

**GAIDAR INSTITUTE FOR ECONOMIC POLICY**

**RUSSIAN ECONOMY IN 2023**

**TRENDS AND OUTLOOKS**

*(Issue 45)*

**Gaidar Institute Publishers  
Moscow / 2024**

UDC 338.1(470+571)"2023"  
BBC 65.9(2Poc)"

R95 **Russian economy in 2023. Trends and outlooks. (Issue 45)** / [V. Mau et al; scientific editing by Kudrin A.L., Doctor of sciences (economics), Radygin A.D., Doctor of sciences (economics), Sinelnikov-Murylev S.G., Doctor of sciences (economics)]; Gaidar Institute. – Moscow: Gaidar Institute Publishers, 2024. – 422 pp.: illust.

ISBN 978-5-93255-672-6

The review "Russian economy. Trends and outlooks" has been published by the Gaidar Institute since 1991. This is the 45th issue. This publication provides a detailed analysis of main trends in Russian economy, global trends in social and economic development. The paper contains 5 big sections that highlight different aspects of Russia's economic development, which allow to monitor all angles of ongoing events over a prolonged period: the monetary and budget spheres; financial markets and institutions; the real sector; social sphere; institutional changes. The paper employs a huge mass of statistical data that forms the basis of original computation and numerous charts confirming the conclusions.

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ISBN 978-5-93255-672-6

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## 1.1. Russia's fiscal policy in 2023<sup>1</sup>

### 1. Characteristics of the budget s of the budget system of the Russian Federation

Revenues of the Extended Government Budget (hereinafter referred to as the EGB) in 2023 relative to the previous year decreased by 0.1 pp. GDP to 34.5% of GDP. In recent years, total revenues as a share of GDP have shown high stability, fluctuating slightly around the level of 35% of GDP. Deviations of the parameters of the actual fulfillment of the EGB revenues in 2023 from those forecast by the Ministry of Finance of Russia are insignificant, which allows us to draw conclusions about a fairly good accuracy of budget forecasting, as well as about the high quality of administration of state revenues (*Table 5*).

*Table 5*

#### Main parameters of the enlarged government budget of the Russian Federation in 2020–2023

	2020		2021		2022		2023				Change, 2023 on 2022	
	Actual		Actual		Actual		Russian Minfin forecast		Actual		Rb bn	p.p. of GDP
	Rb bn	% of GDP	Rb bn	% of GDP	Rb bn	% of GDP	Rb bn	% of GDP	Rb bn	% of GDP	Rb bn	p.p. of GDP
<b>Revenue</b>	<b>38 206</b>	<b>35.5</b>	<b>48 118</b>	<b>35.6</b>	<b>53 074</b>	<b>34.6</b>	<b>57 244</b>	<b>34.5</b>	<b>59 074</b>	<b>34.5</b>	<b>6 000</b>	<b>-0.1</b>
Including:												
Oil and gas	5 235	4.9	9 056	6.7	11 586	7.6	8 863	5.4	8 822	5.1	-2 764	-2.5
Non-oil and gas	32 971	30.6	39 062	28.9	41 488	27.0	48 381	29.1	50 252	29.4	8 764	2.4
<b>Expenditure</b>	<b>42 503</b>	<b>39.5</b>	<b>47 073</b>	<b>34.8</b>	<b>55 182</b>	<b>36.0</b>	<b>61 686</b>	<b>37.2</b>	<b>62 984</b>	<b>36.8</b>	<b>7 802</b>	<b>0.8</b>

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	2020		2021		2022		2023				Change, 2023 on 2022	
	Actual		Actual		Actual		Russian Minfin forecast		Actual		Rb bn	p.p. of GDP
	Rb bn	% of GDP	Rb bn	% of GDP	Rb bn	% of GDP	Rb bn	% of GDP	Rb bn	% of GDP		
<b>Deficit (-)/ Surplus (+)</b>	<b>-4 297</b>	<b>-4.0</b>	<b>1 045</b>	<b>0.8</b>	<b>-2108</b>	<b>-1.4</b>	<b>-4 442</b>	<b>-2.7</b>	<b>-3 910</b>	<b>-2.3</b>	<b>-1 802</b>	<b>-0.9</b>
<i>For reference only: GDP, Rb bn</i>	107 658		135 295		153 435		166 015		171 041			

Sources: Ministry of Finance of Russia, Federal Treasury, Rosstat, own calculations.

### Revenues of the enlarged government budget

In real terms, EGB revenues rose by 3.6% in 2023, while oil and gas revenues declined by almost 30% year-on-year. Notable growth in non-oil and gas EGB revenues increased their share in total revenues to 85% against 78% a year earlier. The share of federal budget revenues in total revenues of the budget system in 2023 amounted to just over 49%, which is below the level of 2022 (52.4%).

