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Lifeline from the federal budget kept regions afloat

Analysis of the execution of Russian regional budgets in 2020

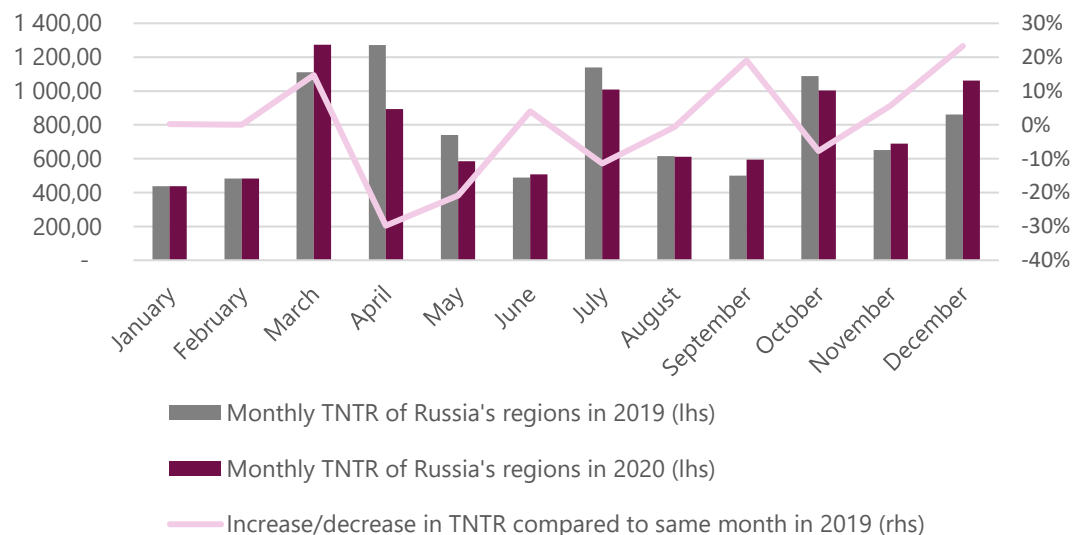
- **In 2020, the tax and non-tax revenues of Russian regions only decreased by 2% compared to the year before.** Profit tax declined the most (-13% vs. 2019), while income tax and tax on goods and services grew by 8% and 6%, respectively.
- **Extractive regions suffered the most.** The fall in oil prices and prices for other minerals in H1 2020 and lower production volumes led to a significant fall in tax revenues from mining companies.
- **A one and a half-fold increase in transfers from the federal budget allowed almost all regions to increase their revenues.** The allocation of additional transfers was due both measures to fight the coronavirus pandemic, and the implementation of national projects and compensation of lost income. Revenues grew by 11% on average. Only five regions recorded a decline in revenues.
- **Regional budget expenditures increased by 17%.** More than 80% of this growth was due to increased financing of social areas (healthcare, social policy, and education). Healthcare expenses grew the most (+71% compared to 2019). Economic development expenses increased by 9%.
- **Despite central government support, the largest total deficit since 2013 was recorded.** According to reports published by the Federal Treasury, the total regional budget deficit in 2020 amounted to RUB 708 bln vs. RUB 599 bln in 2013. However, six regions accounted for more than half of the total deficit in 2020, and the number of regions in deficit decreased compared to 2013 — 60 vs. 76, respectively.
- **Deficits were financed by increased borrowing and using accumulated funds.** The regions' net borrowings in 2020 amounted to RUB 391 bln. The Government of the Russian Federation provided extra budget loans, and also increased extended the deadlines for repayment of old budget loans. Account balances created by achieving budget surpluses in previous years were another major source for financing the deficits.
- **Despite the gradual recovery of regional economies, we do not expect a substantial decline in the total debt load.** In 2021, we expect a slowdown in the growth of budget spending, however, due to the expected decrease in the volume of transfers, many regions will also face deficits. We expect regions to continue financing their deficits and refinancing current liabilities using long-term instruments during the period of low interest rates.

The regions' fears about lower tax revenues turned out to be exaggerated

ACRA's scenario assumed
TNTR falling by 15% in 2020
compared to 2019.

