

The Overdue Transformation of the Budget Policy Model in the Context of Growing Economic Dynamics



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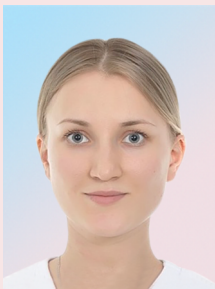
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For citation: Blokhin A.A., Demidova S.E., Melnikova T.S. (2024). The overdue transformation of the budget policy model in the context of growing economic dynamics. *Economic and Social Changes: Facts, Trends, Forecast*, 17(4), 177–192. DOI: 10.15838/esc.2024.4.94.10

Abstract. The changes taking place in the Russian economy under the influence of structural shifts and institutional transformations caused by external shocks determine the need to find a balance between budget planning and economic forecasting, taking into account the revealed differences in scenario approaches, deviations in the execution of the federal budget relative to planned assignments, weak connection between budget expenditures and subsequent socio-economic dynamics. It is proved that strong economic growth is associated with the liberation of the Russian economy from the dominance of foreign business in domestic markets. The problem is the discrepancy between conservative fiscal policy and the challenges of economic development, including the development of scenario conditions for a medium-term forecast for it. The unpreparedness of the public sector for high economic growth can become a brake on economic growth and institutional transformations. The directions of expanding the fiscal space in connection with the processes of adaptation of the Russian economy to external shocks are highlighted. These include differences between scenario conditions; between the GDP parameters adopted in the draft federal budget for the first fiscal year and the reporting values of this indicator at the end of the year, faster GDP growth compared with official forecasts; structural, transformational and institutional changes taking place in the Russian economy. To improve the quality of scenario forecasting underlying the development of the federal budget, it is necessary to include ambitious “target” and “crisis” scenarios in the scenario conditions developed by the Ministry of Economic Development of the Russian Federation along with conservative and basic ones. The clarification of the scenario conditions should be based on an assessment of the economic consequences of the implementation of budgetary policy measures. The composition of indicators of scenario conditions requires expansion. In addition to the current adjustments to the budget process, deeper reforms should begin to be worked out, corresponding to high economic growth and serious structural shifts in the economy.

Key words: budget policy, fiscal space, economic forecasts, economic growth, budget expenditures.

Acknowledgment

The article was prepared using the findings of a research carried out at the expense of budgetary funds under the state assignment of the Financial University.

Introduction

In recent years, the Russian economy has become more dynamic – the scope of both negative and positive processes has increased compared to the previous 10–15 years. This is due to external and internal factors, which have been discussed many times (Glazyev, 2022; Eskindarov et al., 2022; Sokolov 2023; Shirov et al., 2024). It is important to say that such dynamics have a long-term character and are likely to intensify, accompanied by structural and institutional transformations of markets and industries. Changes are already taking place in the system of state regulation, in

the interaction between the state and big business, and in the market architecture of large and medium-sized businesses. Against this background, conservative budget policy remains the “oasis of stability”.

The budget sphere has retained its model for the longest time, which was created about 20 years ago on the basis of the transition to the concept of “New Public Management”, the main idea of which was management by results. In the Russian practice of reforming the system of public finance, this model includes a three-year budget based on

high-quality medium- and long-term forecasts that ensure stability of the budget system, proper risk management and accumulation of adequate sovereign reserves (Solyannikova, 2022), as well as simultaneous and coordinated reforms of intergovernmental relations, control system, public procurement policy, provision of public services, openness and transparency of finances. Nevertheless, the program-targeted and even project-based linkage of expenditures to public policy objectives is declared, but it does not yet turn the budget into a “development budget”. Its role, on the one hand, is to mitigate the effects of shock changes, on the other hand, to ensure socio-economic progress and technological sovereignty in the long term.

As a result of external shocks in 2014–2015, 2020–2021 and 2022, structural quantitative changes and qualitative institutional transformations began to gain speed in Russia. The strongest impact was made by 2022 shocks, associated with sanctions against the Russian economy, withdrawal from the Russian market of foreign companies that dominated it, and serious restrictions on capital flows. The main directions of manifestations of these trends can be considered as follows:

Russian businesses occupy vacated markets and produce imported goods, partially localizing their value chains;

- international cooperation is being restructured from unfriendly to friendly countries with subsequent localization of production;

- demand for investments and their volume is growing, but their horizon is still short, the volume of construction works and products of related industries is increasing;

- consolidation of big business in industries previously dominated by Russian business will intensify in 2022–2024, diversification and processing in them will increase, and activity will shift to affiliated and dependent companies – the business will be structurally restructured;

- markets and their leaders in industries dominated by foreign business (machine building, light industry) are rapidly transforming, and companies of the “second layer” – Russian and friendly countries – are becoming more active;

- the activity of global Russian companies in the fuel and energy sector, metallurgy and a number of others is shifting to Russian market and friendly countries;

- Russian business and capital are beginning to return to Russia due to restrictions on capital movement, risks of confiscation of assets abroad, fight against offshore companies, and rejection of double taxation agreements;

- speculative movement of foreign financial capital in Russian financial markets is suspended or hindered;

- capital outflow from Russia has accelerated due to the withdrawal of assets, including financial assets belonging to Western “players”, but a significant part of them is “tied up” in “C” accounts, the possibilities for further withdrawal are limited and its costs for foreign owners are growing;

- revitalization of the military-industrial complex gives impetus to related markets;

- demand in local markets, including for products of SMEs in the regions, is growing due to extensive state support of the population and businesses.