The level of tax burden in the past year compared to 2022 remained unchanged, while the dynamics of revenues for some taxes had a multidirectional character (Table 6).

Table 6

### Receipts of main taxes to the RF enlarged government budget in 2020–2023, % of GDP

	2020	2021	2022	2023	Change, 2023 on 2022, p.p. of GDP
<b>Revenue, total *</b>	<b>34.9</b>	<b>35.0</b>	<b>34.5</b>	<b>34.5</b>	<b>0.0</b>
Including:					
Corporate profit tax	3.7	4.5	4.2	4.6	0.4
PIT	4.0	3.6	3.8	3.8	0.0
Insurance contributions*	7.0	6.1	5.7	6.8	1.1
VAT	6.7	6.8	6.3	6.8	0.5
Excises	1.8	0.6**	-0.6**	-0.3**	0.3
MET	3.7	5.4	7.0	5.8	-1.2
Customs duties and fees	1.1	1.9	1.9	0.8	-1.1

\* Insurance premiums and total income are given without double counting insurance premiums for the non-working population, the values of total revenues differ from the official by the amount of insurance premiums.

\*\* Decrease in the total volume of excise duties is associated with the implementation of the mechanism of refundable excise duty on oil raw materials in the framework of the completion of the tax maneuver in the oil industry.

Sources: Federal Treasury, Rosstat, own calculations.

**Corporate profit tax.** In 2023 compared to 2022, there is a notable increase in profit tax revenues – by 0.4 p.p. of GDP, or by 17.3% in real terms. This growth is partly a recovery one – Russian companies adapted to the sanctions restrictions imposed in 2022, and domestic entrepreneurs took the place of foreign companies that ceased operations in the Russian Federation. Corporate profit tax receipts in 2023 have also increased by 5.8% in real terms and by 0.1 p.p. of GDP. Growth

beyond the recovery one can relate to the stimulating effect of the fiscal policy – in 2022–2023, there was a significant increase in government demand, financed mainly by debt borrowings.

The basis for calculating profit tax revenues is the profit of profitable organizations. According to Rosstat, this indicator grew by 18.9% in real terms in 2023, with growth observed in most industries. The largest industries with a significant reduction in profit in 2022 show insignificant growth in 2023 (*Table 7*). The largest contribution to growth in 2023 is made by the industries of administrative activities (mainly due to renting and leasing, security services and other business support services), insurance and financial activities, supply of electricity, gas and water, construction, transportation and storage. Thus, we can speak about a significant change in the profit structure of the economy in 2023 compared to a year earlier.

*Table 7*

**Change in profit of profitable organizations in real terms in ten largest sectors**

	<b>Change, 2022 on 2021, %</b>	<b>Change, 2023 on 2022, %</b>
Manufacturing	-8	7
Extraction of mineral resources	-19	2
Wholesale and retail commerce; motor vehicle and motorcycle repair	-22	-6
Financial and insurance activity	-1	142
Transportation and storage	24	22
Supply of electricity, gas and water; air conditioning	-2	56
Professional, scientific and technical activity	-1%	52
Activity if the sphere of information and communications	-14	37
Administrative activity and accompanying additional services	-46	258
Construction	34	27
Total	-12.0	18.9

*Sources:* Rosstat, own calculations.

**PIT and insurance contributions.** The growth of revenues in 2023 from the personal income tax and insurance contributions in nominal terms amounted to 14.1% and 24.0%, respectively, which is explained by the growth of nominal average wages by 13.8%. In addition, at the end of 2023, the unemployment rate was at the lowest level in the last 20 years – 3.2%. Simultaneously with the reduction in the number of the unemployed, the number of employed in the economy increased by 1.6 mn people. Significant growth of insurance contributions was due to the fact that most sectors of the economy were entitled to deferral of insurance contributions in the second and third quarters of 2022, and in May 2023 the shortfall in insurance contributions was compensated for.

**VAT.** At the end of 2023, budget revenues from VAT, unlike in 2022, increased not only in nominal terms (21.5%), but also in real terms (13%). At the same time, the collection rate in the broad sense (C-efficiency) almost recovered to the level of 2021 (56.3%), amounting at the end of the year to 55.4% against 51.7% in

2022. However, it should be borne in mind that both the fall in 2022 and the growth of this indicator in 2023 are significantly related to the processes at the level of intermediate products. For example, logistical difficulties in 2022 led to slowdown and pauses in the intermediate stages of goods production, resulting in the economy spending inventories on which VAT had been paid earlier. With the relative stability of final consumption (real growth of just over 2%), this led to a decline in C-efficiency in 2022. In 2023, the recovery of value chains, including partial substitution of foreign components with domestic analogs, led to a return to the situation in 2021. Increased investment in inventories made its contribution (in 2023, the contribution of inventories to GDP was the highest since 1995, amounting to 4.4%). A decline in the share of preferential goods in the consumption structure in 2023, as well as some cooling of demand in the real estate market as a result of the increase in the key rate also contributed. Therefore, we cannot say that the dynamics of the collection rate is related to fluctuations in the quality of administration. It should also be noted that there was a recovery in the structure of revenues: if in 2022 the share of VAT from imported goods and while in 2022 the share of VAT on imported goods and services decreased to 32% compared to the average level of 41% over a number of previous years, at the end of 2023 it amounted to 38%.

