



Supplementary Notebook (RTEP - Brazilian academic journal, ISSN 2316-1493)

VERTICAL IMBALANCE IN THE RUSSIAN FEDERATION BUDGET SYSTEM

Chulpan Mansurovna Shavaleyeva¹

Nadia Mikhailovna Sabitova²

Elena Nikolaevna Lizunova³

Elena Vladimirovna Bolonina⁴

1. *Economics and Finance, chulpan212@mail.ru, 0000-0002-5407-3219*
2. *Economics and Finance, sabitovanm@mail.ru, 0000-0002-2866-1703*
3. *Economics and Finance, elnik-fin@mail.ru, 0000-0002-0565-1393*
4. *Economics and Finance, alenyshka1983@mail.ru, 0000-0002-9071-3316*

Abstract: The problem of vertical imbalance in the budgetary system is typical for many states, including the Russian Federation. Excessive centralization of tax revenues at the federal level along with the decentralization of expenditures at the regional and local levels lead to distortions in the budget system of Russia. Thus, the ratio of revenues, excluding inter-budgetary transfers, of the federal and territorial budgets in Russia in 2006-2018 was approximately 65:35. The use of inter-budgetary transfers allows solving to a certain extent the imbalance problem and ensuring the equalization of federal and subfederal budget revenues to a ratio of 55 to 45. For fairness, it should be noted that most budget expenditures are also financed from the federal budget. The ratio of expenditures of the federal and territorial budgets is approximately at the level of 60 to 40, and in 2016-2018 it was 50 to 50. However, in modern conditions, maintaining the volume of inter-budgetary transfers provided from the federal budget to regional budgets at the same level becomes difficult. In this regard, the issues of ensuring a balance of regional and municipal budgets in Russia do not lose their relevance.

Keywords: budgetary system of the Russian Federation, vertical imbalance, budget equalization.

INTRODUCTION

Any modern state is characterized by the problem of an even and fair differentiation of revenues and expenditures between the budgets of different levels of the budget system. The availability of this problem is explained by the fact that it is

practically impossible to ensure absolute coincidence of the tax potential and expenditure obligations of the territories. At the same time, the availability of the vertical imbalance problem does not depend on the form of government and is characteristic of both unitary and federal states. In particular, according to Figure 1, it can be noted that most often the largest share of budget revenues is assigned to the central budget, while a significant part of expenditures is financed from regional and municipal budgets. The result of this differentiation of budget revenues and expenditures is the inability of regional and municipal authorities to fully ensure the fulfilment of their obligations. It should be noted that the problem of vertical imbalance is least typical for countries that apply a decentralized model of fiscal federalism (providing for tax autonomy of regions and municipalities), for example, the United States.

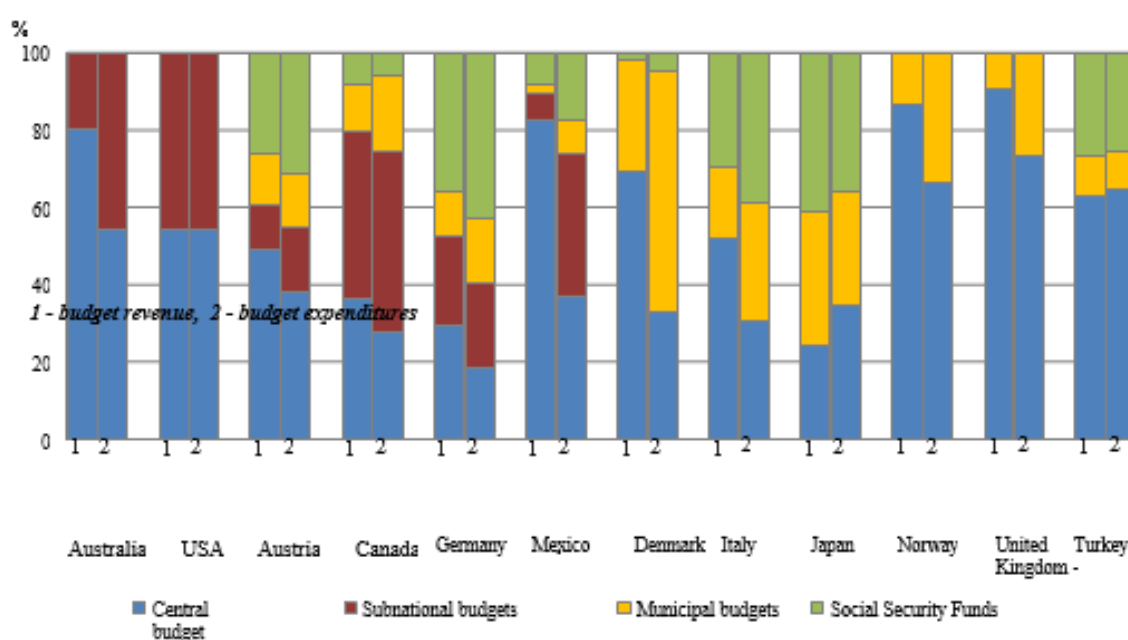


Fig. 1. Revenues and expenditures delineation according to the budget system levels in certain states of the world in 2011, %, (4)