According to the Treasury of Russia's official reports, the total tax and non-tax revenues (hereinafter, TNTR, internal revenues) of Russia's regions only declined by 2% (RUB -234 bln) in 2020. The largest decline in TNTR relative to 2019 took place in April (-30% month-on-month) and May (-21%). However, in June 2020, internal revenues exceeded the figure recorded in June 2019 by 4%. In the following months, when TNTR declined relative to 2019 these falls were not as significant as in April and May. Over seven months of 2020 (from June, the month when anti-pandemic measures started to be softened, until December), TNTR increased by 3% compared to the same period in 2019. In our opinion, this demonstrates that the tax base of part of Russia's regions has begun to recover.

Figure 1. After April and May 2020, the regions' TNTR declined only in July, August and October, however to a lesser extent (expenses are monthly in RUB bln)



Sources: Federal Treasury Department, ACRA

The dynamics of the main types of tax revenues of Russian regions in 2020 were diverse. The downturn in business activity caused by the introduction of measures to combat the coronavirus, as well as the fall in prices for hydrocarbons and their production volumes, led to a 13% decrease in profit tax revenues in 2020 (RUB -436 bln) compared to 2019; property tax revenues for the specified period decreased by 1% (RUB -3 bln).

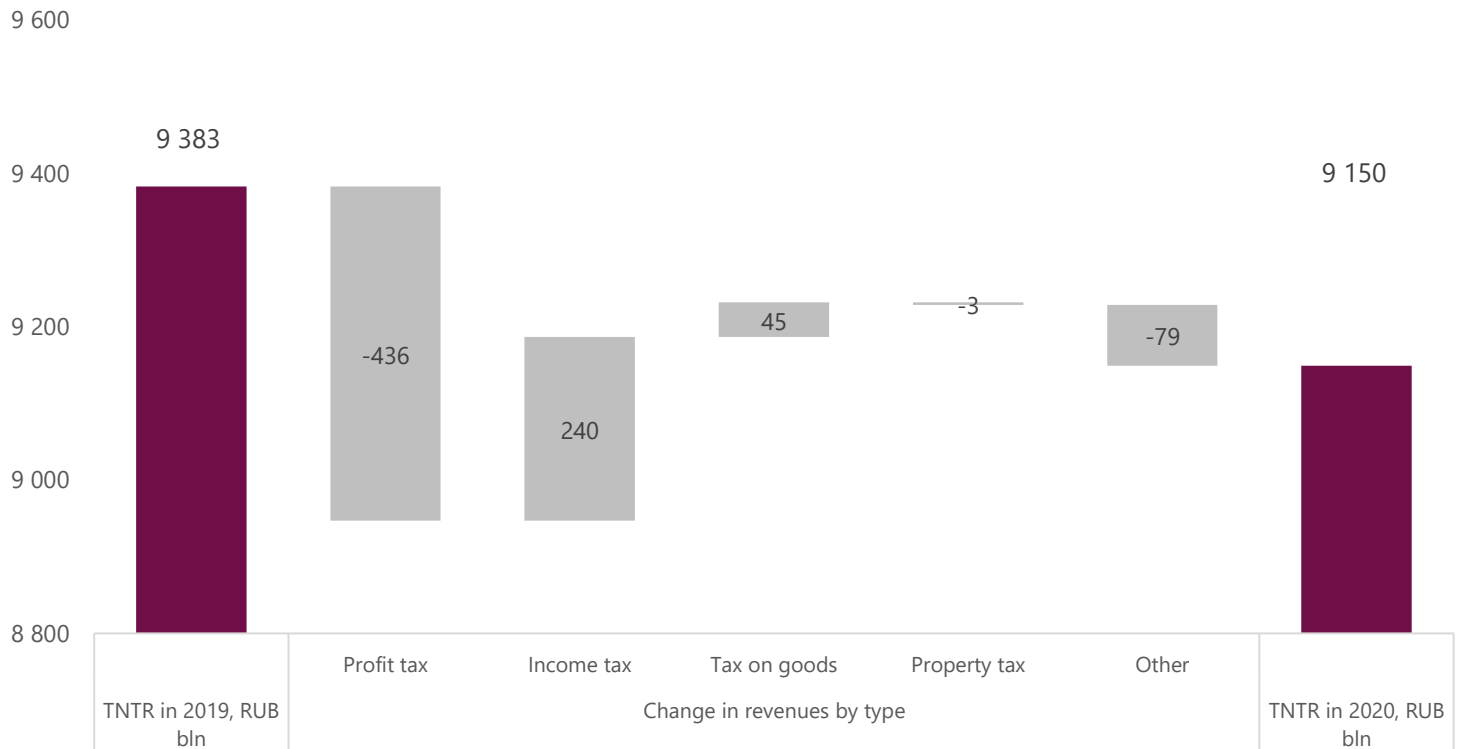
Unemployment (per the International Labour Organization's methodology) grew throughout 2020. In July–September 2020, unemployment hit 6.4% vs. 4.6% at the start of the year; in September–November, it declined slightly to 6.3%. Despite the growth in unemployment, income tax revenues grew by 8% in 2020 (+RUB 240 bln), which is the same as the rate at which they grew in 2019¹. This growth is largely due to the increase in the size of nominal wages (in January–November 2020, the growth of nominal wages ranged from 3% to 10% month-on-month compared to 2019).

