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## **WAYS TO OPTIMIZE THE EXPENDITURE PART OF REGIONAL BUDGETS IN THE RUSSIAN ECONOMY**

*Summary: this article is about comparing government debts of the constituent entities of the Russian Federation. The absence of an agreed state policy on attracting and using external financial resources leads to the formation of external debt. This is becoming a serious obstacle to economic transformation. Russia is one of the largest champions in defense spending. Pension expenses are constantly growing. As a result, without pension reform, this trend is unlikely to change in the coming years. In addition, the article considers the rating of Russian regions by the level of debt burden by years. When compiling the rating, the data of the Federal Treasury and the Ministry of Finance for debt obligations were used. The ratio of the state debt of a constituent entity of the Russian Federation to tax and non-tax revenues of the regional budget is used as an indicator of the debt burden in the rating. In addition, the article describes ways to optimize the costs of entities.*

*Keywords: budget expenditures, regions, economic development, regional budget.*

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## ПУТИ ОПТИМИЗАЦИИ РАСХОДОВ РЕГИОНАЛЬНЫХ БЮДЖЕТОВ В ЭКОНОМИКЕ РОССИИ

*Аннотация:* данная статья о сравнении государственных долгов субъектов Российской Федерации. Отсутствие согласованной государственной политики по привлечению и использованию внешних финансовых ресурсов приводит к формированию внешнего долга. Это становится серьезным препятствием для проведения экономических преобразований. Россия является одним из крупнейших чемпионов по расходам на оборону. Пенсионные расходы постоянно растут. Вследствие этого, без пенсионной реформы эта тенденция вряд ли изменится в ближайшие годы. Помимо этого, в статье рассматривается рейтинг российских регионов по уровню долговой нагрузки по годам. При составлении рейтинга использовались данные Федерального казначейства и Министерства финансов по долговым обязательствам. В качестве показателя долговой нагрузки в рейтинге используется отношение государственного долга субъекта Российской Федерации к налоговым и неналоговым доходам регионального бюджета. Кроме того, в статье описаны пути оптимизации расходов субъектов.

**Ключевые слова:** бюджетные расходы, регионы, экономическое развитие, региональный бюджет.

Most countries of the world resort to external sources of financing. Rational use of external loans and aid contributes to the acceleration of economic development and the solution of socio-economic problems. However, the lack of a coherent state policy to attract and use external financial resources leads to the formation of external debt, which becomes a serious obstacle to economic transformation.

The need for government intervention is due to the fact that the law of value, forcing economic entities to achieve maximum profit by reducing capital expenditures and improving the quality of products, is not able to solve macroeconomic problems. On the contrary, the mechanism of resource allocation based on a spontaneous intra-and inter-sectoral flow of capital leads to a violation of the macroeconomic equilibrium, to a discrepancy between aggregate demand and aggregate supply.

The government of the Russian Federation distributes the centralized Fund of financial resources strictly for its intended purpose [10]:

Budget expenditures:

- by territorial division;
- by industry;
- by target number.

Expenditures of regional budgets have certain characteristics, and differ among themselves as follows [2]:

1. On quality indicators (for these costs, you can get an idea of their economic component).

2. based on quantitative indicators (these expenditures allow you to determine the level of budget financing and the amount of costs).

To determine the level of regional debt burden, experts of the RIA Rating Agency have compiled a rating of Russian regions by the level of debt load, which reflects the pattern of regional debt distribution and their dynamics in 2019.

The level of debt burden in 2019 has increased. As of January 1, 2020, the debt burden in Russia as a whole was 36.5% against 35.4% a year earlier. At the same time, the spread of the indicator by region is very wide: from 0% in the city of Sevastopol and the Sakhalin region to 182.5% in the Republic of Mordovia, which for a long time has been at the top of the list of regions with the highest debt load.

If last year the Republic of Mordovia managed to reduce the state debt from 172% to 121.1% of tax and non-tax income, then in 2019 the debt burden increased

even more significantly – by 61.5 p. p. The growth of the debt burden was accompanied by both a decrease in the volume of own budget revenues (-16.3%) and an increase in the state debt (+26.2%).

