

SCTMG 2020**International Scientific Conference «Social and Cultural Transformations in the
Context of Modern Globalism»****TERRITORIAL SUBSIDIZED BUDGETS OF RUSSIA: TRENDS,
PROBLEMS AND PECULIARITIES**

Magomed Tashtamirov (a)*, Marianna Kelehsaeva (b), Valentina Turieva (c), Hussein
Chaplaev (d), Jamalay Gezuev (e)

*Corresponding author

(a) Chechen State University, Chechen Republic, Grozny, Russia, basxo@yandex.ru,

(b) North Ossetian State University after K.L. Khetagurov, Vladikavkaz, Russia, marina.kelehsaeva@mail.ru,

(c) North Ossetian State University after K.L. Khetagurov, Vladikavkaz, Russia, m-a-v-s@mail.ru,

(d) Chechen State Pedagogical University, Chechen Republic, Grozny, Russia, chaplaiev79@mail.ru,

(e) Chechen State University, Chechen Republic, Grozny, Russia, eva_didi@inbox.ru

Abstract

In recent years, the regulation of inter-budget relations has become particularly relevant in the framework of budgetary policy. In particular, in recent years the main problem has been the budget balance with a high share of endowment. The paper presents classification and systematization of the main factors that negatively affect the dynamics of socio-economic development of the territorial entities of Russia, which increases depressive trends leading to an increase in the financial dependence of their budget on the federal center. It considers the approaches of domestic scientists to grouping and classification of these factors. A review of approaches to understanding the category of “own” revenues of the territorial budget was carried out taking into account the logic of the regulatory and legal system and economic interpretation. A typology of regional budgets on the basis of endowment is proposed. The main features of this category are identified in relation to territorial budgets, which have a significant share of subsidies in the formation of the revenue side. The number of high-level budgets of Russia for the last 15 years after the beginning of the budget reform was estimated. The budget and financial condition of the country’s high-level budgets were assessed. The main problems in their financial discipline were identified. The dynamics of granting territorial budgets with associated trends and problems was analyzed. The mechanism of grant equalization of fiscal capacity was studied and prospects of its transformation were revealed.

2357-1330 © 2020 Published by European Publisher.

Keywords: Budget system, own income, subsidies, budget endowment, fiscal equalisation.



This is an Open Access article distributed under the terms of the Creative Commons Attribution-NonCommercial 4.0 Unported License, permitting all non-commercial use, distribution, and reproduction in any medium, provided the original work is properly cited.

1. Introduction

Federated states consist of a combination of unevenly developing regions, some of which thrive and ensure the stability of the federation as a whole (donor regions), while the others lag behind in development and become outsiders (recipient regions). Such stratification is caused by various historical, demographic, economic, socio-cultural and institutional factors. In Russia, as in the largest federation, heterogeneity in the economic development of its regions is particularly high. The recent changes in the number of donors and recipients suggest that this proportion and associated transfer flows are affected, among other factors, by tax policies, which reduced the tax autonomy of regions and thus cut down the incentives to develop their revenue base. These circumstances create a significant dependence of the regions on federal authorities and make such regions belong to the group of recipients of various types of inter-budget transfers. However, the achievement of a certain balance between donors and recipients, which prevents the dependency and irresponsible positions of regions and creates incentives for higher incomes, is an important task of the state's economic policy.

2. Problem Statement

The reduction of the number of beneficiary region is one of the key tasks of the Russian government. The target indicators of the state program *Development of federal relations and creation of conditions for effective and responsible management of regional and municipal finances* include the reduction of the subjects of the Russian Federation by 2020 to 7 entities, in the budgets of which the share of grants from the federal budget (Golovanova, 2018) within two of the last three reporting financial years exceeded 40 % of the volume of own revenues of the consolidated budget (Tavbulatova et al., 2019).

The solution to the problem of considerable financial dependence of grant budgets depends on various factors, one of which is the mechanism to form a specified type of budgets. An important aspect is the detailed quantitative and qualitative analysis of dynamics and structure of mobilization of the revenue part of the heavily subsidized group of territorial budgets.

3. Research Questions

The main objectives of this study are as follows:

1. To identify the group of regional budgets with a share of grants whose own income exceeds 40 %
2. To analyze the dynamics of Russia's grant budgets for the last 15 years.
3. To identify trends in the level of endowment of regional budgets within the budget system of Russia.
4. To detect current problems impeding the balance of territorial budgets.