¹ In 2019, income tax revenues grew by 8% (+RUB 233 bln) compared to 2018.

The 6% (+RUB 45 bln) increase in revenues from taxes on goods and services in 2020 was due to an increase in the rates for transferring excise taxes on fuel to regional budgets.

Tax revenues related to the simplified taxation system increased by 1% (RUB +2 bln).

Figure 2. Lower profit tax revenues was the main factor in lower TNTR recorded by the regions in 2020 compared to 2019



Sources: Federal Treasury Department, ACRA

Decline in tax revenues was uneven

Although the aggregate TNTR only declined by 2% in 2020, this decline was uneven and mainly impacted major (in terms of revenue) regions, which are highly dependent on oil production. In the Tyumen Region, Republic of Tatarstan, and the Yamalo-Nenets Autonomous Okrug, for example, TNTR fell by RUB 54 bln (-26% vs. 2019), RUB 43 bln (-17%), and RUB 41 bln (-18%), respectively. In 2020, a little less than half (41) of Russia's regions recorded lower TNTR.

In 44 regions, on the other hand, TNTR increased. The highest growth was recorded in Moscow (+1%, or RUB 12 bln), the Voronezh Region (+12%, or RUB 10 bln), and the Amur Region (+20%, or RUB 10 bln).

Table 1. Regions where TNTR grew or declined the most in 2020 (RUB bln)

TNTR decline leaders		TNTR growth leaders	
Region	Decline y-o-y	Region	Growth y-o-y
Tyumen Region	54.0	Moscow	22.1
Republic of Tatarstan	42.6	Moscow Region	11.9
Yamalo-Nenets AO	40.8	Voronezh Region	10.3
Perm Krai	24.5	Amur Region	9.7
Republic of Bashkortostan	23.6	Chukotka AO	8.7

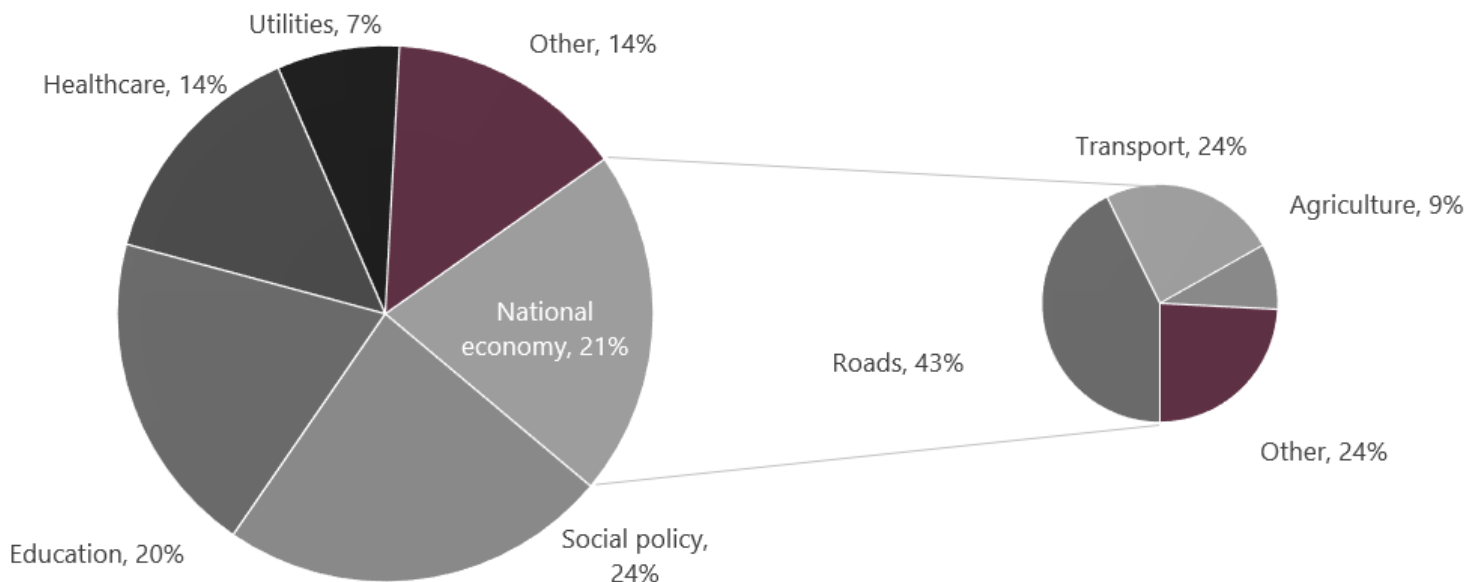
Sources: Federal Treasury Department, ACRA