Most of these trends are leading to notable structural shifts in Russia’s financial, goods and services markets. Changing conditions of economic activity and institutional transformations have increased the pace of economic growth (in 2023, according to Rosstat, GDP growth amounted to 3.6%)¹ and produced more optimistic in forecasts. In 2022–2023, the actual indicators of economic dynamics were significantly ahead of forecasts.

¹ Rosstat presents the second estimate of GDP for 2023. Federal State Statistics Service. Available at: <https://rosstat.gov.ru/folder/313/document/234206> (accessed: July 7, 2024).

The dissonance between conservative fiscal policy and explosive economic dynamics is unlikely to last long. If transformations in the economy continue at the same pace, we should expect a serious restructuring of fiscal policy.

The aim of the study is to identify priority measures to transform fiscal policy at the stage of its design from an instrument of risk mitigation to a flexible instrument of long-term development in a dynamically changing economic situation. Achieving this goal is based on addressing problems related to practical implementation of the provisions of the concepts of economic dominance and fiscal space.

Literature review

The description of external and internal conditions of economic policy, as well as a broader list of directions of its implementation is formulated, in particular, in the work of a team of authors of the Institute of Economic Forecasting of the Russian Academy of Sciences (Shirov et al., 2024), who considered the limitations of the inertial scenario and the possibilities of variant approaches.

The issue of growing optimism in forecast estimates is raised in the works of M. Uzyakov. The author consistently estimates GDP growth rates as higher than official forecasts. It is shown that the rates may amount to 4–6% annually in the medium term². Similar estimates are presented in the work of T. Gurova and P. Skorobogatov³. According to M. Uzyakov's calculations, the estimate of GDP growth in 2023 in the course of Rosstat's four refinements of the year's results may increase

and reach the value of 5.1%⁴. The estimates are confirmed by actual data: GDP growth amounted to +5.0% in January – May 2024⁵.

The theory of economic dominance, mechanisms of dominance and the corresponding withdrawal of income from the economy are described in more detail in the works of A.A. Blokhin (Blokhin, 2019; Blokhin, 2023a; Blokhin, 2023b). They consider “pay for dominance”, which refers to the institutional rent received due to better institutional conditions at the dominant business. Such estimates are consistent with M. Uzyakov's estimates of higher GDP growth rates.

Many works are devoted to the problems of reforming the system of public finance. In particular, S.P. Solyannikova notes the need for high-quality medium- and long-term forecasts that ensure the sustainability of the budget system, proper risk management and accumulation of adequate sovereign reserves (Solyannikova, 2022). D.A. Sudarev considers political reasons for the deviation of actual budget revenues from the planned ones; federal budget revenues for the period from 2000 to 2022 are characterized by significant deviations of the actual value from the planned one at the level of 7–8% (Sudarev, 2023), which is comparable to the expenditures on certain industries.

Contemporary studies of fiscal policy in times of crises emphasize the concept of “fiscal space” as a tool for responding to challenges and threats (Igonina, 2015; Aizenman et al., 2019; Kose et al., 2022). The works (Romer, Romer, 2018; Romer, Romer, 2019) define fiscal space as the space in

² Uzyakov M. (2023). Imperative forecast: The year 2023. *Ekspert*, 9. Available at: <https://expert.ru/expert/2023/09/imperativniy-prognoz-god-2023-y/>

³ Gurova T., Skorobogatyi P. (2023). And then there's the struggle and economic growth. *Ekspert*, 9. Available at: <https://expert.ru/expert/2023/09/a-dalshe-borba-i-ekonomicheskii-rost/>

⁴ Uzyakov M. (2024). Imperative forecast: The year 2024. *Monokl'*, 10. March 4–10. Available at: <https://monocle.ru/monocle/2024/10/imperativniy-prognoz-god-2024-y/>

⁵ Ministry of Economic Development of Russia. On the current situation in the Russian economy. May 2024. Available at: https://www.economy.gov.ru/material/file/e6211fc1bac8ca089d659bd956f25cab/o_tekushchey_situacii_v_rossiyskoy_ekonomike_may_2024_goda.pdf (accessed: July 7, 2024).

which policymakers have to “maneuver” or take actions aimed at both fiscal rescue and financial recapitalization and traditional fiscal stimulus. The choice of fiscal policy instruments using the conceptual approach of fiscal space is particularly effective in periods of complex transformations and structural shifts in the economy (Igonina, 2015; Demidova, 2024, Auerbach, Gorodnichenko, 2017).