The number of regions where the public debt exceeds tax and non-tax revenues of the regional budget increases from year to year: 2014 year there were only two, 2015 year seven, at the end of 2018 years - ten in the 2019 year 14. From 57 subjects of the Russian Federation state debt exceeds 50% of its total (tax and non-tax revenue), regional budget, of these, 44 subjects of the Russian Federation's public debt exceeds 70% of its income, of which 14 subjects of the Russian Federation state debt exceeds 100% of its total revenues. For comparison, in 2018, there were 26 regions where the public debt exceeded 70% of their own income. Thus, the number of regions experiencing debt problems is significantly increasing.

In addition to the aforementioned Republic of Mordovia, among the regions with the highest debt burden is the Kostroma region, where the ratio of public debt to tax and non-tax revenues of the budget was 136.7%, which is 15.6 p. p. higher than a year earlier. In addition, the debt burden in the Smolensk region is 121.4%, in the Republic of Karelia-119.6%, in the Republic of North Ossetia-Alania-119.1%, in the Republic of Khakassia-116.8%, in the Republic of Ingushetia-113.3%, in the Astrakhan region-111.4%. At the same time, in all these regions, except the Republic of Karelia and the Republic of Ingushetia, this indicator increased by 4-15 percentage points. In addition to those mentioned, seven other regions of the Russian Federation have a debt burden that exceeds 100%. The most difficult situation is in those regions where the volume of commercial loans is more than 50% of the total debt. These include: the Republic of Mari El (63.9%), the TRANS-Baikal territory (59.4%), the Astrakhan region (57.3%), the Pskov region (56.9%), the Jewish Autonomous region (55.9%) and the Saratov region (52.1%). In comparison with 2020, the share of commercial loans in the five regions listed above has decreased or hardly changed, with the exception of the Republic of Mari El, where this share has increased from 33% to 63.9%.

## Top 10 regions by public debt growth rates

| itemnumber | Subject of the Russian Federation | Debt growth for Q1 2020 as compared to 2019 |
|------------|-----------------------------------|---|
| 1          | Nenets Autonomous Okrug           | +90.00%                                     |
| 2          | Karachay-Cherkess Republic        | +40.61%                                     |
| 3          | Republic Of North Ossetia-Alania  | +23.85%                                     |
| 4          | Primorsky Krai                    | +19.37%                                     |
| 5          | Tambov region                     | +16.23%                                     |
| 6          | Republic of Khakassia             | +13.68%                                     |
| 7          | Kaluga region                     | +13.29%                                     |
| 8          | The Republic Of Komi              | +12,66%                                     |
| 9          | The Penza region                  | +12.21%                                     |
| 10         | Republic Of Tyva                  | +11.95%                                     |

Only a few regions have an insignificant debt burden.

A low level of debt burden was recorded in nine regions of the Russian Federation. According to the results of 2019, there were only six such regions, but last year the calculation did not take into account the regions of the Crimean Federal district.

In 2019, the level of debt burden decreased in 28 regions of the Russian Federation. The most significant decrease was observed in the Chukotka Autonomous Okrug, where due to an increase in tax and non-tax revenues by 53.5%, the debt burden of the regional budget decreased from 144.4% to 100.9%. In the Karachay-Cherkess Republic, the ratio of public debt to personal income was 91.9%, which is 11.8 percentage points lower than a year earlier. In the remaining 27 regions, the debt burden was reduced by less than 10%.

The ratio of government debt to tax and non-tax income increased by 10 percentage points or more in 19 regions. The debt burden increased most significantly in the Republic of Mordovia, the Jewish Autonomous region, the Republic of Khakassia, the Kurgan region and the Republic of Kalmykia, where the ratio of public debt to personal income increased by more than 30 percentage points.

Krasnodar territory has become a new leader in the absolute volume of public debt. According to the results of 2019, its volume increased by 6.5% and amounted to 145.3 billion rubles. Last year's leader is Moscow-maintained the trend and continued to reduce the volume of state debt (-13.2% to 140.5 billion rubles).