**Excises.** As of year-end 2023, the total revenues from excise duties on addictive products amounted to Rb1.34 trillion (2.3% of non-oil and gas revenues of the consolidated budget). At the same time, total revenues from tobacco and nicotine-containing products increased by 11% and amounted to Rb810 bn. The contribution of innovative nicotine-containing products continues to grow in the structure of these revenues: if in 2021 their share was 5.8%, then by the end of 2023 – already 7%. The budgetary effect is partly due to the increase in excise duty rates from March 2023, with the innovation segment of the tobacco market being affected to a greater extent (10% for heated tobacco and more than 100% for nicotine-containing liquids, while the weighted average excise duty rate for cigarettes increased by 8%). This increase in the rate on nicotine-containing liquids to some extent compensated for low excise duty collection in this segment, but it also increases the risks of expanding the share of shadow sales. It should be noted that the growth of weighted average prices for cigarettes in the last 2 years was below inflation (about 3.9%), which made this product more affordable relative to the consumer basket as a whole. For this reason, the level of consumption of legal tobacco products in physical terms decreased very slightly compared to 2021 (only by 1.3%), while the overall level of consumption remained virtually unchanged.

With regard to the alcoholic beverages market, it is worth noting the continued growth of consumption in physical terms: the consumption of strong alcoholic beverages is growing at a rate of 3.1%, while the consumption of low-alcoholic beverages continues growing (16% by 2022). In 2023, beer and wine consumption growth resumes (by 2.1% and 4.7%, respectively), although wine is more likely to recover from a 5.1% drop in 2022 due to logistical difficulties and change of suppliers. The main reason for the noticeable upward trend in consumption for

all types of beverages is the weak (lagging behind inflation) growth of excise duty rates against the background of a still noticeable share of illegal turnover: weighted average prices for spirits and wine in 2023 increased by only 2.7% and 4.7% respectively, while beer remained unchanged. As a result, as in the case of tobacco products, alcohol is becoming relatively more affordable and therefore consumption is increasing. But despite this, in real terms, total budget revenues from excise duties on alcoholic beverages in 2023 remained virtually unchanged, while in nominal terms they grew by 7.5%. The growth of revenues in real terms was observed only in the segment of low-alcohol products.

**MET and export customs duties.** According to the Neftegaz.Ru portal,<sup>1</sup> oil and gas production decreased by 1.0% and 5.5% in 2023. At the yearend, despite the growth of the dollar exchange rate to the national currency from Rb68.5 in 2022 to Rb89.7 in 2023, the federal budget revenues in 2023 relative to 2022 decreased by 1.4 p.p. on mineral extraction tax, by 1.4 p.p. of GDP, on export customs duties –by 1.2 p.p. of GDP (Table 8).

Table 8

### Receipts from MET, EPT and export customs duties on petroleum commodities in 2020–2023

	2020		2021		2022		2023		Change, 2023 on 2022	
	Rb bn	% of GDP	Rb bn	% of GDP	Rb bn	% of GDP	Rb bn	% of GDP	Rb bn	p.p. of GDP
MET on oil	3 198	3.0	6 296	4.7	8 391	5.5	7 787	4.6	-604	-0.9
MET on gas and gas condensate	621	0.6	815	0.6	2 252	1.5	1 678	1.0	-574	-0.5
Export customs duties on oil and petroleum products	692	0.6	1 099	0.8	876	0.6	411	0.2	-465	-0.4
Export customs duties of gas	439	0.4	1 125	0.8	1 630	1.1	566	0.3	-1 064	-0.8
Excises on petroleum commodities	-222	-0.2	-565	-0.4	-971	-0.6	-1 174	-0.7	-203	-0.1
$K_{demp}$	358	0.3	-674	-0.5	-2 171	-1.4	-1 589	-0.9	582	0.5
$K_{inv}$	0	0.0	-49	0.0	-106	-0.1	-150	-0.1	-44	0
Excess-Profits Tax	149	0.1	1 009	0.7	1 685	1.1	1 293	0.7	-392	-0.4
Reference: Average export crude oil price USD/ bbl.	66.0		79.6		63.4		63.0			
Average gas price, USD/thousand cub. m	208		703		354		464			

Sources: Ministry of Finance of Russia, Federal Treasury, Rosstat, own calculations.