Fiscal expansion, which is expressed in the growth of public expenditures with systemically unbalanced budgets, has been shown to restrain macroeconomic and financial stabilization and the resumption of economic growth after economic downturns (Salamaliki, Venetis, 2024), including by increasing public debt service costs (Makhotaeva et al., 2024). Fiscal consolidation policies, in contrast, contribute to rebalancing sustainability. At the same time, austerity plans aimed at reducing public spending are less costly and have a faster effect than the use of fiscal instruments that can cause a deepening recession, which is also confirmed by research (Alesina et al., 2019).

Considering fiscal space as a factor underlying the cyclical nature of fiscal policy points to the importance of expanding it during favorable periods, which will allow countercyclical policies to be implemented on a downward trend (Ahmad et al., 2021).

We should emphasize that in Russia after 2022 there is a situation that requires system-wide changes in budget policy.

Thus, the approaches based on the theory of economic dominance allow clearly identifying the “nerve” of the current transformations taking place in the economy, linking the increment of fiscal space with the institutional factors concerning big business influence on the economy.

Methodology and methods

The first stage of the research analyzed current economic conditions based on the concepts of economic growth and the dominance of big business, highlighted paradoxical features of the Russian economy, and formulated the position on the “liberated” growth of the economy.

The second stage analyzes the limitations of economic development caused by the implementation of conservative fiscal policy, based on the indicators of parameters of scenario conditions of the socio-economic development forecast. Statistical data reflect the gaps between economic dynamics and budgetary policy.

The third stage analyzed the current practice of economic forecasting and accounting of forecast data in the budget process. The indicator is the percentage of deviations of actual values of indicators from the planned ones.

We used Rosstat materials, budget data: strategic and forecast analytics of the Ministry of Finance of Russia, Ministry of Economic Development of Russia; analytical reviews of the Bank of Russia as sources of statistical data. Foreign data sources were the resources of the IMF and S&P.

Results

Directions and reasons for the dynamics of the Russian economy in the context of the problem of big business dominance

Structural and institutional changes in the Russian economy are associated, among other things, with the liberation from the dominance of large global business. Such dominance allowed the latter to occupy leading positions in Russian sectoral and regional markets, gain privileged access to quality resources, dictate the terms of use and maintenance of imported equipment and the rules of “embedding” Russian business in foreign value chains. This eventually led to a spillover of

revenues and assets in favor of dominant companies and allowed them to withdraw from Russia. At the same time, price, legal and other conditions were created that restricted the development of domestic production of goods. It turned out to be cheaper to buy the necessary goods from imports – the demand shifted to Western markets. Such “competition” closed opportunities for Russian business to develop new market niches, especially technological ones. Generated innovations were “bought up” by foreign corporations, often together with the developers, and, accordingly, the corporations received most of their revenues abroad. These and many other ways of dominance of Western companies in the Russian economy reduced its competitiveness.

In the previous two years, the nature of capital outflow from the Russian economy has changed – it is not so much income from the use of assets that is withdrawn, but some (reduced) equivalent of the value of the assets themselves remaining in Russia. Accordingly, with the change of ownership of assets, new income from them begins to work in the Russian economy, so it is not quite correct to compare quantitative indicators of capital outflow before and after 2022⁶ – these are qualitatively different characteristics.

In general, the scale of the described dominance and the price that the Russian economy “paid” for it can be confirmed by a number of examples. Their external paradoxicality can be explained exactly within the framework of the theory of economic dominance.

1. Weak growth of the Russian economy and its low effectiveness against the background of high “burdens” in the form of expensive financing and other elements of transaction costs (related, for example, to property protection, information, consulting and other services). These burdens were

accumulated along the supply chain and imposed on companies’ costs and government expenditures, hampering their development. It is virtually impossible to imagine that the modern economies of Germany, Japan, the USA or other developed economies could have positive profitability and non-zero rates of economic growth at the same level of burden. It turns out that at a “normal” level of such burdens the Russian economy could grow at a much higher rate.

2. Relatively rapid growth of both the volume and influence of the public sector in the Russian economy. It is traditionally believed that economic dynamics are better ensured by private business. However, in Russia over the last 10–15 years it is the public sector that has been more successful. This can be explained by the theory of economic dominance. The public sector is less embedded in the system of global Western corporations than the private sector and, accordingly, “gives” to them a smaller part of its income in the form of institutional rent.

3. The Russian economy’s response to sanctions in 2022 is equally paradoxical. The main problems are related to the disruption of supply chains and expropriation of foreign Russian property, rather than the separation of the Russian economy from the global financial system. On the contrary, the latter partially blocks the channels for withdrawal of institutional rent from it, creates an opportunity for domestic financing, and also “cuts off” the Russian economy from the risks of collapse of bubbles in financial markets, i.e. from the upcoming global financial crisis.