4. Purpose of the Study

The purpose of the study is to identify problematic aspects of the formation of territorial budgets with a high share of endowment as unbalanced with a low level of financial independence, which will become the basis for solving the problem of fiscal capacity of the Russia's public financial system.

5. Research Methods

An important point here is to define the category of own revenues of the budget. In accordance with article 47 of the Budget Code of the Russian Federation, the own revenues of budgets include tax and non-tax revenues, as well as free revenues, except for subvention. Some scientific works (Korotaeva, 2014; Koshel, 2017; Malis, 2014) state that the own revenues of the budget mean only revenues, which are provided directly by a territorial budget itself, i.e. these are tax and non-tax revenues. Thus, in his study on improving the tax mechanism for increasing the revenue part of budgets Malis (2014) considers the impact of income tax incentives on the level of budget revenues. At the same time, it is noted that the significant granting tax exemptions can negatively affect the formation of own budget revenues thus causing the need to attract subsidies.

The Deputy Minister of Finance of the Russian Federation Gornin (2016) defines own budget revenues in isolation from the forms of grant assistance pointing to the revenue potential of territorial budgets themselves.

The category of own budget revenues is treated differently by the authors since the term “own” makes the binding of revenue sources to a certain territory or authoritative powers taken by local government decisions. This logic is typical for the European practice, where the concept of “own resources” of the budget interpreted by the Congress of Local and Regional Authorities of the Council of Europe includes financial resources mobilized as a result of independent decisions of local self-government bodies in the field of tax mechanism and determination of tax rates.

To specify, some authors use the concept of own tax revenues to separate them from the total of all revenues to the budget (Mazina, 2007). Such interpretation is based on the grouping of tax revenues according to the principle of collection into regulatory and own.

The interpretation of own budget revenues in the previous version of the Budget Code of the Russian Federation before the changes in 2004 is also quite interesting. It included “types of income fixed on a permanent basis in whole or in part under the corresponding budgets by the legislation of the Russian Federation”. The list of such types of income included tax and non-tax revenues, as well as uncompensated transfers. However, it is important to note that uncompensated transfers in this version of the law meant not the forms of inter-budget transfers, but financial donations from legal entities and individuals, governments of foreign states and international organizations. At the same time, the forms of inter-budget transfers were called “financial assistance”.

Besides, in the previous version of article 47 of the Budget Code of the Russian Federation, paragraph 3 stated that the types of financial assistance do not belong to the group of own revenues of the budget.

Inaccuracy in the interpretation of the budget’s own revenues in terms of economic meaning and the ability to influence their composition and structure leads to an ambiguous interpretation of this category leading to different interpretations in scientific works.

Based on the approaches taken to understand and interpret the content of the budget’s own revenues, it is advisable to detail the interpretation of different types of non-income sources, namely income sources. The most acceptable classifying feature will be the nature of the revenue source: own, attracted, redistributive, borrowed.

Own income sources include tax and non-tax revenues, which are collected in a certain territory taking into account the power (fiscal, property) of the relevant authorities and are credited to this budget as a result of legislative, economic and administrative decisions.

Attracted revenue sources – funds of legal entities and individuals donated to territorial authorities to ensure social and economic development and solve infrastructure problems.

The redistributive sources of budget revenues are funds allocated on a free and irrevocable basis by other levels of the budget system as financial assistance, as well as the realization of additional expenditure powers assigned by a higher budget.

Borrowed income sources are financial resources borrowed on a return and paid basis in the form of loans issued by debt securities.

Turning to the regions with high endowment level let us give an estimate of the share of grants in own income according to the interpretation of the Budget Code of the Russian Federation. The analysis will reveal trends and peculiarities of income generation of grant budgets within the framework of the existing legislative approach to the category of own income. In the future, it is advisable to group budget revenues according to the proposed classification into 4 groups to determine the real financial autonomy of territorial budgets.