ITS The tax maneuver implemented in recent years, which envisages an increase in tax rates on crude oil and gas condensate, abolition of some benefits for extra-viscous and hard-to-recover oil production, while reducing

<sup>1</sup> Neftegaz.Ru Portal. News. Production. 2023 results from A. Novak. January 25, 2024. URL: <https://neftegaz.ru/news/dobycha/814415-itogi-2023-g-ot-a-novaka-dobycha-nefti-v-rossii-upala-menee-chem-na-1-gaza-na-5-5/>

the export duty on hydrocarbons and petroleum products and bringing it to zero by 2024, actually entered its final phase in 2023. As part of the maneuver, an excess-profits tax (windfall profits tax) on the extraction of hydrocarbon raw materials (EIT) and deductions for excise duty on crude oil for oil refining were introduced. Sharing the idea of the tax maneuver, we have to admit that the increased volumes of “reverse excise tax” from 2022 become a tangible factor of “pressure” on the state budget revenues, which in the medium term will require the Ministry of Finance of Russia together with the Ministry of Energy of Russia to take additional measures to regulate the situation on the domestic fuel market with partial or full refusal to use this compensating mechanism after the tax maneuver completion.

### **Expenditure and deficit of the enlarged government budget**

The EGB expenditures in 2023 amounted to 36.8% of GDP. Compared to 2022, the expenditure part of the budget system increased markedly – by Rb7.8 trillion in nominal terms, or by 0.8 p.p. of GDP. In real terms, expenditures also increased –by 6.3% in 2022 prices.<sup>1</sup>

Based on the results of the EGB execution in 2023, the deficit amounted to Rb3.9 trillion, or 2.3% of GDP. There are deficits at all levels of the budget system, with the largest imbalance at the federal level – Rb3.2 trillion, or 1.9% of GDP. In the year under review, the balance of the consolidated budget of the constituent entities of the Russian Federation amounted to Rb220.2 bn, which is equivalent to 0.1% of GDP, and that of the budgets of state non-budgetary funds amounted to Rb488.7 bn, or 0.3% of GDP. Federal borrowings in the amount of Rb2.6 trillion became the basic source of deficit financing.

## 2. Characteristics of the federal budget

### **Federal budget revenues**

The federal budget revenues amounted to 17.0% of GDP in 2023, which is the minimum since 2020. In the reporting year, the actual volume of budget execution by revenues amounted to Rb29.1 trillion, exceeding the forecast level by Rb450 bn (*Table 9*). Cash execution at the end of 2023 amounted to 98.1% of the approved volumes.

Compared to 2022, there is a reduction in the federal budget revenues by 1.1 p.p. of GDP, but with multidirectional dynamics: the oil and gas revenues fell by Rb2.76 trillion, or by 2.5 p.p. of GDP, while non-oil and gas revenues grew by Rb4.06 trillion, or by 1.4 p.p. of GDP. The share of the oil and gas in total federal budget revenues amounted to 30.3% in 2023 against 41.6% a year earlier. Non-oil and gas revenues of the federal budget as a share of GDP in 2023 practically

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<sup>1</sup> As of mid-March 2024, the Federal Treasury has not provided the details of the EGB and federal budget expenditures in the functional breakdown for 2023, and therefore it is impossible to make any meaningful analysis of changes in the structure of budget expenditures for the reporting year. Expenditures on defense and social policy were likely to increase.



returned to the level of 2021, and their share in total budget revenues went up to 70% (higher was observed only in 2020, when their share amounted to 72%).

Table 9

### Main parameters of the federal budget in 2020–2023

	2020		2021		2022		2023				Change 2023 on 2022	
	Actual		Actual		Actual		Russian Minfin estimates		Actual		Rb bn	P.P. of GDP
	Rb bn	% of GDP	Rb bn	% of GDP	Rb bn	% of GDP	Rb bn	% of GDP	Rb bn	% of GDP		
<b>Revenues Including:</b>	<b>18 719</b>	<b>17.4</b>	<b>25 286</b>	<b>18.7</b>	<b>27 824</b>	<b>18.1</b>	<b>28 674</b>	<b>17.3</b>	<b>29 124</b>	<b>17.0</b>	<b>1 300</b>	<b>-1.1</b>
Oil and gas	5 235	4.9	9 056	6.7	11 586	7.6	8 863	5.4	8 822	5.1	-2 764	-2.5
Non-oil and gas	13 484	12.5	16 230	12.0	16 238	10.5	19 811	11.9	20 302	11.9	4 064	1.4
<b>Expenditures</b>	<b>22 822</b>	<b>21.2</b>	<b>24 762</b>	<b>18.3</b>	<b>31 119</b>	<b>20.2</b>	<b>31 675</b>	<b>19.1</b>	<b>32 354</b>	<b>18.9</b>	<b>1 235</b>	<b>-1.3</b>
<b>Deficit (-) / surplus (+)</b>	<b>-4 103</b>	<b>-3.8</b>	<b>524</b>	<b>0.4</b>	<b>-3 295</b>	<b>-2.1</b>	<b>-3 001</b>	<b>-1.8</b>	<b>-3 230</b>	<b>-1.9</b>	<b>65</b>	<b>0.2</b>
<i>Non-oil and gas deficit</i>	-9 338	-8.7	-8 532	-6.3	-14 881	-9.7	-11 864	-7.2	-12 052	-7.0	2 829	2.7