The problem of unequal differentiation of revenues and expenditures is also characteristic of modern Russia: most of the established taxes are federal, including the most significant ones providing stable receipts (Table 1).

Table 1. The composition of federal, regional and local taxes in the Russian Federation

Federal Taxes	Regional Taxes	Local Taxes
Value Added Tax	Transport tax	Personal property tax
Personal revenues tax	Tax on gambling	Land tax
Corporate revenues tax	Corporate property tax	Sales tax
Mineral extraction tax		
Excises		
Water tax		
Fees for the use of wildlife objects and aquatic biological resources		
Government duty		

The amount of taxes enshrined to regional and municipal budgets is not enough

to fully finance their obligations. Thus, the share of regional and local taxes is less than 15 per cent in the total amount of revenues from the consolidated budget of the constituent entities of the Russian Federation. Based on this, it is obvious that the problem of vertical imbalance is also relevant for the budgetary system of modern Russia.

METHODS

The analysis of the vertical imbalance in the budgetary system of the Russian Federation was carried out on the basis of the data of the Russian Federation's Ministry of Finance and the Federal Treasury on the execution of the consolidated budget of Russia and the differentiation of budget revenues and expenditures between the budgets of different levels of the budgetary system. The paper assesses the degree of budget gap between the federal and subfederal levels in the budgetary system of the Russian Federation before and after the use of vertical alignment tools based on the use of comparative and retrospective analytical methods; it is concluded about the effectiveness of using each of the tools used.

RESULTS AND DISCUSSION

Depending on the prevailing budgetary practice and the used model of budgetary federalism, different options for vertical alignment can be used in different countries. There are two main instruments for this purpose used in the Russian Federation: 1. Assignment of deductions from federal taxes to regional and municipal budgets; 2. Provision of inter-budgetary transfers. The main option for solving the problem of insufficient revenues of regional and municipal budgets in Russia is to assign them a share of some federal taxes. In particular, a significant share of such important taxes as corporate revenues tax and personal revenues tax currently goes to regional and local budgets (Table 2).

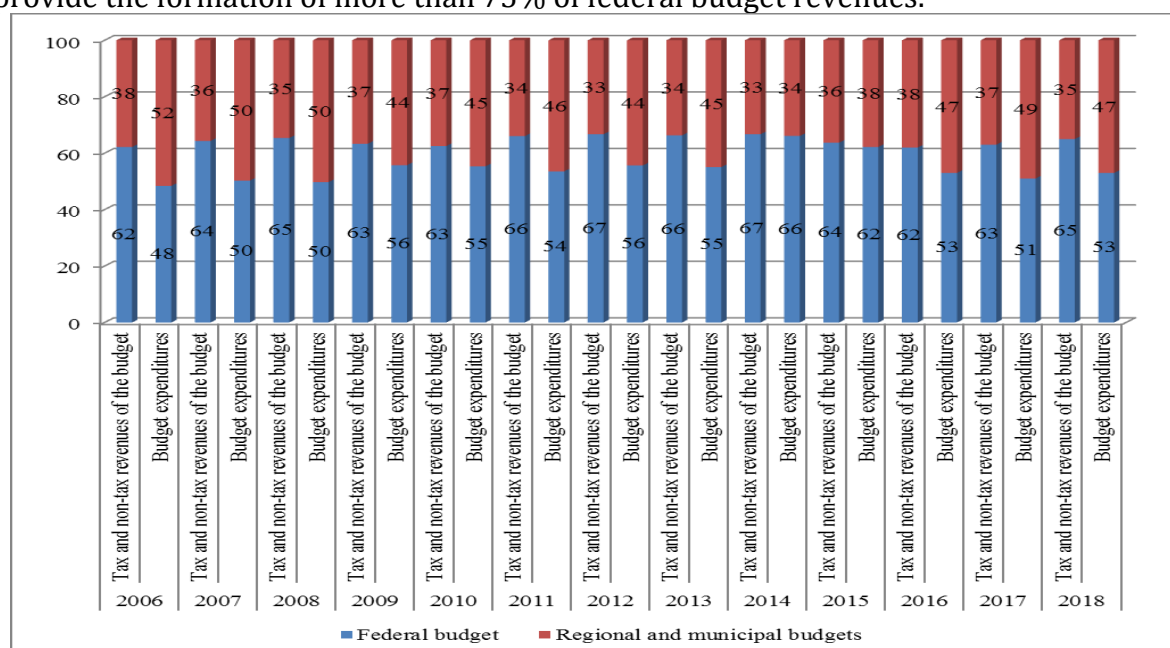
Table 2. Transfer of taxes to budgets in the Russian Federation

