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**PERFORMANCE EVALUATION OF REGIONAL BUDGETARY  
POLICY IN THE RUSSIAN FEDERATION**

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*Abstract*

In the modern world, due to ever-increasing competition for resources, including financial ones, regions vigorously develop the economic policy, aimed at improving its cost effectiveness. The period of financial uncertainty, caused by the world financial crisis and its impact, has revealed the fragility of the existing economic model in mid- and long-term perspectives and considerable dependency of national economy on external interferences. This has dictated the necessity to search for internal sources of growth and an ever-growing role of budgetary policy as a key instrument, capable to provide the socioeconomic development of the Russian Federation constituents. The article evaluates the efficiency of budgetary policy of the Russian Federation regions, highlights the crucial factors, defining the possibilities to increase the regional revenue base. The purpose of this work is testing the author's method of performance evaluation of regional budgetary policy, based on the statistics of ten regions in Russia. They are Moscow city, Moscow region, Saint-Petersburg, Republic of Tatarstan, Belgorod region, Republic of Buryatia, etc. The choice of these particular regions seems justified for a number of reasons: the above mentioned regions have been often brought in the spotlight by rating agencies in their reports; they are located in different federal districts which enables to assess the situation in the country, depending on the development level and geographical location of the regions. We expect in future to find research possibilities so that we can develop management recommendations for government bodies to tackle grey areas in budgetary policy-making.

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**Keywords:** Budgetary policy, level of budget autonomy, level of tax revenue, dynamics of budget revenue.



## **1. Introduction**

One of the strategic benchmarks of state financial policy is budgetary policy, enabling to define long-term development programmes for the finance and economy system of the country. As a result, in the current context of economic uncertainty, the issues of forming effective budgetary policy at the regional level have become extremely important as solving these problems allows providing financial sustainability and balanced regional economy, creating conditions for long-term sustainable growth of constituent entities in the Russian Federation, and improving their investment prospects, as well as enhancing the efficiency and competitiveness of the country as a whole.

## **2. Problem Statement**

Taking into account the recent practice, we have established the insufficient use of internal reserves for expanding the revenue base, impacting directly the regional budgets. Besides, there is certain necessity to develop and introduce tax and budget incentives at the federal level, to find internal reserves for expenditure saving and increasing the income of regional budgets. All the above said has led us to research the system of forming budget revenues at the regional level, define the benchmarks of growth to measure the degree of autonomy and independence that account for the recent dynamics.

We believe that there is pressing need to discover sources, capable to raise the budget income of subjects in the Russian Federation in order to provide regional authorities with the necessary financial resources for implementing the socioeconomic regional programmes of development. As a strategic direction for making the regional budgetary policy it seems noteworthy to support the rising autonomy and independence of a regional budget from inter-budget transfers, as well as to achieve a well-balanced and sustainable budget of a region via the appropriate budget redistribution.

Development of conceptual frameworks of budget planning has been discussed in several foreign publications (Kiryluk-Dryjska, 2018; Afful-Dadzie, 2017; Thatcher, 2019). Management of investment processes with the aim of developing a region is presented in the works (Chakrabarty, 2001; Sharpe, Gordon, & Bailey, 1999; Fraser-Sampson, 2014). The genesis and further growth of budgetary policy has been researched by such scientists as (Barro, 1989, 1990; Armev, 1995; Rahn & Fox, 1996; Sunday, 2016). The topic of a well-balanced budget income tax and sustainability of economy is treated in the research papers (Huang, Meng, & Xue, 2017).

Contemporary scientists (Samuelson, 1986; Lytvynchenko, 2014; Karras, 2019) and other researchers-economists have put forward various scientific approaches to study the role of the state in managing the economic system of a country with the help of implementing the budgetary policy. However, at present many questions require further investigation and application of fundamentally different approaches which makes the topic of this research work relevant.

## **3. Research Questions**

The subject of this article is policy, generation of budget means among the entities of the Russian Federation and budgetary relations that arise as a result of the policy.

#### 4. Purpose of the Study

The aim of our study – performance evaluation of budgetary policies of regions in the Russian Federation in 2015-2017. Our conclusions are based on the system of the completed analysis that we performed on the statistics of 10 regions. The object of research includes: Moscow city, Moscow region, Saint-Petersburg, Republic of Tatarstan, Belgorod region, Republic of Buryatia, Republic of Tuva, Republic of Altai, Chukotka autonomous region, Republic of Ingushetia. These regions have been selected for a number of reasons: all of them have drawn a lot of attention as they have been frequently mentioned in the reports of rating agencies (Moscow city, Saint Petersburg, Moscow region, Republic of Tatarstan and Belgorod region have been leading the ratings of Russian regions for last three years in terms of living standards; Republic of Buryatia, Chukotka autonomous region, Republic of Altai, Republic of Ingushetia and Republic of Tuva – are outsiders in the ratings); regions have very different geographical location in the federation which enables to assess the situation in the country, depending on the developmental level of a region and its territorial geography.