Table 01. Regional budgets with a high endowment level for 2004–2017

n/n	Region	Share of grants in own income of the consolidated budget of the region, %														Average endowment level
		2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	
1	Republic of Adygea	44	45	49	42	34	38	34	29	25	28	27	26	22	20	33
2	Republic of Dagestan	69	63	60	57	47	51	52	47	48	55	56	55	53	56	55
3	Kabardino-Balkar Republic	56	45	42	36	32	36	33	26	27	35	35	30	28	37	36
4	Republic of North Ossetia-Alania	51	40	35	35	34	36	33	34	36	39	39	38	39	32	37
5	Republic of Ingushetia	67	58	65	61	50	65	53	50	43	45	43	43	43	50	53
6	Karachai-Circassian Republic	46	44	50	43	40	43	34	33	39	35	39	32	35	36	39
7	Chechen Republic	33	58	54	74	33	49	50	58	55	70	70	61	64	61	56
8	Republic of Mari El	45	42	35	32	31	28	24	26	24	28	26	22	21	21	29
9	Republic of Buryatia	41	37	33	34	32	39	35	28	29	29	33	31	29	34	33
10	Republic of Tyva	71	71	68	64	62	65	64	62	49	60	60	65	60	63	63
11	Altai Territory	43	42	37	30	28	31	27	24	22	23	21	20	20	24	28
12	Republic of Altai	47	53	53	51	52	49	51	43	48	50	44	52	55	58	50
13	Kamchatka Region	38	49	42	43	38	45	53	56	58	57	58	55	55	52	50
14	Magadan Region	14	35	32	33	40	45	43	35	32	32	32	23	19	18	31
15	Jewish Autonomous Oblast	50	43	37	33	26	29	26	29	25	23	26	29	27	23	30
16	Chukotka Autonomous Region	13	14	61	68	51	41	20	25	18	14	42	35	38	36	34

17	Sevastopol											55	37	35	26	38
18	Republic of Crimea											58	45	33	24	40
	Russian Federation	9	10	8	7	7	10	9	8	7	8	9	7	7	7	8

In the study period of 2004–2017, based on Table 01, the endowment level of the Russian regions was in the range of 7–10 %, in the average annual value of 8 %. The largest level was achieved during the periods of economic instability and crisis in 2009 and 2014, which was caused by the decline in economic activity and the decline in the revenue sources of the budget system.

Since 2004, the share of grants as part of own income of 18 regions of Russia was more than 40 % (marked grey). Prior to the crisis year 2009, there was a positive trend in reducing the number of territorial budgets with a high share of subsidies in own income. Thus, their number decreased from 12 entities in 2004 to 7 in 2008. In 2009, there were 9 heavily subsidized regions, and then their number stabilized at the level of 6–7 subjects. The situation changed in 2014 due to the accession of the two regions of the Republic of Crimea and Sevastopol, as well as economic stagnation. According to 2017 results, the status of 6 regions of Russia was heavily subsidized.

It shall be noted that some regions reduced their financial dependence on grants by more than half during the period under review, including the Republic of Adygea, the Republic of Mari El, the Altai Territory, the Jewish Autonomous Oblast. However, there are regions that maintained their high endowment level throughout the entire time interval: the Republic of Dagestan, the Republic of Ingushetia, the Chechen Republic, the Republic of Tyva, the Republic of Altai, the Kamchatka Region.

If we consider the whole period and determine the group of heavily subsidized regional budgets by the average annual indicator, their number will make 7 subjects with the Republic of Crimea being added to the previous ones. The Republic of Tyva has the largest value of endowment making 63 %, in turn the lowest – 40 % – belongs to the Republic of Crimea.

6. Findings

The peculiarity of heavily subsidized budgets (hereinafter HSB) is the similarity in the structure of the regional economy different from the average Russian values. The economy-forming sectors of the regional national economy within HSB include the budget sector, agriculture, trade and construction. Thus, the budget sector in regions with high endowment accounts for 30–45 % of the value added generated in the gross regional product structure.

Regions with high endowment are many times lower than the Russian average in terms of the contribution of the manufacturing industry to the added value. On average, seven regions have a three-fold lag (5.2 % against 17.3 % in Russia), with the Republics of Chechnya and Altai having 8 times less share in GRP than the national average. This is the case in real estate and mining operations, although it depends on the availability of natural resources.

The category of regions with high dependence on financial budget assistance is characterized by the absence of high productivity industrial enterprises. Besides, in such regions there is no expressed economic specialization in the national economic division of labor.