4. Problems with public borrowing with a low level of public debt, which is currently at the lowest level relative to developed and developing countries – 15% of GDP. It is lower only in the Republic of Congo (14.6% of GDP) and Turkmenistan (5.2%)⁷.

⁶ M. Dabrowsky (2023). The Russian war economy: Macroeconomic performance, July 20, 2023. Available at: <https://www.bruegel.org/analysis/russian-war-economy-macroeconomic-performance> (accessed: July 7, 2024).

⁷ General Government Debt. IMF. Available at: https://www.imf.org/external/datamapper/GG_DEBT_GDP@GDD/SWE (accessed: July 7, 2024).

However, the possibility of using this instrument is limited by the growth of budget expenditures for its servicing: in 2019 – 3.6%, in 2024 – 6.5%, the forecast for 2026 – about 9.7%⁸.

A number of similar examples can be continued. They show that the difference between actual economic growth at a high level of burden and possible growth at its normal level is one of the key resources for growth and qualitative changes in the Russian economy. We should emphasize that getting rid of the need to pay “tribute” to large global corporations is only a resource for growth, which should be effectively used.

If it were possible to estimate the Russian economy growth with normal parameters of financing and transaction costs (at least – subtract the costs of companies to service expensive financing along the entire value chain with the increase in investment and production costs by the resulting difference), it would probably be possible to obtain several percent of additional economic growth annually (it is very difficult to correctly compare these indicators, so here we provide such an example only as a speculation). The difference between the indicators of hypothetical and actual economic dynamics is the payment for dominance, or institutional rent (Blokhin, 2023), which indirectly confirms the possible increase in GDP growth rates to the level of 4–6% annually⁹.

Since the source of growth of the Russian economy is institutional in nature, the key transformations related to adaptation to external shocks are also institutional. The description of such adaptation from the point of view of the dominance theory allows distinguishing at least three levels of

goals of this process. The first level of adaptation had and still has the task of reducing the dominance rents given to Western business. At the second level, it is necessary to master the effective use of this “not given” rent, which requires new technologies, large investments, new approaches to business consolidation, and restructuring of state support mechanisms. The third level of adaptation may be aimed at establishing a “counter” dominance in some global markets and obtaining institutional rent in favor of large Russian companies. Even 10–20 years ago, the last of these levels seemed impossible, but the speed of the unfolding crisis of the global economy makes it increasingly realistic in the near future. In this sense, the Russian economy turns out to be much more viable not in competition with the growing Western economy, as before, but in competition with the “falling” Western economy, which is entering a crisis similar to the Russian crisis of the 1990s. Therefore, it is necessary to prepare for a strategy of “counter dominance” now. At present, the Russian economy and Russian business are in transition from the first to the second level, which brings additional uncertainty and volatility of forecasts. The transition to the third level of adaptation will further increase them.

In 2022, the Russian economy showed that it can begin getting rid of the dominance of large foreign business and ensure independent economic growth, which is proposed to be considered through the category of “liberated” economic growth. On the current horizon, there are tasks of transition from “spontaneous” and even “chaotic” adaptation to external shocks to building a new architecture of interaction between the state and big business, development of new budget, monetary, industrial and other policies. Resources for such a transition are available, and they are significant. The estimates of M. Uzyakov and other authors can be supplemented by the growing expectations of

⁸ Anton Siluanov: The budget needs additional money. *Press Center*, April 11, 2024. Available at: https://minfin.gov.ru/ru/press-center?id_4=38952 (accessed: July 7, 2024).

⁹ Uzyakov M. (2023). Imperative forecast: The year 2023. *Ekspert*, 9. Available at: <https://expert.ru/expert/2023/09/imperativniy-prognoz-god-2023-y/>

consumers and businesses. For instance, the Bank of Russia's consumer sentiment index in June 2024 is estimated at around 109.9 p., slightly declining from month to month, but remaining significantly above the previous year's values. Overall, it rose steadily and noticeably from March 2022 (when it fell to around 80 p.) to May 2024¹⁰. The PMI business activity index of Russia's manufacturing industries in June 2024 amounted to 54.9 p., up 0.5 p. from May but 0.8 p. lower than in March¹¹. The increase in production volumes and new orders – the growth rate of the latter became the fastest since March 2011 – has predetermined the rapid growth of employment. The PMI index has also risen steadily since March 2022, when it fell to around 43–44 p. The increase in sales, as noted in an explanatory note by S&P Global, was due to higher customer demand and the introduction of new products. The increase in production overall was the strongest since March 2019.

Surveys of business leaders show that companies, “while conducting anti-crisis activities, ... in the second half of 2023 continued reducing passive methods of adaptation (reducing investments, cutting salaries, laying off employees, etc.) and, on the contrary, increased the use of active methods – search for new suppliers and markets, modernization of production, etc.” (Kuvalin et al. 2024).