The most significant increase in public debt was recorded in the Tyumen region – by 3.5 times to 1.1 billion rubles, but in relation to its own income, this is less than 1%. state debt of the Magadan region has increased for the second year in a row. In 2018, its volume increased 2.5 times, and in 2019 by another 89%, while the debt burden on the budget exceeds 77%. In the Republic of Khakassia, the volume of state debt increased by 53%, and own income by only 12.7%, resulting in a debt burden on the budget exceeding 116%.

In 2020, the debt burden of the regions will continue to grow. We should probably expect a further increase in borrowings against the background of weak growth in own budget revenues in the face of continuing adverse macroeconomic factors and a possible reduction in the tax base of budget formation.

Table 2

Basic parameters of the basic version of the forecast of socio-economic development of the Russian Federation for 2019-2023 years

| The indicator of socio-economic development of the country                    | 2019    | 2020    | 2021    | 2022    | 2023    |
|---|---------|---------|---------|---------|---------|
| GDP, billion rubles   | 80804.0 | 82815.0 | 86806.0 | 92296.0 | 98860.0 |
| GDP growth rate, % before tax year  | -3.7    | -0.6    | 0.6     | 1.7     | 2.1     |
| Average price of Uralscrude oil, USD/bbl.                                     | 51,2    | 41,0    | 40.0    | 40.0    | 40.0    |
| average Annual exchange rate of the ruble to the us dollar, RUB per us dollar | 60,7    | 67,5    | 67,5    | 68,7    | 71,1    |
| Consumer price index in annual terms, %                                       | 12.9    | 5.8     | 4.0     | 4.0     | 4.0     |

Source: 2019 year - the actual values. 2020 –2023 years - explanatory note to the draft federal law

"On the federal budget for the year 2019 and for the planning period 2020 - 2023 years."

As for domestic factors, the Russian economy is expected to resume its growth after a two-year slump: GDP growth rates will reach 0.6, 1.7 and 2.1%, respectively. With moderate nominal growth in domestic demand and relatively stable exchange rate dynamics, a slowdown in inflation to 4% per year should favorably affect economic development. The exchange rate of the national currency will fluctuate in the range of 67.5-71.1 rubles per dollar.

The main characteristics of the Federal budget are formed in accordance with the basic version of the forecast of socio-economic development (see table 1). 3).

In 2019-2021, Federal budget revenues are projected to decline from 16.1% of GDP to 15.0% of GDP, which will be caused primarily by the dynamics of oil and gas revenues, which are declining from 5.8% of GDP to 5.4% of GDP. The volume of non-oil and gas revenues will be stable and, according to budget projections, will not fall below 9.6% of GDP.

Table 3

Main characteristics of the Federal budget

| Budget indicator                   | Billion rubles        |                    |                   |                   |                   | % GDP          |                    |                   |                   |                   |
|------------------------------------|-----------------------|--------------------|-------------------|-------------------|-------------------|----------------|--------------------|-------------------|-------------------|-------------------|
|                                    | 2019<br>(actual)      | 2020<br>(estimate) | 2019<br>(project) | 2020<br>(project) | 2021<br>(project) | 2019<br>(fact) | 2020<br>(estimate) | 2019<br>(project) | 2020<br>(project) | 2021<br>(project) |
| <b>Revenue</b>                     | 13659                 | 13369              | 13437             | 13989             | 14825             | 16,9           | 16,1               | 15,5              | 15,2              | 15,0              |
| Including                          |                       |                    |                   |                   |                   |                |                    |                   |                   |                   |
| oil-<br>and gas                    | gas<br>assets<br>5863 | 4778               | 5029              | 5133              | 5370              | 7,3            | 5,8                | 5,8               | 5,5               | 5,4               |
| non-<br>oil and gas<br>companies   | 7797                  | 8591               | 8408              | 8856              | 9455              | 9,6            | 10,4               | 9,6               | 9,6               | 9,6               |
| <b>Expenses</b>                    | 15620                 | 16403              | 16181             | 15978             | 15964             | 19,3           | 19,8               | 18,6              | 17,3              | 16,1              |
| <b>Deficit (-/<br/>surplus (+)</b> | -1961                 | -3034              | -2744             | -1989             | -1139             | -2,4           | -3,7               | -3,02             | -2,2              | -1,2              |
| Non-<br>oil and gas<br>deficit     | -7823                 | -7812              | -7773             | -7122             | -6509             | -9,7           | -9,4               | -9,0              | -7,7              | -6,5              |

Source: 2019- actual values. 2019-2021-explanatory note to the draft Federal law a "on the Federal budget for 2019 and for the planning period of 2020 and 2021".