#### 5. Research Methods

Within this research work in order to evaluate the effectiveness of a regional budgetary policy, we have chosen the method of index numbers which comprises the following stages:

The first stage of analysing the stability of a budget involves the assessment of relative indices of the budget. For this, we have made both vertical and horizontal analyses. The investigation results (table 01) enable to define the level of stability and independence of budgets in the researched regions.

**Table 01.** Relative indices of regional budget

Index	Equation	Explanation
Level of budget autonomy	$NR / I$	$NR$ – non-repayable receipts; $I$ – total of budget income
Index of budget coverage	$I / E$	Index of budget coverage indicates the cover of budget expenditure with revenue. $E$ – total budget expenditure; $I$ – total budget income
Level of business activity of regional authorities	$Inon / IR$	$Inon$ – non-tax revenue; $IR$ – income – non-repayable receipts
Proportion of tax revenue in total income	$TY / IR$	$TY$ – tax yield; $IR$ – income – non-repayable receipts
Budget revenue per capita	$I / PS$	$I$ – total of budget income; $PS$ – population size
Budget allocation in terms of population	$E / PS$	$E$ – total budget expenditure; $PS$ – population size

The second stage has been the comparison of the following budget indices: level of autonomy, degrees of dependency and stability with critical values for the evaluated budget indices, and rating 10 constituent entities of the Russian federation in terms of the degrees of independence and stability of regional budgets. Values of critical indices have been calculated, using the approaches in this area, suggested by both Russian and foreign scientists-economists (table 02).

**Table 02.** Rating of independence and stability degrees of a regional budget

Index	Value of budget index	Points of budget
Absolute stability		
Level of autonomy	> 0,7	+ 2
Degree of dependency	< 0,3	+ 2
Degree of stability	0,2-0,7	+ 2
Normal stability		
Level of autonomy	> 0,6	+ 1
Degree of dependency	< 0,4	+ 1
Degree of stability	0,3–0,6	+ 1
Unstable budget		
Level of autonomy	≤ 0,6	0
Degree of dependency	> 0,4	0
Degree of stability	0,6–1	0
Critical situation		
Level of autonomy	< 0,4	– 1
Degree of dependency	> 0,6	– 1
Degree of stability	> 1	– 1

In order to define the effectiveness of budgetary policy we consider the indices from the table 03 (we calculate the real values of other budget indices, then compare them with critical values).

**Table 03.** Using points to evaluate the effectiveness of regional budgetary policy

Index	Index value from the budget	Points
Level of budget autonomy	≤ 0,65	+ 3
	≤ 0,66–0,75	+ 2
	≤ 0,76–0,8	+ 1
	≤ 0,8–0,85	0
Index of budget coverage	>1,03	+ 2
	= 0,99–1,02	+ 1
	≥ 0,95–0,98	0
	< 0,95	– 1
Level of business activity of regional authorities	≥ 1	+ 4
	0,8–1	+ 3
	0,5–0,7	+ 2
	0,1–0,4	+ 1
	0,01–0,09	0
Proportion of tax revenue in total income	> 0,94	+ 3
	0,8–0,9	+ 2
	0,7–0,8	+ 1
	0,3–0,6	0
	0–0,2	– 1
Budget revenue per capita	Rates of index growth exceed population growth	+ 2
	Rates of index growth approximately equal to population growth	+ 1
	No growth of index, growth of population	0
	Decline of index, growth of population	– 1

Interpreting the calculated rates seems to be somewhat complicated because of the difference in the directions of evaluation. In order to overcome that it is reasonable to apply points to assess budgets. In terms of the results, presented in tables 03 and 04, it ought to be noted that values of every given budget index imply four stages of assessment in points: from – 1 to + 2, which impacts the final score. Depending on the results of all budget indices, it is possible to establish the total score in points for a region.

When reaching the critical zone, the values of budget indices are labelled as minimal threshold (– 1). If a value fits within the limits of the zone, marked as under threat, it is given «0» points. When defining the number of points, typical for a relatively stable situation, the budget index is equal to «1» point, while a well-balanced and developed zone– maximum points «+ 2». After correlating the allocated values, the calculated budget indices, and the established zones it is necessary to sum up all the points, obtained according to this method, and finalise the total score for a regional budget, varying from – 10 to + 20.

Based on the above mentioned method, the state of regions can be classified as the following four groups:

- 1) zone of well-balanced development, implying a high level of budget indices (from 14 to 20);
- 2) zone of relative stability that varies within the range from 7 to 14;
- 3) zone under threat when budget indices are low (from 0 to 7 points);
- 4) critical zone, the range of budget indices varies from – 10 to 0 points.

Based on the given above descriptions of regions, it ought to be noted that evaluating a region in points must include four groups of state, characterizing its level of socioeconomic development and capacity of a regional budget to cover its expenses without additional financing from the federal centre (table 04).