The featured indicators characterizing the peculiarities of the sectoral structure of the regional HSB economy allow concluding that this group of subjects of the Federation – “budget recipients” does not contribute to the change of its model of resource-intensive economy (Asabaeva & Tashtamirov, 2018).

The description of HSB financial and budgetary situation indicates the low level of tax potential of the budgets under consideration. In almost all presented regional budgets this indicator is lower than 40 % of the average Russian tax potential. The lowest levels are observed in the republics of Ingushetia, Dagestan and Chechnya. In three regions, the total income per capita is below national averages. At the same time, all territorial budgets under consideration show a multiple increase in the level of federal financial assistance in per capita analysis.

The group of 7 regional budgets in the period of 2015–2017 concentrated 19 % of all inter-budget assistance in the country, which in recent years has become the main factor of growth of per capita total income. Thus, within the framework of the policy of equalization of the budget balance the federal budget allowed bringing the indicator of income per capita in the HSB to the average Russian level, and in some budgets – exceeding it.

Summarizing the analysis, it can be concluded that in recent years this group of regional budgets has increased the attraction of significant federal budget assistance, but the nature and form of their use does not stimulate economic development. The conditions for budgetary assistance imply closing the gap in territorial budgets and do not imply the fulfillment of economic regional potential. As a result, this model of inter-budget assistance does not stimulate the regional tax potential.

7. Conclusion

Low HSB activity in the fulfillment of its economic potential leads to significant expenditures of the federal budget in providing financial assistance in order to ensure stability and maintain the stability of territorial budgets. On the other hand, the increase in such assistance and the weak activity of depressed regions in stimulating tax potential leads to the decrease of tax revenues to the federal budget from regulatory tax revenues. During the period of 2015–2017, HSB provided 0.27–0.3 % of tax revenues to the federal budget. Low activity of domestic economic potential, planning of expenditures with regard to federal assistance, inefficient instruments for the use of tax potential do not ensure the increase of the taxable base of budget-forming revenues in the form of income and indirect taxes.

Given the federal structure of Russia’s budget system, territorial budgets exercise their role in sustainable development of the budget process of the entire system, which is determined by the peculiarities of their positions. Budgets with high endowment share are no exception, and their key position in regulating inter-budget relations and in the policy of territorial entities is as follows:

1. Long-term maintenance of low economic activity to increase the taxable base.
2. Low level of tax potential.
3. Relative growth of gross regional product not at the expense of real sectors and sectors of regional economy, but taking into account a significant budget sector.
4. Increase of the federal budget assistance that provides little economic growth.

At the same time, the existing model of inter-budget regulation and regional policy, which are aimed at subsidizing depressed regions within the framework of inter-budget equalization, does not always effectively fulfill its mission.

The continuing macroeconomic instability, the persistence of high endowment level in depressed regions and the tightening of budgetary constraints pose risks to HSB smooth operation.

References

- Asabaeva, Kh. M., & Tashtamirov, M. R. (2018). To the question of granting regional budgets in Russia. In M.R. Nahaev (Ed.), *All-Russ. Sci. and pract. Conf. of students, young sci. and postgraduate students "Science and Youth"* (pp. 437–441). Chechen State University.
- Golovanova, N. (2018). Inter-budget transfers: variety of terms and Russian practice. *Finan. J.*, 2, 24–35.
- Gornin, L. V. (2016). Main task is to proceed from the conservative income forecast in the formation of budgets. *Finance*, 9, 3–7.
- Korotaeva, E. A. (2014). Problems of economic autonomy of local budgets. *J. of Udmurt Univer. Ser. Econ. and Law*, 1, 48–52.
- Koshel, D. E. (2017). Concept of private budget revenues and camouflage of budget federalism problems. *"Enforcement in Public and Private Law"*, 20–25.
- Malis, N. I. (2014). Improving tax mechanism – way to increase budget revenues. *Finance*, 4, 34–36.
- Mazina, V. V. (2007). Private tax revenues of local budgets of Krasnodar Territory in conditions of reform of inter-budget relations. *Econ. Bull. of Rostov State Univer.*, 5(3-3), 165–171.
- Tavbulatova, Z. K., Tashtamirov, M. R., Kulakova, N., & Nazaeva, M. I. (2019). Peculiarities of inter-budgetary equalization in Russia. *The Europ. Proc. of Social & Behavioural Sci. EpSBS, SCTCGM 2018*, 1655–1662.