The conditions for the Russian economy have also improved significantly in the foreign economic sphere. Cooperative ties of Russian business with friendly countries are expanding, and relations with companies from unfriendly countries have

stabilized. Russia is involved in the implementation of new major projects. For example, Bloomberg recently stated that Russia is building two transportation corridors that could make it the “heart” of international trade. The first is the Northern Sea Route and the second is the North-South transport corridor, including a railroad through Iran¹². It is noted that transit through them requires 30–50% less time than through the Suez Canal. In addition, both routes are safe, unlike the one through the Red Sea.

Directions and reasons for the dynamics of the Russian economy in the context of implementation of conservative fiscal policy

Under the conditions of broad dominance of Western business in the Russian economy, budget policy played a passive, stabilizing role in social policy, security and economy. In this case, the budget “dampened” the negative consequences of excessive withdrawal of institutional rent from the economy. As this dominance decreases, budget policy can and should become an instrument focused on the goals of socio-economic development, and the goals themselves may be more ambitious.

The growing “gap” between the dynamism in the economy and the budget policy lagging behind it can be illustrated (*Tables 1–3*) with the help of the “Basic parameters of scenario conditions of the forecast of socio-economic development of the Russian Federation for the year and for the planning period” (hereinafter – SC or SC for the relevant years) used in the development of draft federal and regional budgets¹³.

¹⁰ Bank of Russia. Inflation expectations and consumer sentiment. *Informatsionno-analiticheskii kommentarii*, 6(90), June 25, 2024. Available at: https://cbr.ru/Collection/Collection/File/49255/Infl_exp_24-06.pdf (accessed: July 7, 2024).

¹¹ S&P Global Russia Manufacturing PMI. Available at: <https://www.pmi.spglobal.com/Public/Home/PressRelease/3d9d0bb0485e495e9cf12717236362b1> (accessed: July 7, 2024).

¹² Russia builds new Asia trade routes to weaken sanctions over war. Available at: <https://www.bloomberg.com/europe> (accessed: July 7, 2024).

¹³ Forecasts of socio-economic development. Ministry of Economic Development of Russia. Available at: https://www.economy.gov.ru/material/directions/makroec/prognozy_socialno_ekonomicheskogo_razvitiya (accessed: July 7, 2024).

According to Table 1, the value of the reported (actual) GDP level for a given year consistently exceeds its 1-year forecast for the same year of the baseline prior scenario. Such excess ranges from 6 to 18% and is generally increasing. The range of the excess of the reported value of GDP over the estimate for a given year is similarly high, although shifted to negative values. It ranges from -7 to 6%. We should note that the time lag in determining the indicators in the second case is one year less, but its accuracy does not increase. The data in Table 2 demonstrate even more dramatic dispersion of indicators of the report, assessment and forecast for investment in fixed capital in the baseline scenario of the SC, as well as for GDP. The forecast indicators for the 2nd and 3rd year of the planning

period also deviate from the report and assessment for the corresponding year, and interestingly – in different directions. It means that not only the level of forecasts, but also the concept of the subsequent dynamics of the indicators presented in the SC changes from year to year.

The situation with regional budgets is similar, although somewhat different. Table 3 shows data on the ratio of the report for a given year to the forecast of the first year of the planning period for the same year of the baseline scenario of the previous SC and the ratio of the report for a given year to the estimate for the same year of the baseline SC scenario for ten constituent entities of the Russian Federation (two regions were selected for each of the five levels of fiscal capacity, starting with the least wealthy

Table 1. GDP: report, estimate and forecast for the first, second and third year of the planning period under the baseline scenario of the SC, trillion rubles

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
SC for 2020	103.9	109.1	114.4	122.2	130.8					
SC for 2021		110.0	105.9	113.7	121.9	130.7				
SC for 2022			107.0	119.4	126.7	135.6	145.6			
SC for 2023				131.0	140.7	147.8	158.1	167.8		
SC for 2024					153.4	157.8	167.8	178.4	190.2	
SC for 2025						172.1	191.4	206.9	221.6	237.4

Source: own compilation on the basis of data presented in the section "Social and Economic Development Forecasts" of the official website of the Ministry of Economic Development of the Russian Federation. Available at: <https://www.economy.gov.ru>

Table 2. Growth of investments in fixed capital: report, assessment and forecast for the first, second and third year of the planning period under the baseline SC scenario, %

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
SC for 2020	4.30	3.10	7.00	6.30	5.80					
SC for 2021		1.70	-10.40	5.50	5.60	5.70				
SC for 2022			-1.40	3.30	5.30	5.10	5.30			
SC for 2023				7.70	-19.40	0.30	8.90	5.30		
SC for 2024					4.60	0.50	3.20	3.70	4.50	
SC for 2025						9.80	2.30	2.70	3.00	3.20

Source: own compilation on the basis of data presented in the section "Social and Economic Development Forecasts" of the official website of the Ministry of Economic Development of the Russian Federation. Available at: <https://www.economy.gov.ru>

Table 3. Ratio of reported values to the estimate and forecast of GDP (for the Russian Federation as a whole) and GRP (for RF constituent entities) in the respective years at the federal and regional levels, %