Tax	Transfer rate, %		
	Federal budget	Regional budget	Municipal budget
Value Added Tax	100	-	-
Personal revenues tax	-	85	15
Corporate revenues tax	15 ¹	85	-
Mineral extraction tax			
- gas, oil	100	-	-
- natural diamonds	-	100	-
- common mineral resources	-	100	-
- other	40	60	-
Excises			
- on ethyl alcohol from food raw materials;	50	50	-
- on ethyl alcohol from all types of raw materials, except for food;	100	-	-
- on tobacco products;	100	-	-
- on cars and motorcycles;	100	-	-

¹ The corporate income tax is delineated between the budgets at the tax rate. Thus, the general corporate income tax rate in Russia is 20%, of which a 3% tax is transferred to the federal budget, and at a rate of 17% - to regional budgets.

- on excisable goods and products imported into the territory of the Russian Federation;	100	-	-
- on automobile gasoline, straight-run gasoline, diesel fuel, motor oils for diesel and carburettor (injector) engines;	12	88	-
- on alcoholic beverages;	-	100	-
- on beer.	-	100	-
Water tax	100	-	-
Fees for the use of wildlife objects	-	100	-
Fees for the use of aquatic biological resources	20	80	-
Government duty	100 ²	100	100
Transport tax	-	100	-
Tax on gambling	-	100	-
Corporate property tax	-	100	-
Personal property tax	-	-	100
Land tax	-	-	100
Sales tax	-	-	100

In addition to tax revenues, the budgets of all levels of Russian budgetary system receive non-tax revenues, which include revenues from the sale and use of state property, fines, etc. However, even such a division of revenues between budgets does not allow ensuring the uniformity of their distribution between the federal and territorial budgets. Thus, the ratio of revenues between the federal and territorial budgets in Russia in 2006-2018 was approximately 65:35. To be fair, it should be noted that most budgetary expenditures are also financed from the federal budget. Thus, more than 50% of the expenditures of the consolidated budget of the Russian Federation are the expenditures of the federal budget (Figure 2). However, it should be noted that the share of federal budget expenditures in 2015-2018 decreased significantly. This ratio of federal and territorial budget revenues is a consequence of the fact that the largest revenues, such as value added tax, tax on the extraction of minerals in the form of hydrocarbons, and customs duties, go to the federal budget. These types of revenues provide the formation of more than 75% of federal budget revenues.



² Depending on the type of government duty.

Fig.2. Revenues (excluding inter-budgetary transfers) and expenditures delineation by Russian Federation budget system levels in 2006-2018, % (the calculations were made by the authors according to the data presented in (6)).

Thus, the enshrining of tax deductions from federal taxes to regional and municipal budgets does not fully eliminate the problem of vertical imbalance in the budgetary system of the Russian Federation. As a result, most regions and municipalities of Russia are unable to provide full funding for their assigned costs. In this regard, inter-budgetary transfers are used in the form of grants, subventions and subsidies provided from the federal budget to regional budgets and, accordingly, from regional budgets to municipal budgets for the purpose of vertical balancing the budgets. Upon that, inter-budgetary transfers play the great role in the formation of revenues of regional and municipal budgets. In some years (during the crisis period), they accounted for almost 40% of revenues. In 2014-2018, the share of inter-budgetary transfers in the total amount of budget revenues decreased to 18-19% (Table 3).