The regions' expenses have grown considerably

Regional budget expenses increased by 17% (+RUB 2,011 bln) in 2020 compared to the year before and amounted to RUB 13,962 bln. In 2019, regional budget expenses grew by 15% and were mainly related to increasing economic development expenses.

In contrast to 2019, in 2020 83% of the increase in expenditures was made in socially oriented areas of the budget: Healthcare (+71%, or RUB 830 bln, which is equivalent to 41% of the total increase in expenditures for 2020), Social Policy (+24%, or RUB 636 bln, 32% of the increase), and Education (+8%, or RUB 200 bln, 10% of the increase).

Figure 3. Expenses of Russian regions in 2020



Sources: Federal Treasury Department, ACRA

The growth of expenses in the National Economy section amounted to 9% (RUB +245 bln — 12% of the total increase in expenses for 2020), including in the subsections Roads — RUB 134 bln, Transport — RUB 68 bln, and Communication and Informatics — RUB 36 bln. The growth of expenses in this section, as well as an increase in subsidies and other interbudgetary transfers in the revenues of regional budgets, in our opinion, are mainly associated with the financing of national projects.

Despite the growth in the debt load of the regions in 2020, debt servicing expenses declined by 5% (RUB -5 bln) due to a decline in interest rates.

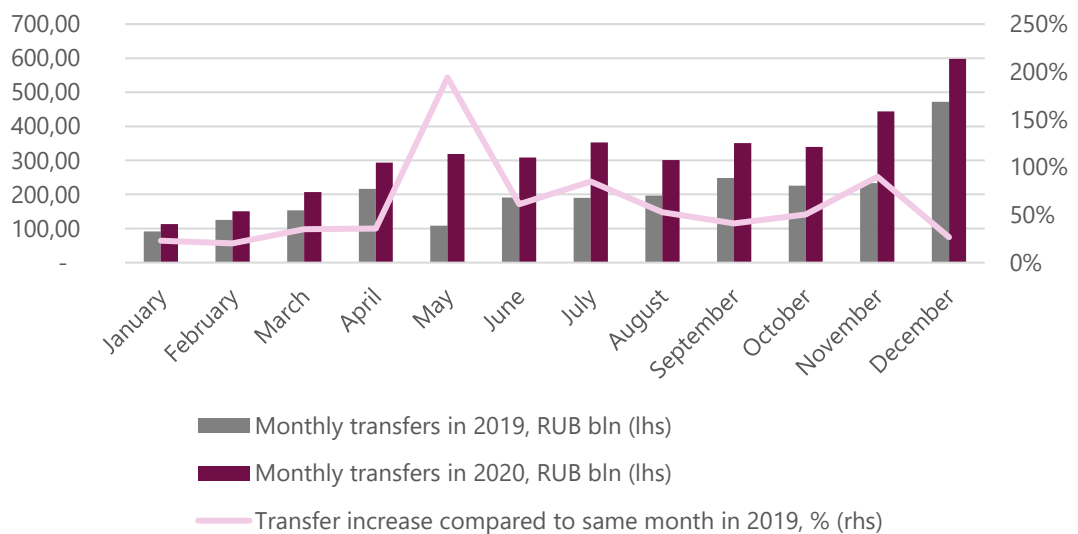
Capital expenditures² increased by 11% compared to the year before. However, capital expenditures in the National Economy section, which accounts for almost half of all capital expenditures of the regions, only grew by 5%. Capital expenditures in the Healthcare section grew by almost 1.5x, which is a direct consequence of the measures to fight against the spread of the coronavirus.