Sources: Ministry of Finance of Russia, Federal Treasury, own calculations.

Negative dynamics in oil and gas revenues was observed from the beginning of 2023, which was triggered by two factors – lower hydrocarbon prices and accelerated VAT refunds to Russian exporters – and continued for several months. Largely thanks to the devalued ruble and the recovery of world oil prices, by the middle of the year it was possible to rectify this situation, almost reaching the level of oil and gas revenues (Rb8.9 trillion) initially planned in the law on the federal budget for 2023. The rent revenues to the budget in H2 2023 were supported not only by a rather high oil price and a relatively cheap ruble, but also by Gazprom's monthly payments of additional MET in the amount of Rb50 bn (this tax is expected to remain in force until the end of 2025).

Last year's novation was the excess profits tax, which provided revenues to the federal budget in the amount of Rb315 bn, while the Russian Ministry of Finance expected Rb300 bn. The decision on a one-time tax of 10% of the excess of profits for 2021–2022 over the same indicator for 2018–2019 was legislated in August 2023. At the same time, in case of payment of this tax in the period from October 1 to November 30, 2023, a reduced rate of 5% could be used.

#### Federal budget expenditures

ITS The federal budget expenditures in 2023 increased by Rb1.2 trillion against 2022, while in terms of GDP share they decreased by 1.3 p.p. The level of budget funds utilization amounted to 98.1% of the annual volumes according to the consolidated budget statement. The absence of publicly available data on the execution of expenditures in the functional breakdown for the period under review makes it impossible to assess changes in their structure, but given the outstripping financing of power expenditures during the current year, there is a high probability of a slight drop in the share of productive expenditures in the total volume of federal budget expenditures.

Almost Rb3 trillion was spent on the implementation of national projects (NP) in 2023, which is, nevertheless, below the level of 2022 and can be partly explained by the difficulties in pumping up the budget, which were observed in the first half of the last year (*Table 10*). In real terms, the largest reduction in the volume of financing of the national projects affected NP "Integrated Infrastructure Modernization Plan" and "Housing and Urban Environment". The cash execution of the implementation of the national projects at the end of 2023 amounted to 99.2% of the adjusted annual volumes of expenditures, and only for four NPs – NP "Small and Medium Entrepreneurship and Support for Individual Entrepreneurial Initiative" (92.9%), NP "Digital Economy of the Russian Federation" (95.8%), NP "Tourism and Hospitality Industry" (97.4%), NP "Health Care" (97.9%) – the cash execution was lower than for the federal budget as a whole.

*Table 10*

**Dynamic of the federal budget expenditures on the implementation of national projects in 2020–2023, Rb bn**

	2020	2021	2022	2023	Estimate of execution in 2023 on 2022	
					Rb bn	In 2022 prices
<b>Total</b>	<b>2 149</b>	<b>2 549</b>	<b>3 269</b>	<b>2 984</b>	<b>-285</b>	<b>-491</b>
Including:						
Demography	689	631	744	808	64	8
Health care	296	243	361	312	-49	-71
Education	115	131	208	231	23	7
Housing and urban environment	169	263	258	176	-82	-94
Ecology	63	78	136	122	-14	-22
Safe and quality roads	156	364	490	527	37	1
Labor productivity	4	5	5	5	0	0
Science and universities	40	80	120	144	24	14
Digital economy of the Russian Federation	86	131	165	132	-33	-42
Culture	16	23	48	53	5	1
Small and medium-sized entrepreneurship and support for individual entrepreneurial initiative	62	63	76	66	-10	-15
International cooperation and export	70	124	128	139	11	1
Comprehensive infrastructure modernization plan	383	373	465	213	-252	-267
Tourism and hospitality industry	0	38	64	54	-10	-14

Sources: Ministry of Finance of Russia, Federal Treasury, own calculations.

**Federal budget deficit**

The federal budget deficit in 2023 amounted to Rb3.2 trillion, or 1.9% of GDP, against Rb3.3 trillion and 2.1% of GDP a year earlier, i.e. practically remained at the level of 2022. At the same time, non-oil and gas deficit contracted notably by 2.7 p.p. of GDP to 7.0% of GDP.