Table 3. The role of inter-budgetary transfers in the revenues of the Russian Federation constituent entities consolidated budget (the calculations were made by the authors according to the data presented in (6))

Indicator	Year												
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total budget revenues, Bln Rub	4708	5963	7596	7338	8061	9443	10009	10239	8906	9308	9923	10758	10901
of which inter-budgetary transfers, Bln Rub	911	1779	2682	3094	3081	3616	3625	3650	1728	1683	1635	1703	2170
Share of inter-budgetary transfers in budget revenues	19.3	29.8	35.3	42.2	38.2	38.3	36.2	35.7	19.4	18.1	16.5	15.8	19.9

However, even with the help of inter-budgetary transfers, it is not possible to ensure an even distribution of revenues between the budgets of the federal and subfederal levels. On average, the ratio of revenues between the federal and regional (local) budgets in Russia is approximately 55 to 45. At the same time, the ratio of expenditures of the federal and territorial budgets is about 60 to 40, and 50 to 50 in 2016-2018 (Figure 3).

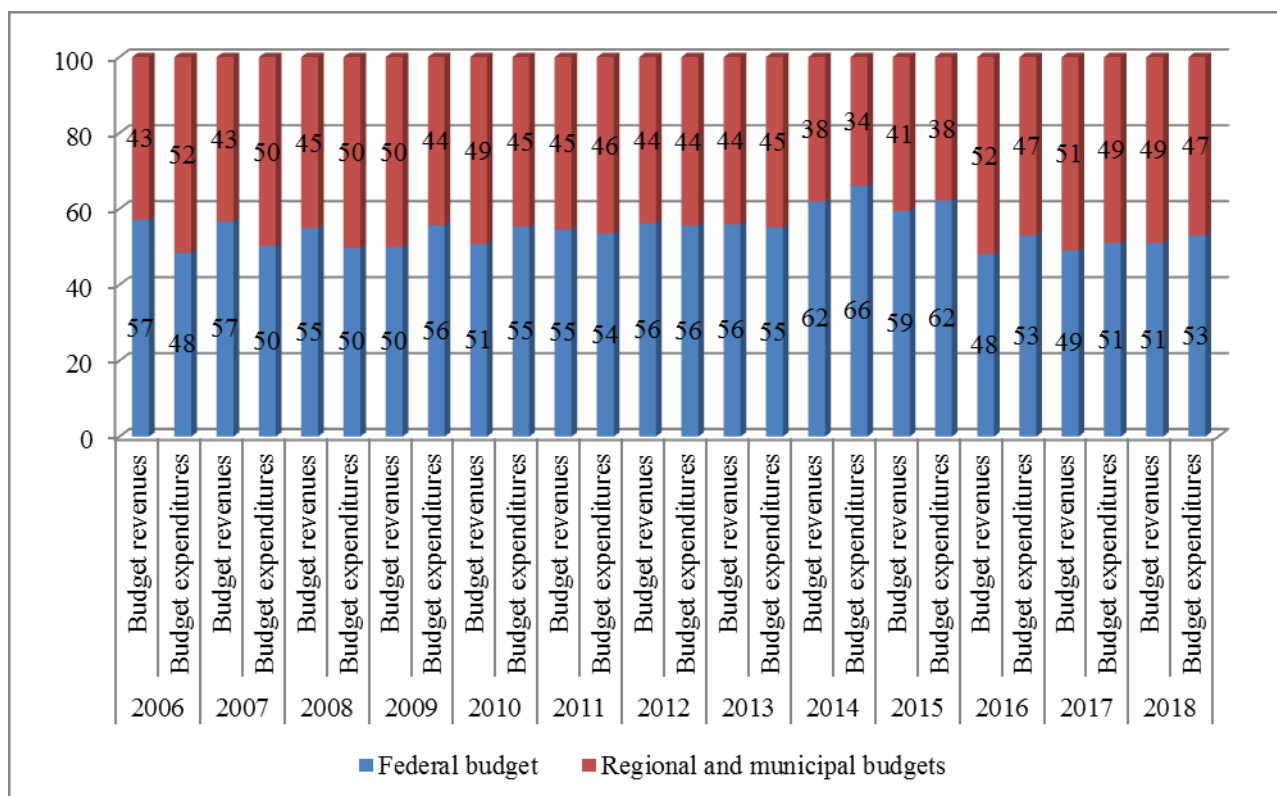


Fig. 3. Revenues and expenditure delineation by the Russian Federation budgetary system levels in 2006-2018, % (the calculations were made by the authors according to the data presented in (6)).

The data presented indicate that, on the whole, the vertical balancing mechanism operating in Russia makes it possible to ensure an even delineation of revenues and expenditures between the budgets of different levels of the budget system. However, the analysis performed is based on data on the total volume of revenues and expenditures of all regions and municipalities, which somewhat distorts reality. The fact is that the regions of Russia are significantly differentiated in their socio-economic and budgetary indicators (10). So, for example, in 2018 more than 30% of the revenues of the consolidated budget in the regions of Russia were provided by the revenues of the consolidated budgets from four constituent entities of the Russian Federation: the city of Moscow, the Moscow region, the city of St. Petersburg, and the Khanty-Mansiysk Autonomous District.