Almost all of Russia's regions increased their level of spending in 2020, except the Sakhalin Region and the Chukotka Autonomous Okrug, where expenditures declined by RUB 7 bln and RUB 6 bln, respectively. Expenditures increased the most in Moscow, the Moscow Region, Saint Petersburg, and the Krasnodar Krai — by RUB 321 bln, 80 bln, 61 bln, and 57 bln, respectively.

Deficits would have exceeded 20% of total TNTR without the growth in transfers

In 2020, transfers from the federal budget increased by 54% (+RUB 1,322 bln) to RUB 3,776 bln, which is an absolute record. Without this increase, the total deficit of Russian regions would have exceeded 20% of TNTR (over RUB 2 tln). It is important to note that the growth in transfers was caused by the need to counter the pandemic, as well as to compensate for lost revenues, and to implement national projects.

Figure 4. In 2020, transfers to regions were 1.2–3 times higher than in 2019



Sources: Federal Treasury Department, ACRA

Almost all of the regions, except the Khanty-Mansiysk Autonomous Okrug — Ugra, Sakhalin Region and Chukotka Autonomous Okrug, received increased transfers from the federal budget. In absolute terms, the largest increase in transfers was observed in the Moscow Region (+RUB 50 bln), Krasnodar Krai (+RUB 46 bln), Republic of Bashkortostan (+RUB 45 bln), Republic of Tatarstan (+RUB 45 bln), Republic of Dagestan (+RUB 43 bln), and in relative terms, in the Komi Republic (+300%), Samara Region (+244%), and the Sverdlovsk Region (+240%).

² Capital expenditures include expenditures under BCC 241, 243, 400, and 522.

In 2019, transfers from the federal budget amounted to about 20.5% of the total revenues of the regions, but in 2020, this share increased to 28.5%.

A significant increase in transfers drove the total revenues of the regions up to RUB 13,254 bln in 2020, or 11% (+RUB 1,287 bln) compared to 2019. Total revenues increased in 80 regions, and only decreased in five.

Table 2. Regions with the largest increase and decrease in the total revenues 2020 (RUB bln)

Revenue decrease leaders		Revenue increase leaders	
Region	Decrease, y-o-y	Region	Growth, y-o-y
Tyumen Region	46.9	Moscow	238.1
Yamalo-Nenets AO	32.0	Moscow Region	62.6
Sakhalin Region	21.5	Republic of Dagestan	45.9
Chukotka AO	2.6	Sverdlovsk Region	35.7
Nenets AO	0.9	Novosibirsk Region	35.1

Sources: Federal Treasury Department, ACRA

The total regional budget deficit reached a record high in 2020, despite the support from the federal budget

The total of unconsolidated regional budgets executed in 2020 turned negative (-RUB 708.4 bln) against a surplus of RUB 15.5 bln a year earlier. Moreover, the 2020 deficit exceeded the anti-record of 2013.³ The number of regions that executed a budget with a deficit increased from 32 in 2019 to 60 in 2020 (33 of them recorded a surplus in 2019), which, nevertheless, is less than the number of regions that executed the budget with a deficit in 2013 (76). Five regions, whose budgets were in deficit in 2019, recorded a surplus in 2020 (*Table 3*).

The maximum deficit of a single region (Moscow) amounted to RUB 137 bln (one-fifth of the total deficit of the regions of the Russian Federation). Together with the Moscow Region (with a deficit of RUB 85 bln), the Kemerovo Region — Kuzbass (RUB 41 bln), Tyumen Region (RUB 41 bln), St. Petersburg (RUB 40 bln), and the Republic of Bashkortostan (RUB 40 bln), Moscow formed 54% of the total deficit of the Russian regions in 2020.