	2018		2019		2020		2021		2022	
	A*	B**	A*	B**	A*	B**	A*	B**	A*	B**
Russian Federation	106	106	105.5	101.3	118.8	110	107	93	117	109
Republic of Tyva	111	109	117	109	122	109	125	105	123	101
Kamchatka Territory	111	93	118	111	127	113	115	100	131	105
Tomsk Region	88	62	104	108	93	108	71	122	115	103
Republic of Bashkortostan	86	97	105	114	103	101	115	102	116	96
Orenburg Region	87	90	112	107	115	108	116	100	141	116
Republic of Khakassia	109	101	117	108	117	104	111	101	130	99
Irkutsk Region	97	110	106	104	104	107	122	104	111	108
Amur Region	83	81	94	107	114	131	106	104	143	109
Republic of Tatarstan	106	109	110	101	102	108	125	115	126	105
Tyumen Region	85	104	111	105	100	109	118	113	116	107

* The ratio of the report for this year to the forecast of 1 year of the planning period for the same year of the baseline SC scenario.
** The ratio of the report for this year to the assessment for the same year of the baseline SC scenario.
Source: own compilation based on the materials from the Unified Portal of the Budgetary System of the Russian Federation. Electronic budget. Available at: <https://www.budget.gov.ru/>; official website of the Ministry of Economic Development of Russia. Available at: <https://www.economy.gov.ru/>; official websites of the ministries of economic development and economic departments of constituent entities of the Russian Federation. Available at: <https://kamgov.ru/minecon/prognozy>, <https://depeconom.tomsk.gov.ru/documents/front/index>, <https://economy.amurobl.ru/>, <https://r-19.ru/authorities/ministry-of-economy-of-the-republic-of-khakassia/common/665/>, <https://mineconomy.orb.ru/documents/all/>, <https://irkobl.ru/sites/economy/>, <https://economy.bashkortostan.ru/documents/all/>, <https://mert-tuva.ru/old/directions/socio-economic-development/forecast/ser/index.htm>, <https://mert.tatarstan.ru/documents.html> (accessed: July 7, 2024).

regions – the Republic of Tyva and the Kamchatka Territory, and ending with the most wealthy – the Republic of Tatarstan and the Tyumen Region). Data on budgetary capacity of the constituent entities were taken from the official portal “Unified Portal of the Budgetary System of the Russian Federation E-Budget”¹⁴. Data on GRP of the

regions were calculated on the basis of Forecasts of socio-economic development of the regions for the coming year and planned periods, developed by the ministries of economic development and departments of economy of the allocated constituent entities of the Russian Federation and presented on their official websites¹⁵.

¹⁴ Unified portal of the budget system of the Russian Federation. Electronic budget. Available at: <https://www.budget.gov.ru/> (accessed: July 7, 2024).

¹⁵ Website of the Ministry of Economic Development and Industry of the Republic of Tyva. Available at: <https://mert-tuva.ru/old/directions/socio-economic-development/forecast/ser/index.htm>; Website of the Ministry of Economic Development of the Kamchatka Territory. Available at: <https://kamgov.ru/minecon/prognozy>; Department of Economy of the Tomsk Region Administration. Available at: <https://depeconom.tomsk.gov.ru/documents/front/index>; Website of the Ministry of Economic Development and Investment Development of the Republic of Bashkortostan. Available at: <https://economy.bashkortostan.ru/documents/all/>; Ministry of Economic Development, Investments, Tourism and External Relations of the Orenburg Region. Available at: <https://mineconomy.orb.ru/documents/all/>; Ministry of Economic Development of the Republic of Khakassia. Available at: <https://r-19.ru/authorities/ministry-of-economy-of-the-republic-of-khakassia/common/665/>; Ministry of Economic Development and Industry of the Irkutsk Region. Available at: <https://irkobl.ru/sites/economy/>; Ministry of Economic Development and External Relations of the Amur Region. Available at: <https://economy.amurobl.ru/>; Ministry of Economy of the Republic of Tatarstan. Available at: <https://mert.tatarstan.ru/documents.html>; Department of Economy of the Tyumen Region. Available at: <https://economy.admtyumen.ru/> (accessed: July 7, 2024).

As follows from the presented data, the range of deviation of actual GRP values from the estimate and forecast for 1 year of the planning period is generally even higher than at the federal level. Clearer conclusions should definitely be based on a full sample of regions and the dynamics of the corresponding indicators for a longer period, but the data presented quite convincingly illustrate the inaccuracy of budget forecasts. The values generally agree with the results obtained by D.A. Sudarev about the deviation of actual and planned volumes of federal budget revenues by 7–8% on a twenty-year horizon (Sudarev, 2023).