Accordingly, the remaining 70% of revenues went to the consolidated budgets of 81 regions. The indicators are averaged and the problems of individual regions related to ensuring a balanced budget remain hidden as a result of using the aggregate data of all sub-federal budgets. While in modern Russia the consolidated budgets of most regions are executed with a deficit, the revenue side of their budgets does not allow fully financing the commitments, accordingly. In other words, the current system of revenues differentiation in Russia does not fully solve in reality the problem of vertical imbalance.

SUMMARY

Based on the study of the differentiation of revenues between the budgets of different levels of the budgetary system of the Russian Federation and the mechanism

for eliminating their vertical imbalance, it seems possible to draw the following conclusions:

1. Modern Russia, like most other developed and developing countries, is characterized by the problem of vertical imbalance in the budget system. The vertical balancing mechanism used in Russia and based on the assignment of federal tax deductions to regional and municipal budgets and the provision of inter-budgetary transfers, allows solving to a certain extent the imbalance problem and ensure an equal ratio of revenues and expenditures of the federal and sub-federal budgets. Thus, the ratio of revenues between the federal and territorial budgets in Russia is about 55 to 45, expenditures - about 50 to 50. However, to be fair, it should be noted that the regions of Russia are significantly differentiated in their socio-economic and budgetary indicators and the study of national average data does not allow considering the specifics of all regions.

2. The analysis has shown that the key role in the current mechanism for dividing revenues between the budgets of the budgetary system of the Russian Federation is played by inter-budgetary transfers from higher level budgets. It has not yet been possible to ensure a uniform distribution of revenues between the budgets through a fair distribution of tax and non-tax revenues. However, in the context of a decrease in federal budget revenues due to the instability of world prices for energy resources, it becomes difficult to maintain the volume of inter-budget transfers provided from the federal budget to regional budgets at the same level.

CONCLUSIONS

Thus, regional and municipal budgets in Russia are heavily dependent on intergovernmental transfers from the federal budget. In this regard, the authorities, primarily at the regional level, must already now provide for measures aimed at solving problems related to ensuring a balanced budget. Since in conditions of financial instability, we are talking about the introduction of new taxes or an increase in the rates of existing taxes, there is no radically different delineation of tax revenues between the budgets in Russia; special attention should be paid to the efficiency of the use of budgetary resources.

ACKNOWLEDGEMENTS

The work is performed according to the Russian Government Program of Competitive Growth of Kazan Federal University.

REFERENCES

1. Arzaghi, M., & Henderson, J.V. Why countries are fiscally decentralizing. *Journal of Public Economics*, (2005). 89(7), 1157-1189.
2. Blanchard, O., & Shleifer, A. Federalism with and without political centralization: China versus Russia. *IMF Staff Papers*, (2001). 48, 171-179.
3. Desai, R.M., Freinkman, L., & Goldberg, I. Fiscal federalism in rentier regions: Evidence from Russia. *Journal of Comparative Economics*, (2005). 33(4), 814-834.

4. Government at a Glance 2013 [Electronic resource]: Distribution of general government revenues and expenditures across levels of government (2011). – Official website of The Organization for Economic Co-operation and Development, 2013. – Access mode: <http://www.oecd.org>
5. Jarocińska, E. Intergovernmental grants in Russia. *Economics of Transition*, (2010). 18(2), 405-427.
6. Official website of the Ministry of Finance of the Russian Federation - Access mode: <http://www.minfin.ru>
7. Pina-Sanchez, J. Decentralization as a multifaceted concept: A more encompassing index using bayesian statistics. *Revista Espanola de Ciencia Politica*, (2014). 1(34), 9-34.
8. Popov, V. Reform strategies and economic performance of Russia's regions. *World Development*, (2001)29(5), 865-886.
9. Reayat, N., Ahmad, I., Khalil, J., Rahim, T. Fiscal decentralisation: What does the international experience suggests. *Life Science Journal*, (2014). 11(7), 1-10.
10. Sabitova, N., Shavaleyeva, C., & Nikonova, E. Horizontal Imbalances of Russian Federation Budget System. *Asian Social Science*, (2015). 11(11), 248-252.
11. Sacchi, A., Salotti, S. How regional inequality affects fiscal decentralisation: Accounting for the autonomy of subcentral governments. *Environment and Planning C: Government and Policy*, (2014). 32(1), 144-162.