The largest surplus in 2020 was observed in the Voronezh Region (RUB 6 bln) and the Altai Krai (RUB 5 bln).

³ In 2013, the total deficit of Russian regions was RUB 599 bln.

Table 3. In 2020, 33 regional budgets became deficit and only five became surplus against 2019 (RUB mln)

Regions that became deficit			Regions that became surplus		
Region	Surplus '19	Deficit '20	Region	Deficit '19	Surplus '20
Tyumen Region	20 609	-40 889	Altai Krai	-241	5 334
Yamalo-Nenets Autonomous Okrug	30 418	-37 654	Sevastopol	-2 311	2 780
Republic of Tatarstan	13 708	-23 583	Republic of Crimea	-275	1 280
Perm Krai	8 747	-20 096	Republic of Sakha (Yakutia)	-1 864	1 139
Primorsky Krai	1 653	-15 727	Belgorod Region	-1 846	39
Arkhangelsk Region	2 832	-14 779			
Sakhalin Region	529	-14 367			
Nizhny Novgorod Region	518	-12 554			
Komi Republic	4 260	-12 154			
Leningrad Region	803	-11 853			
Khanty-Mansi Autonomous Okrug - Ugra	10 969	-11 175			
Republic of Karelia	1 004	-7 019			
Kaluga Region	1 179	-5 307			
Republic of Khakassia	1 265	-5 159			
Krasnodar Krai	28 534	-4 579			
Volgograd Region	2 433	-4 384			
Zabaykalsky Krai	2 074	-3 657			
Novgorod Region	79	-3 026			
Orenburg Region	208	-2 557			
Astrakhan Region	4 626	-2 514			
Tula Region	227	-1 829			
Omsk Region	994	-1 790			
Nenets Autonomous Okrug	166	-1 468			
Vologda Region	8 886	-1 393			
Kaliningrad Region	491	-1 005			
Ryazan Region	693	-954			
Smolensk Region	629	-795			
Kursk Region	382	-619			
Altai Republic	19	-609			
Stavropol Krai	3	-568			
Kurgan Region	533	-513			
Republic of Ingushetia	660	-504			
Mari El Republic	1 794	-19			

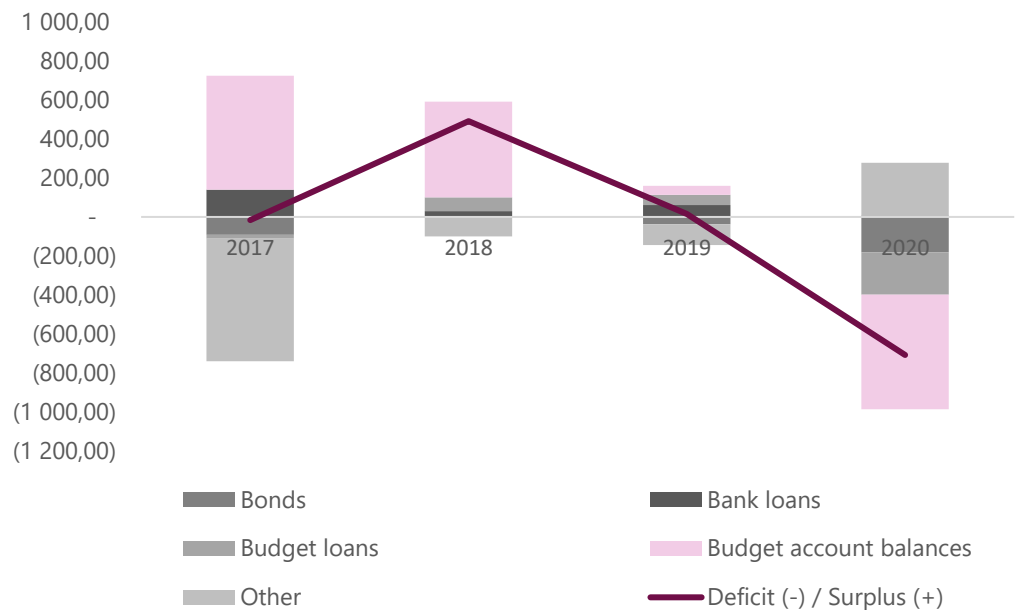
Sources: Federal Treasury Department, ACRA

See ACRA's analytical commentary [Debt for the long term: what should be done about the outstanding growth of regions' debt load?](#) published on February 2, 2021.