Domestic borrowings remained the main source of deficit repayment in 2023, their accumulated volume as of January 1, 2024 amounted to Rb20.8 trillion, which is Rb2 trillion higher than in the previous year. In contrast, the external debt of the Russian Federation decreased from \$57.4bn to \$53.3 bn.

In December 2023, Rb1.33 trillion was received on the accounts of the National Wealth Fund, while during the year the amount of withdrawals reached Rb3.46 trillion. At the end of the year, the fund's resources amounted to Rb11.95 trillion against Rb10.43 trillion at the beginning of the year. This growth was mainly due to the exchange rate difference: in dollar terms, the volume of the NWF decreased from \$148.3 bn to \$133.4 bn.

In general, the situation with the execution of the federal budget for 2023 can be characterized as quite favorable, despite much more pessimistic sentiments at the beginning of the year. Nevertheless, the main risks of budget imbalance in the form of lower oil prices due to the beginning of the global recession and sanctions, as well as the slowdown in the dynamics of Russian GDP against the backdrop of the exhaustion of growth drivers and the persistence of high power expenditures not only persist, but also grow.

### III 3. Interbudgetary relations and subnational finances

#### Revenues of the consolidated budgets of the RF subjects

The dynamic of the main revenues of the consolidated budgets of the RF subjects in 2023 is presented in *Table 11*. The right hand part of the table shows the growth of revenues in real terms (adjusted for the consumer price index).<sup>1</sup>

*Table 11*

#### Revenues of the consolidated budgets of the Russian Federation in 2023<sup>2</sup>

	In nominal terms, Rb bn		Increment, 2023 on 2022, %	
	2023	2022	Nominal	Real (CPI adjusted)
<b>Revenues, total</b>	<b>21 667.6</b>	<b>19 673.2</b>	<b>10.1</b>	<b>4.3</b>
<i>Including:</i>				
<b>Tax-generated and non-tax revenues</b>	<b>17 805.1</b>	<b>15 431.0</b>	<b>15.4</b>	<b>9.5</b>
Tax-generated:	16 445.5	14 171.7	16.0	10.2
<i>Corporate profits tax</i>	5 987.7	4 686.4	27.8	21.9
<i>PIT</i>	6 308.6	5 578.9	13.1	7.2
<i>Excises</i>	1 188.7	1 116.7	6.4	0.6
<i>Total income tax</i>	1 030.1	980.6	5.1	-0.8
<i>Property taxes</i>	1 683.1	1 632.2	3.1	-2.8
Non-tax revenues	1 359.5	1 259.2	8.0	2.1
<b>Fiscal transfers from budgets of other levels</b>	<b>3 487.6</b>	<b>3 919.4</b>	<b>-11.0</b>	<b>-16.9</b>
<b>Other revenues</b>	<b>374.9</b>	<b>322.9</b>	<b>16.1</b>	<b>10.3</b>

Sources: Federal Treasury, own calculations.

According to the Federal Treasury's data on the execution of regional budgets, the total amount of revenues of the consolidated budgets of the subjects of the Russian Federation excluding new regions in 2023 as compared with the level

1 According to Rosstat, average annual index of consumer price index in 2023 came to 105.87%. URL: <https://www.fedstat.ru/indicator/57982>

2 In order to ensure comparability of data, the table shows the values of indicators excluding Donetsk People's Republic, Luhansk People's Republic, Kherson and Zaporizhzhya oblasts.

of 2022 increased in nominal terms by 10.1% and amounted to Rb21.7 trillion. In real terms (CPI adjusted), revenues grew by 4.3 p.p. Tax and non-tax revenues of the regions demonstrated growth both in nominal and real terms (by 15.4% and 9.5%, respectively). The greatest contribution to the growth of tax revenues was made by the profit tax, whose revenues increased by Rb1.3 trillion (+27.8%). It should also be noted the growth of personal income tax (+13.1%) and non-tax revenues (+8.0%). There was a slight increase in taxes on total income and property, but revenues from these taxes in real terms slightly decreased (-0.8% and -2.8%, respectively). The volumes of inter-budget fiscal transfers declined to the greatest extent: by 11.0% in nominal terms and by 16.9% CPI adjusted. Thus, the revenues of the consolidated budgets of the subjects of the Russian Federation in 2023 increased, despite the drop in financial aid from the federal budget, due to a significant increase in tax and non-tax revenues, mainly on the back of an increase in income tax revenues.