**Table 04.** Evaluation of regional budgets in points

Index	Characteristics of region	Points
Total points	Well-developed region with sustainable growth, the budget has high level of autonomy and independence from federal inter-budget transfers (except for the federal laws as part of delegated authority).	15–20
	Developing region, where there are certain issues with covering the expenditure from a regional budget, occasionally it is necessary to send additional financing from a higher level budget for further development of the region and its long-term financial stability.	8–14
	Subsidized region, requiring great amount of financial support from the federal budget. In our opinion, it is necessary for the federal centre to control all the time the dynamics of all major socioeconomic indices of a region in order to react immediately in case of decline in its social and economic development. If necessary, it is possible to allocate additional funds or correct the programme of socioeconomic development of a region, capable to redress the financial stability of the region without inter-budget transfers.	0–7
	Region in crisis (depressed), whose budget implies vigorous support from the federal centre, and developing the socioeconomic programme at the federal level.	< 0

## 6. Findings

The analysis of budget autonomy in the regions under study within 2015-2017 shows that most regions were independent from transfers, the average total of points was +3 points (Moscow city, Moscow region, Saint-Petersburg, Republic of Tatarstan, Belgorod region, Republics of Altai and Buryatia, Chukotka autonomous region; with notably lagging behind the Republic of Tuva (+ 1 point) and Republic of Ingushetia (– 1 point). The dynamics of the budget coverage in regions reflect the correlation between the total expenditure and total budget income, the results of analysing 10 regions demonstrate that the lowest index of budget coverage was in the Republic of Tuva, whereas the highest – in Moscow city in 2015. Leaders in terms of business activity level of regional authorities in 2015-2017 were Saint-Petersburg and the Republic of Tatarstan. The outsiders here are Chukotka autonomous region and the Republic of Ingushetia.

The level of tax revenue in total budget income for three years was the highest in Moscow, Moscow region and Saint-Petersburg. The lowest was in the Republic of Ingushetia.

The dynamics of budget income per capita in regions reflect the correlation between the total budget income and population size. The results of the analysis for different regions show the following: in certain depressed regions the level of budget income per 1 thousand people is higher than in regions-leaders. For example, in Chukotka autonomous region with the population of 50 thousand people the budget revenue is higher than in Moscow and Moscow region.

After ranking the regions according to the obtained total scores, the integrated performance evaluation of regional budgetary policy has been finalised (table 05).

**Table 05.** Integrated performance evaluation of regional budgetary policy

Rank of region	Characteristic of region	Points
1	Well-balanced region with steady growth (Moscow city, Moscow region, Saint-Petersburg, Republic of Tatarstan in 2015–2017. This category included Chukotka autonomous region in 2015, mostly in terms of budget revenue per capita).	15-20
2	Developing region (Belgorod region, Republic of Tuva in 2015–2017, Chukotka autonomous region in 2016 and 2017).	8-14
3	Subsidized region, whose socioeconomic development requires considerable financial resources from the federal budget (Republic of Buryatia in 2015–2017, Republic of Altai in 2016, Republic of Ingushetia in 2017)	0-7
4	Region in crisis – depressed (Republic of Ingushetia in 2015–2017).	<0

## 7. Conclusion

Regional budgetary policy represents strategic instrument of managing a region and, improving the effectiveness of employing financial resources, in particular. One of the ways of increasing the yield of a regional budget is tax policy and improved tax collection via managerial procedures; new methods of tax computation.

Researching the tax base of 10 regions (Moscow city, Moscow region, Saint-Petersburg, Republic of Tatarstan, Belgorod region, Republic of Buryatia, Republic of Tuva, Republic of Altai, Chukotka autonomous region, Republic of Ingushetia), - shows that budget revenue generating taxes, making the most of the tax base in the regional budgets, are corporate property tax, individual property tax, and transportation tax. Therefore in order to raise tax revenue for these taxes, as well as improve tax collection, it is possible to put forward the following recommendations:

1. Interagency committees, responsible for decreasing tax debts in the federal budget, and legalizing workplace relations, need to arrange meetings with tax-payers, having tax debts. As an efficiency indicator the committee ought to accept the per cent of debt redemption by the tax payers, attending the meeting of interagency committees during the fiscal year, from the total tax debts, managed by the administration of the Federal Tax Service for republics.

2. It is necessary to evaluate annually the effectiveness of tax concession (reduced tax rate), enacted by the regional laws, and the results of which, in case ineffective tax reductions are established, lead to the development of their optimisation (decrease). The efficiency indicator is the correlation between the lost income from regional taxes and corporate property tax as a result of tax reduction and lower tax rates, introduced by the republic acts, and the total of received regional taxes and corporate property tax in the consolidated budget.

3. It is necessary to arrange procedures, aimed at establishing the owners of immovable property and making them pay taxes, assisting individuals with the registration of ownership for land and property. As an efficiency indicator it is recommended to use increasing tax return on property tax (individual property tax, transportation tax, corporate property tax, tax on land) in the consolidated budget.

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