Regions borrowed more to cover their deficits

Russian regions covered part of their deficits with new borrowings amounting to RUB 391 bln. Significant support measures included extension of budget loans and refinancing loans from the Federal Treasury Department, which resulted in an increase of debt to the federal government by RUB 217 bln. Less expensive budget loans⁴ made it possible to reduce by RUB 8 bln the principal debt on more expensive loans granted by commercial banks. Bond issues allowed the regions to raise RUB 181 bln more in 2020.

Figure 5. In 2020, budget account balanced declined for the first time in four years (RUB bln)



Sources: Federal Treasury Department, ACRA

In 2020, account balances decreased by RUB 589 bln, mostly in Moscow (RUB 438 bln) where, according to our estimates, this amount was largely used to repay loans granted by institutions established by Moscow (about RUB 304 bln).

About RUB 9 bln of regional budget deficits was covered by the sale of shares and other equity instruments that were held by regions.

Budget execution prospects for the regions in 2021

The step-by-step vaccination and the curtailment of COVID-19 restrictive measures will support business activity in Russian regions, which will have a positive effect on their internal revenues. Price stabilization and the gradual restoration of the balance of supply and demand in the oil market will provide additional support to oil-producing regions. We expect the volume of transfers from the federal budget to decrease in 2021, but continue to exceed the level of 2019 due to the need to finance national projects. In addition, ACRA's base case scenario assumes that when determining expenditures, the regions will proceed from the need to make a balanced budget.

⁴ Federal budget loans are granted to Russian regions at 0.1% p.a.

Nevertheless, we do not expect a large-scale decrease in the total debt burden on the budgets of the regions in 2021, given that many of them have planned significant deficits. We believe that this is conservative budget planning, although many regions will still face insufficient revenues to finance expenditures and will build up their debt.

If interest rates remain low, it would be prudent for regional governments to continue to cover deficits with long-term bonds, similar to last year. In addition, bonds may be useful in refinancing budget loans issued at the end of 2020 and due in the middle of the current year. In 2021, Russian regions will have to repay more than 20% of budget loans, most of which are short-term; otherwise, no more loans will be available from the Federal Treasury Department.⁵

⁵ Currently, draft amendments to Russian Government Resolution dated Aug. 20, 2013 No. 721 are under consideration. They include granting new budget loans to regional governments after budget loans granted in 2020 are repaid.

Appendix 1. Budget execution in 2020 (ranked by deficit/surplus)

Rank	Region	Deficit (-) / surplus (+), RUB mln	Internal revenue growth	Growth of transfers	Growth of expenditures
1	Voronezh Region	6,341.15	112%	146%	119%
2	Altai Krai	5,333.81	104%	148%	120%
3	Chukotka Autonomous Okrug	4,034.59	163%	56%	88%
4	Sevastopol	2,780.48	98%	195%	139%
5	Amur Region	2,608.28	120%	155%	136%
6	Tver Region	2,565.95	110%	144%	123%
7	Ivanovo Region	2,220.15	105%	164%	136%
8	Kabardino-Balkarian Republic	2,121.67	100%	159%	144%
9	Republic of Mordovia	1,800.08	104%	157%	125%
10	Vladimir Region	1,748.15	102%	148%	112%
11	Samara Region	1,490.71	97%	244%	123%
12	Murmansk Region	1,395.21	103%	127%	110%
13	Republic of Crimea	1,280.04	98%	126%	118%
14	Kostroma Region	1,263.38	105%	126%	119%
15	Republic of Sakha (Yakutia)	1,138.88	98%	143%	112%
16	Republic of Dagestan	887.12	108%	148%	140%
17	Bryansk Region	811.33	102%	130%	118%
18	Chuvash Republic	722.85	102%	146%	126%
19	Magadan Region	592.49	128%	136%	123%
20	Jewish Autonomous Region	591.43	102%	184%	142%
21	Krasnoyarsk Krai	389.11	92%	166%	116%
22	Republic of North Ossetia — Alania	335.92	105%	144%	132%
23	Kirov Region	261.87	99%	142%	121%
24	Belgorod Region	39.00	98%	144%	107%
25	Karachay-Cherkess Republic	23.77	103%	117%	117%
26	Mari El Republic	-19.01	100%	165%	139%
27	Penza Region	-141.99	104%	149%	121%
28	Tyva Republic	-178.32	96%	156%	146%
29	Tambov Region	-326.68	107%	132%	115%
30	Republic of Ingushetia	-503.88	124%	131%	141%
31	Kurgan Region	-513.32	109%	114%	114%
32	Stavropol Krai	-568.09	96%	153%	120%
33	Lipetsk Region	-606.22	102%	153%	109%
34	Altai Republic	-608.86	131%	117%	124%
35	Kursk Region	-619.31	97%	131%	109%
36	Republic of Adygea	-700.20	98%	155%	130%
37	Smolensk Region	-794.73	109%	154%	125%