Thus, we can argue that the time is coming for serious changes in budgetary policy, since, on the one hand, changes in the economy will be more and more dynamic and profound, affecting its sectoral and regional structure, the proportions between large, medium and small businesses, the ratio between the tax bases of taxes established in Russia, on the other hand, the very structural and qualitative changes in the economy will have to be based on timely implemented measures of budgetary, tax, customs and tariff, and other policies.

In the current model, risk prevention is more important than structural changes and stimulation of qualitative transformations in the economy. “Genetic memory” in society about crises and sequestration is justified, but perhaps it is time to move to a more mature, flexible and active model of budget policy.

A similarly dramatic demand for reforms was observed in the early 2000s, when economic growth and increase in the budget surplus turned out to be noticeably higher than the expectations of managers and specialists of the authorities and experts. As a result, it led to the codification of budget legislation and the beginning of deep reforms in the system of public finance. It is necessary to prepare for the challenges of the current development stage of the Russian economy in advance.

Accounting forecast data in the budget process and possibilities of fiscal space expansion

The understanding of the need for changes in fiscal policy should form the basis for the design of its reforms. At the same time, even within the current framework, we can recommend a number of solutions that would significantly mitigate the negative effects of the misalignment of economic and financial policies and expand the fiscal space.

The procedure for the development of the federal budget is structured in general terms as follows in accordance with the established practice based on the provisions of the budget legislation.

1. The Ministry of Economic Development of Russia annually submits to the Government of the Russian Federation a draft document “Main parameters of scenario conditions of the forecast of socio-economic development of the Russian Federation for the year and for the planned period” for the relevant period of time. First, it defines the parameters of external conditions and the ruble exchange rate against major currencies, prices for oil and other commodities of Russian exports. They set the characteristics of oil and gas revenues of the budget, as well as the volume of customs revenues; second, the parameters of GDP, investment in fixed capital, exports, imports, inflation rate and other indicators of internal conditions for the development of the Russian economy. Their values are set in the baseline and conservative scenarios.

According to the SC project for 2025 and the planning period of 2026 and 2027 developed by the Ministry of Economic Development of Russia, the base case describes the most probable scenario for the development of the Russian economy. The conservative variant is based on the assumptions about the deterioration of foreign economic conditions¹⁶. It is worth emphasizing that the

¹⁶ Forecasts of socio-economic development. Ministry of Economic Development of Russia. Available at: https://www.economy.gov.ru/material/directions/makroec/prognozy_socialno_ekonomicheskogo_razvitiya (accessed: July 7, 2024).

most probable variant is not the same as the one that allows achieving the intended goals of socio-economic development. Conservative is a more cautious and less optimistic option.

2. For the purposes of determining the budget policy, the Ministry of Finance of the Russian Federation and then the Government of the Russian Federation usually choose the base scenario and only in crisis years – the conservative scenario.

3. Based on the listed external and internal conditions under the chosen scenario, as well as taking into account the parameters of external and internal public debt management, possible decisions on privatization of state property and other economic indicators, the volumes of budget revenues, expenditures and deficit are formed.

4. These parameters are further detailed, including the main activities of the state programs of the Russian Federation.

5. After the approval of the federal budget, the indicators of state programs of the Russian Federation, including those related to the dynamics of economic development – GDP, investment in fixed capital and others – can and should be specified.

In such an order, the impact of expenditures on economic indicators and, consequently, the forthcoming changes in tax bases, labor market, growth of assets, increase in the efficiency of their use, and, ultimately, future budget revenues, is assessed to a very weak extent. The contour of such influences “expenditures – economic indicators – budget revenues” turns out to be “open”. Some of these “feedbacks” can be taken into account only in the course of adjustments of the SC to the budget by the time they are submitted together with other documents on the federal budget to the State Duma of the Russian Federation, as well as in the procedure of distribution of additional revenues.

In the previous years, with stable economic dynamics without sharp structural and institutional

changes in the Russian economy, the significance of taking into account the impact of expenditures on subsequent revenues for the budget policy was minimal, since the parameters of budget expenditures changed approximately “synchronously” with economic indicators. The medium-term forecast took into account the established trends in the markets and in the system of public finance. However, in periods of dramatic transformations, such as Russia is currently experiencing, these changes become significant. Their dynamics largely contain increased uncertainty and risks. The ability to manage expenditures based on expected (due to them) revenues can expand fiscal space and improve the efficiency/effectiveness of budget expenditures while maintaining debt sustainability and macro-economic stability.

Forecast errors are increasing due to the growing variability of economic dynamics, so the use of forecast data in budget preparation should be adjusted in the following directions.

1. Development of new types of scenarios within the SC: crisis scenarios (reflecting the risks and threats of new shocks), target scenarios (enabling the achievement of national goals and priorities), and ambitious scenarios (creating the basis for setting higher goals).

2. Introduction of a procedure for regular adjustment of the SC at the stages of budget development, adoption and, most importantly, implementation.

3. Expansion of the range of indicators and analyzed trends in the SC scenarios, including indicators of changes in tax bases, labor market, use of production capacities, development of production, transport, market and other infrastructures, characteristics of institutional reforms, development of human potential and technological base of the economy, expansion of Russian business in foreign markets.