In 2023, in 69 subjects of the Russian Federation consolidated budget revenues grew, in 16 regions they dropped. The largest increase in consolidated budget revenues in 2023 was observed in the Khanty-Mansi Autonomous Okrug-Yugra (+37.3%), the Tyumen oblast (+31.9%), the Leningrad Oblast (+27.9%), the Republic of Adygea (+24.1%) and the Smolensk oblast (+23.8%). In almost all of the above regions the main contribution to the increase in revenues was provided by the corporate profit tax, except for the Republic of Adygea, where budget revenues increased primarily due to the increase in the volume of intergovernmental fiscal transfers. The largest reduction in consolidated budget revenues in 2023 compared to 2022 occurred in the Nenets Autonomous Okrug (-18.2%), the Republic of Ingushetia (-17.5%), the Republic of Mordovia (-6.9%), the Republic of Khakassia (-11.2%), the Karachay-Cherkess Republic (-10.9%) and the Kemerovo oblast – Kuzbass (-10.4%). The main reason for the reduction in revenues of the above regions was the decrease in the volume of intergovernmental fiscal transfers. In addition, in the Nenets Autonomous Okrug the drop in revenues was due to a reduction in the corporate profit tax on the implementation of the production sharing agreement on the Kharyaginsky oil field project. A significant reduction in corporate profits tax revenues was also observed in the Republic of Khakassia and in the Kemerovo Region – Kuzbass.

In 2023, the consolidated budget revenues of the new regions of Russia (Donetsk People's Republic, Lugansk People's Republic, Kherson and Zaporizhzhya regions) amounted to Rb653.4 bn, of which Rb539.1 bn were non-repayable receipts from other budgets. Tax and non-tax revenues of the new regions amounted to Rb110.0 bn, with the largest contribution to this amount provided by personal income tax revenues (63.4% of total tax and non-tax revenues of the new regions).

### **Expenditures of the consolidated budgets of RF subjects**

The movement of the main indicators of the volume and structure of expenditures of the consolidated budgets of the RF subjects in 2023 is presented in the *Table 12*.

### Expenditures of the consolidated budgets of RF subjects

	In nominal terms, Rb bn		Growth, 2023 on 2022, %		Structure of expenditures, % to total		Share change in structure, p.p.
	2023	2022	Nominal	Actual (CPI ad- justed)	2023	2022	2023/2022
<b>Expenditures, total</b>	<b>21 839.2</b>	<b>19 622.6</b>	<b>11.3</b>	<b>5.4</b>	<b>100</b>	<b>100</b>	<b>0.0</b>
Nationwide issues	1 319.2	1 117.3	18.1	12.2	6.0	5.7	0.3
National defense	102.4	58.1	76.3	70.4	0.5	0.3	0.2
National security and law enforcement activity	295.7	245.0	20.7	14.8	1.4	1.2	0.1
National economy Including:	5 042.4	4 491.0	12.3	6.4	23.1	22.9	0.2
<i>Agriculture and fisheries</i>	329.4	308.3	6.8	1.0	1.5	1.6	-0.1
<i>Transportation</i>	1 323.7	1 093.5	21.1	15.2	6.1	5.6	0.5
<i>Motor road system (road funds)</i>	2 209.2	2 046.9	7.9	2.1	10.1	10.4	-0.3
<i>other national economy issues</i>	1 180.0	1 042.4	13.2	7.3	5.4	5.3	0.1
Housing and community amenities	2 640.6	2 035.0	29.8	23.9	12.1	10.4	1.7
Environmental protection	155.5	154.1	1.0	-4.9	0.7	0.8	-0.1
Education Including:	5 065.5	4 531.1	11.8	5.9	23.2	23.1	0.1
<i>Preschool education</i>	1 222.9	1 125.3	8.7	2.8	5.6	5.7	-0.1
<i>General education</i>	2 704.6	2 408.2	12.3	6.4	12.4	12.3	0.1
<i>Additional education of children</i>	323.2	300.1	7.7	1.8	1.5	1.5	0.0
<i>Secondary vocational education</i>	340.5	310.0	9.8	4.0	1.6	1.6	0.0
<i>Other education issues</i>	474.4	387.5	22.4	16.5	2.2	2.0	0.2
Culture, cinematography	717.6	619.9	15.8	9.9	3.3	3.2	0.1
Health care	1 871.9	1 952.0	-4.1	-10.0	8.6	9.9	-1.4
Social policies	3 949.1	3 775.7	4.6	-1.3	18.1	19.2	-1.2
Physical culture and sports	539.2	500.3	7.8	1.9	2.5	2.5	-0.1
Mass media	65.8	59.3	11.1	5.2	0.3	0.3	0.0
Government and municipal debt servicing	73.2	82.9	-11.8	-17.7	0.3	0.4	-0.1

Sources: Federal Treasury, own calculations.

