Russian Federation</b> by certain macroeconomic indicators (share of capital investments in GDP and productivity growth) <b>in the long term</b>.</p>	<p>The government of the Russian Federation, federal and regional executive authorities have been carrying out work to implement the decrees of the President of the Russian Federation of May 7, 2012. Nevertheless, the dynamics of certain target indicators, for example, characterizing the state of the economy (labour productivity, investment in fixed capital) forecasted for the 2014–2016 period, allows making a conclusion on the risks of the failure to achieve them within the established deadlines.</p>
<p>The materials to the draft law do not comprise the calculations of income, the share of which amounts to 2.8% of the forecasted amount of revenues to the federal budget in 2013, 2.7% in 2014, and 2.6% in 2015</p>	<p>The materials and documents submitted along with the draft law, do not comprise the calculations of revenues that make up <b>annually more than 400 billion rubles</b>, or about 3% of the forecasted revenues, which reduces <b>the budget transparency and exceeds the indicators of the previous budget cycle</b>.</p>
<p>In 2013–2015 there are risks of implementing federal revenues due to a decrease in prices for the Urals oil and oil products as compared to the forecasted prices.</p>	<p>The main risks in receiving the forecasted volume of revenues may be also related to the lower prices for the Urals oil, oil products, natural gas, as compared to the forecasted <b>non-achievement of the forecasted volume of GDP and the export of goods</b>. There are risks of delayed revenues in the federal budget, including the profit from <b>tax income (380.1 billion rubles in 2014), goods (works, services) VAT, implemented in the territory of the Russian Federation (2 142.6 billion rubles), in case of changing parameters of GDP and other macroeconomic indicators, export duties on oil and oil products, delivered to the Republic of Kazakhstan and the Republic of Belarus, in case the issue concerning duty-free supplies of Russian oil to the States of the Customs Union is not settled (71.9 billion rubles)</b></p>
<p>The volume of the expenditures for the repayment and servicing of the state debt of the Russian Federation to the total volume of expenditures (debt-to-equity ratio) will amount to <b>87.5%</b> in 2013, 91.9% in 2014.</p>	<p>The volume of the expenditures for the repayment and servicing of the state debt of the Russian Federation to the total volume of expenditures (debt-to-equity ratio) will amount to <b>81%</b> in 2014, 79.7% in 2015, 75.1% in 2016.</p>
<p>The state internal debt with the state guarantees will increase by <b>1.6 trillion rubles</b>, or <b>2.5 times</b> in 2015, as compared to 2012, and will make up 2.7 trillion rubles; the state external debt with government guarantees – <b>1.8 times</b> and will amount to <b>30.4 billion US dollars (1 024.5 billion rubles)</b>.</p>	<p>The state internal debt with the state guarantees in native currency will increase by <b>63.8%</b> in 2016, as compared to 2013; state external debt with government guarantees in foreign currency – by <b>33%</b>.</p>
<p>The expenditures for servicing of the state debt will increase from 383.3 billion rubles in 2012 to 508.0 billion rubles in 2015. The volume of the indicated expenditures will considerably exceed the budgetary appropriations, which will be allocated in 2015 for public utilities sector, protection of environment, culture, cinematography, physical culture and sports, mass media (<b>327.6 billion rubles</b>), healthcare (<b>373.1 billion rubles</b>) and are comparable with the expenditures for education (<b>591.9 billion rubles</b>).</p>	<p>The expenditures for servicing of the state debt will increase from 408.4 billion rubles in 2013 up to 568.6 billion rubles in 2016 (<b>1.4 times</b>) and will considerably exceed the budgetary appropriations, which will be allocated in 2016 for public utilities sector, protection of environment, culture, cinematography, physical culture and sports, mass media, as well as for healthcare.</p>
<p>The established amount of the debt burden requires constant monitoring, analysis and assessment of possible risks associated with the growth of debt. Therefore, it is necessary to establish the mechanism of operational impact on the debt policy of the corporate sector, including the decision making procedure of state corporations with regard to borrowings in foreign currency.</p>	<p>Further increase in borrowings, expected in the next years, causes the necessity of the realistic assessment and forecasting of the debt sustainability of the Russian Federation, the monitoring of all debt types and requires <b>the Government of the Russian Federation to affect the debt policy of the corporate sector more significantly</b>.</p>
<p>The volume of budget allocations does not correspond to the amount of financing, stipulated by the passports of programmes in 26 programmes out of 50 (<b>46.4% of the overall number</b>) listed in the Federal Target Programmes, included in the draft law for 2013. Despite the incomplete use of budget funds by certain Federal Target Programmes in 2011, non-achievement of the target indicators, low application of funds in the past period of 2012, the draft law envisages the increase in appropriations for 2013–2015 by these programmes.</p>	<p>In 2014 the volume of budget allocations does not correspond to the amount of financing, stipulated by FTP passports, and is significantly below the level of previous years in <b>practically all Federal Target Programmes</b>. Despite the incomplete use of budget funds by certain Federal Target Programmes in 2012, non-achievement of the target indicators, low application of funds in the past period of 2013, the draft law envisages the increase in appropriations for 2014–2016 by these programmes.</p>