38	Ryazan Region	-954.34	104%	128%	114%
39	Kaliningrad Region	-1,004.67	110%	105%	108%
40	Chechen Republic	-1,103.32	107%	135%	132%
41	Vologda Region	-1,393.02	92%	167%	123%
42	Nenets Autonomous Okrug	-1,467.73	72%	224%	103%
43	Oryol Region	-1,703.43	103%	141%	124%
44	Omsk Region	-1,789.80	105%	152%	123%
45	Tula Region	-1,828.98	100%	173%	117%
46	Yaroslavl Region	-1,896.91	103%	206%	121%
47	Republic of Kalmykia	-1,965.33	113%	135%	139%
48	Republic of Buryatia	-2,095.79	100%	132%	123%
49	Kamchatka Krai	-2,137.33	99%	125%	114%
50	Astrakhan Region	-2,513.67	83%	202%	128%
51	Orenburg Region	-2,556.60	88%	181%	115%
52	Novgorod Region	-3,026.22	99%	154%	126%
53	Pskov Region	-3,134.80	112%	131%	128%
54	Zabaykalsky Krai	-3,657.32	104%	112%	116%
55	Saratov Region	-4,050.85	99%	170%	127%
56	Khabarovsk Krai	-4,329.67	99%	157%	116%
57	Volgograd Region	-4,383.65	105%	146%	125%
58	Novosibirsk Region	-4,437.36	101%	202%	120%
59	Krasnodar Krai	-4,579.31	90%	196%	121%
60	Republic of Khakassia	-5,158.73	85%	185%	140%
61	Kaluga Region	-5,307.26	97%	185%	123%
62	Rostov Region	-5,672.47	100%	174%	118%
63	Republic of Karelia	-7,018.81	98%	138%	135%
64	Ulyanovsk Region	-9,084.06	101%	176%	129%
65	Tomsk Region	-10,019.34	92%	175%	122%
66	Khanty-Mansi Autonomous Okrug — Ugra	-11,174.79	102%	97%	110%
67	Leningrad Region	-11,852.90	105%	160%	121%
68	Komi Republic	-12,154.18	82%	300%	124%
69	Nizhny Novgorod Region	-12,554.31	98%	205%	125%
70	Sakhalin Region	-14,366.93	91%	57%	96%
71	Arkhangelsk Region	-14,779.50	87%	162%	126%
72	Udmurt Republic	-14,862.66	86%	154%	121%
73	Primorsky Krai	-15,726.63	94%	144%	121%
74	Irkutsk Region	-16,087.54	97%	132%	108%
75	Perm Krai	-20,095.57	80%	213%	121%
76	Republic of Tatarstan	-23,583.39	83%	221%	115%
77	Sverdlovsk Region	-29,331.75	98%	240%	119%
78	Chelyabinsk Region	-29,519.97	94%	183%	129%
79	Yamalo-Nenets Autonomous Okrug	-37,654.24	82%	203%	118%
80	Republic of Bashkortostan	-39,453.99	84%	189%	121%

81	Saint Petersburg	-39,626.03	101%	184%	109%
82	Tyumen Region	-40,888.87	74%	160%	107%
83	Kemerovo Region — Kuzbass	-41,140.20	81%	202%	130%
84	Moscow Region	-85,059.93	102%	172%	113%
85	Moscow	-137,446.31	101%	207%	112%

Sources: Federal Treasury Department, ACRA

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