A noticeable increase in non-oil and gas revenues in 2020 (to the level of 10.4% of GDP) is a consequence of the expected receipt of additional revenues from the partial privatization of Rosneft.

The volume of receipts for all items of non-oil and gas revenues (except import duties, which are supposed to be reduced at the level of 0.1 p.p. GDP), in 2019-2021 are projected at or above their 2018 estimates (approximately 0.1 percentage points . GDP). The most noticeable increase in receipts is expected for VAT (on goods sold on the territory of the Russian Federation): +0.4 p.p. GDP by 2021.

Federal budget expenditures for 2019-2021 years are formed within the budget rules. In the medium term, it is planned to resume the implementation of the mechanism of budget rules in order to reduce the sensitivity of the budget system to the volatility of world oil prices. According to preliminary projections, the new version of the budget rules will be fully effective from 2021, with 2019-2020 declared as a transition period due to the need to avoid too rapid compression of expenditures to the level envisaged in the concept of the new budget rules.

In accordance with the proposals of the Russian Ministry of Finance, the maximum amount of Federal budget expenditures is planned to be defined as the sum of three components starting from 2020:

1) the base volume of oil and gas revenues, calculated at the base oil price at a constant level of \$ 40 dollar / barrel Urals and the basic exchange rate of the ruble;

2) volume of non-oil revenues, calculated in accordance with the baseline medium-term forecast of economic development of Russia;

3) debt servicing expenses. In the case when the estimated amount of the contingency Fund on 1 January of the first year of the plan period falls below the level of 5% of GDP, limiting the amount of use of the Reserve Fund for the next budget year may not exceed 1% of GDP and, on this basis, the adjusted maximum amount of the cost.

Such a structure of rules is aimed at reducing the impact of oil price fluctuations on domestic prices and exchange rates, and fiscal policy is also linked to the goals of monetary regulation. It is obvious that in conditions where the first and third components of the formula will behave a cyclically, the second – pro cyclically, and the deficit is not provided for, the introduction of an active financial policy is in principle impossible. Along with the theses of large-scale privatization and stabilization of the tax burden, this indicates that the government has begun to reduce the share of direct participation in the economy.

Also, the budget rule from 2020 is supposed to limit the base level of borrowing to the volume of debt servicing expenses (0.8-1.0% of GDP per year).



This is true in principle, since it is not so much the size of the debt itself that is critical, but the amount of expenses incurred to service it. However, it is necessary to consider the following: in 2020 the city the cost of servicing the debt, the hypothesis that the deficit will shrink, fit to the upper limit (0.93% GDP); annual target of attracting domestic borrowing over \$ 1 trillion; challenges persist with growing debt of the regions and the imbalance in the Pension Fund of the Russian Federation. All of the above together indicates that this limitation is not very realistic.

The task of moving to new budget rules from 2020 determines the need for budget consolidation. The upcoming fiscal consolidation implies a greater compression of the volume of government spending obligations while simultaneously increasing their efficiency.

Thus, in the period under review, Federal budget expenditures have been reduced in nominal terms by almost 0.5 trillion rubles.

In addition, it is important to take into account not only the total amount, but also the structure of the Federal budget, which has deteriorated in recent years. As a result, spending increased in only three areas, all of which are not related to productivity – national defense, social policy, and debt servicing. Among countries that are not at war, Russia is one of the biggest Champions of defense spending. Pension costs are constantly increasing, and without pension reform, this trend is unlikely to change in the coming years.

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