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<p>The federal budget expenditures on the Federal target investment programme in 2013 are provided within 854.3 billion rubles, which is <b>by 55.5 billion rubles, or 6.1% below the level of the previous year</b>, in 2014 – 749.0 billion rubles, in 2015 – 781.1 billion rubles. FTIP share in the total volume of the departmental structure of the federal budget expenditures decreased from <b>7.4% in 2013 to 6.4% in 2014 and 2015</b>.</p> <p>According to the Ministry of Economic Development of Russia, <b>161 facility, or 11.6% has been set in operation</b>, out of 1387 commissioned facilities <b>for 8 months of 2012</b>.</p>	<p>The federal budget expenditures on the Federal target investment programme in 2014 <b>decrease by 11.3%</b>, as compared to the previous year; increase by 9.4% in 2015, while in 2016 the expenditures are expected to decrease by 12.1%. FTIP share in the total volume of the federal budget expenditures is decreasing from <b>6.8% in 2014 to 6.1% in 2016</b>.</p> <p>According to the Ministry of Economic Development of Russia, <b>18 facilities, or 1.8% have been set in operation</b>, out of 978 commissioned facilities <b>for 8 months of 2013</b>.</p>
<p>Risks in ensuring the stability of regional and local budgets associated with substantial debt obligations remain. According to the Ministry of Finance of the Russian Federation, the amount of the total budget debt of the subjects of the Russian Federation and municipalities was <b>1 319.25 billion rubles as of August 1, 2012 (1.9 times increase in comparison with the pre-crisis level of 2008)</b>, including the state debt of the subjects of the Russian Federation – 1 111.1 billion rubles (1.85 times).</p>	<p>Risks in ensuring the stability of regional and local budgets associated with substantial debt obligations remain. The amount of the total budget debt of the subjects of the Russian Federation and municipalities was <b>1 599.9 billion rubles as of August 1, 2013 (2.3 times increase in comparison with the pre-crisis level of 2008)</b>, including the state debt of the subjects of the Russian Federation – 1 352.9 billion rubles (2.3 times). <b>Moreover, in 2012 the debt exceeded 50% of the income volume of the regional budget, excluding inter-budget revenues in more than one third of the regions.</b></p>
<p>Considerable load on the regional and local budgets with regard to the repayment of the existing budget loans will remain in 2013–2015. <b>The total repayment of budget loans amounts to 400.3 billion rubles.</b></p>	<p>Considerable load on the regional and local budgets with regard to the repayment of the existing budget loans will remain in 2014–2016. <b>The total repayment of budget loans amounts to 341.2 billion rubles.</b></p>
<p>The increase in revenues of the consolidated budgets of the subjects of the Russian Federation is provided by the means of increase in receipt of tax and non-tax revenues, with simultaneous decrease in the volume of inter-budget transfers, granted from the federal budget. In 2015 the volume of inter-budget transfers to compare with 2012 will decrease by 14.9 %.</p>	<p>The increase in revenues of the consolidated budgets of the subjects of the Russian Federation is provided by the means of increase in receipt of tax and non-tax revenues, with simultaneous decrease in the volume of inter-budget transfers, granted from the federal budget. In 2016 the volume of inter-budget transfers to compare with 2013 will decrease by 6.1%, <b>and in the form of financial assistance (excluding subventions) – by 15.2%.</b></p>
<p>Inter-budget transfers will amount to <b>46.7%</b> in 2013 (in 2012 – 49.4%) in the total revenues of the Pension Fund of the Russian Federation, 44.7% in 2014, and 45.1% in 2015. This indicates the continuing dependence of the PFR budget on the budget allocations from the federal budget at a sufficiently high level.</p>	<p>The share of inter-budget transfers will amount to <b>38.9%</b> in 2014 in the total revenues of the Pension Fund of the Russian Federation, and will make up 41.2% in 2015 and 2016 (in 2012 – 49.4%, in 2013 – 46.8%). This indicates the continuing dependence of the PFR budget on the budget allocations from the federal budget at a sufficiently high level.</p>
<p>In accordance with the opinion of the Accounts Chamber it is vital to prepare a complex of measures aimed at development of the revenue potential of the budgetary system of the Russian Federation in the volumes, which could provide long-term balance and sustainability of the budgetary system.</p>	<p>In accordance with the opinion of the Accounts Chamber it is vital to prepare a complex of measures aimed at development of the revenue potential of the budgetary system of the Russian Federation in the volumes, which could provide long-term balance and sustainability of the budgetary system.</p>