4. Inclusion in the description of the SC scenarios of the nature and trends of external factors that produce risks, threats, new opportunities, and conditions for their realization. Reflection of directions of interaction with large global companies, formation of new markets and assessment of consequences of interaction with friendly and unfriendly countries.

5. Inclusion in the SC of analytical elaboration of trends observed in the Russian economy under the influence of structural shifts and institutional transformations, taking into account possible outpacing GDP growth compared to official and expert forecasts. As shown above, such changes affect not only intra-industry or interregional proportions. They can manifest themselves in the formation of new sectors or clusters due to the localization of product chains in the course of import substitution; the emergence of new centers of regional growth or technological breakthroughs; the creation of internal circulation of financial resources that ensure the coherence of the payment system and the functioning of the domestic financial market, as well as in many other directions.

Conclusions and recommendations

Adaptation of the Russian economy to external shocks showed a strong dependence of domestic markets on external dominance, the liberation from which became a significant factor concerning economic growth. The first wave of such adaptation had the character of a spontaneous and even chaotic response to the disruption of economic chains and restrictions on capital flows. By now, it is turning into a deeper wave of institutional transformation of markets at the level of their leading companies and infrastructures. It is accompanied by an increase in the horizon of investment projects and the creation of a new architecture of cooperation between the state and big business. In the long term, the third wave of the processes that have begun may be the emergence of large Russian businesses to dominate

in foreign markets. The latter may happen as the global crisis deepens, but the success of such a strategy is not guaranteed and will depend on the efforts of its participants.

The Russian economy has shown that solving the problem of domination of large foreign business provides a reserve for “liberated” economic growth. A direct assessment of its volume is rather labor-intensive and requires a separate study. There are tasks of transition from “spontaneous” and even “chaotic” adaptation to external shocks to the stage of building a new architecture of interaction between the state and big business, development of new budgetary, monetary, industrial and other policies.

Strong economic growth becomes a crisis factor in the existing model of fiscal policy. It is rather conservative and is not ready for the forthcoming economic changes, which may first unfold as structural changes in tax bases, advanced development of individual industries, markets, regions, but in the long run – lead to notable challenges of restructuring not only the budget policy, but also the budget system. In particular, a significant strengthening of internal factors regarding its development will increase the role of regional budgets and require a qualitative change in intergovernmental relations.

The estimate of fiscal space expansion in case of outstripping growth of actual GDP indicators compared to planned ones can be roughly obtained as a product of the number of percentage points of such excess and the inverse of the fiscal multiplier. Thus, approximately every two and a half to three percentage points of underestimation of GDP forecasts gives an underestimation of budget expenditures growth by one percentage point. Such estimates and their substantiation have not only scientific novelty, but also high practical significance in modern conditions. The actual outpacing of revenues compared to the planned one makes it

possible to increase expenditures to solve current problems and even to “patch holes”, rather than for more ambitious goals.

The growing gap between rather rapid economic changes and conservative inertia of the budget policy requires careful attention and monitoring of possible risks. The upcoming reforms of the budget system should be thoroughly elaborated already now. At the same time, a number of adjustments should be made to the current system of budget planning and forecasting to increase its flexibility. In conditions when the federal budget should become a tool for managing transformations, it is necessary to form, along with the basic and conservative scenarios, a target scenario that best meets the tasks of achieving priority goals, as well as a crisis scenario in case of intensification of external shocks. The composition of SC indicators and the depth of elaboration of the scenarios themselves should be qualitatively changed and reflect structural and institutional changes in the forthcoming development of the economy with adjustments at all stages of the budget process.

In addition, the composition of indicators and analyzed trends in the SC scenarios should be expanded. If expenditures are planned taking into account their future economic consequences, it is possible to gain significantly greater results in achieving priority national goals than in the current model of budget policy. To a certain extent,

approaches to determining such relationships are realized through the category of “productive” budget expenditures (Sokolov, Matveev, 2023), but in practice more in-depth elaboration will be required.

Inclusion in the SC of analytical elaboration of trends that take into account the possible outstripping growth of GDP will make it possible not to miss the formation of new sectors, clusters, and growth centers as sources for technological breakthrough.

Underestimated or overestimated forecasts deprive the authorities of the opportunity to choose an appropriate and adequate strategy option to smooth the economic cycle. Unpreparedness for changes due to biased forecasts can be a trigger for making inappropriate decisions, including in terms of borrowing, adjustments to tax and expenditure policies. Improving the quality of scenario forecasting will ensure the emergence of new scenarios that meet the national goal-setting (target scenario) and reflect readiness for shocks and economic crises (crisis scenario).

Identification of the sources of suboptimal budget policy and timely adjustment are of key importance for achieving long-term development goals. The presented proposals can be used in the activities of public authorities in the development of budget policy, improvement of scenario forecasting.

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Received July 8, 2024.