In 2023, the expenditures of the consolidated budgets of the subjects of the Russian Federation, excluding new regions, grew in nominal terms by 11.3% (CPI adjusted – by 3.8%) against the level of 2022 and reached Rb21.8 trillion. Thus, expenditures grew at a faster rate than revenues.

In nominal terms, there was an increase in expenditures in all areas except health care and debt service. Expenditures on health care decreased in 2023 compared to the previous year by 4.1% in nominal terms and by 10.0% in real terms. Such dynamics can be explained by the winding down of measures aimed at combating the coronavirus pandemic. Expenditures on servicing the state and municipal debt declined by 11.8%, which was due to the reduction in the volume of commercial debt, which in turn was a consequence of the substitution of bank loans with budget loans that were cheaper to service. The regions' expenditures

in the spheres of national defense (+76.3%), housing and public utilities (+29.8%), transportation (+21.1%), national security and law enforcement (+20.7%), general state issues (+18.1%), social security of the population (+15.8%), culture and cinematography (+15.8%), as well as general education (+12.3%) increased to the greatest extent.

The most significant changes in the structure of expenditures in 2023 were associated with an increase in the share of expenditures on housing and utilities (from 10.4% to 12.1%), as well as a decrease in the share of health care from 9.9% to 8.6% and social policy from 19.2% to 18.1%. These trends are associated with the winding down in 2023 of many activities related to the elimination of the consequences of the COVID-19 pandemic.

The analysis of the dynamics of budget expenditures in the regional context shows that in 2023 the expenditures rose in 75 subjects of the Russian Federation and decreased in 10 regions. The greatest growth in the volume of expenditures was demonstrated by the Republic of Adygea (+33.3%), the Smolensk oblast (+23.9%), the Yamal-Nenets Autonomous Okrug (+22.7), the Khanty-Mansi Autonomous Okrug – Yugra (+22.2%) and the city of Moscow (+22.2%). Budget expenditures fell in the Republic of Ingushetia (-13.0%), the Republic of Dagestan (-10.5%), the Karachay-Cherkess Republic (-9.4%), the Samara oblast (-9.0%) and the Amur oblast (-2.7%).

In 2023, expenditures of the new regions amounted to Rb681.8 bn and their structure differed significantly from that of the other regions. Thus, a significant share in the expenditures of the new regions (42.2%) was accounted for by the expenditures on social policy, with pension payments accounting for 2/3 of this amount. In addition, a higher share of expenditures on health care (13.7%) and national security (4.0%) was observed in the new regions compared to the rest of the subjects of the Russian Federation.

### **Financial assistance to regions**

In 2023, the volume of transfers to regions (excluding new regions) as compared to 2022 dropped both in nominal terms (-11.0%) and in real terms (-16.0%) (*Table 13*). Nominal growth is characteristic only for grants (+4.0%), while in real terms they decreased (-1.8%). All other intergovernmental fiscal transfers declined both in nominal and real terms: subsidies – by 5.8% and 11.0%, subventions – by 35.0% and 38.6%, other intergovernmental fiscal transfers – by 28.1% and 32.1% respectively. The real growth of grants for fiscal capacity equalization should be regarded as positive (+2.5% with a nominal growth of 8.5%). As a result, the share of non-targeted financial aid (grants) increased by 4.3 p.p. compared with 2022 and amounted to 30.3%. The real volume of subsidies and other interbudgetary transfers decreased by 17.9%.

In moreover, the growth rates of receipts of all types of intergovernmental fiscal transfers in H1 2023 were higher than in H2 2023. This is explained by more prompt provision of intergovernmental fiscal transfers, which was necessary, among other things, to compensate for delays in the receipt of tax revenues in the first months of 2023.

Table 13

### Fiscal transfers to the consolidated budgets of the subjects of the Russian Federation

	2021		2022		2023		Change, 2023 on 2022, %	
	Rb bn	% to total	Rb bn	% to total	Rb bn	% to total	nomi- nal	real
<b>Transfers to regions, total</b>	<b>3 674.8</b>	<b>100.0</b>	<b>3 919.4</b>	<b>100.0</b>	<b>3 487.6</b>	<b>100.0</b>	<b>-11.0</b>	<b>-16.0</b>
<b>Grants</b>	<b>1 020.4</b>	<b>27.8</b>	<b>1 018.1</b>	<b>26.0</b>	<b>1 058.4</b>	<b>30.3</b>	<b>4.0</b>	<b>-1.8</b>
<i>Including:</i>								
Equalization transfers	718.3	19.5	758.6	19.4	822.9	23.6	8.5	2.5
To support measures designed to ensure fiscal balance	122.1	3.3	79.4	2.0	82.6	2.4	4.0	-1.7
<b>Subsidies</b>	<b>1 194.0</b>	<b>32.5</b>	<b>1 669.1</b>	<b>42.6</b>	<b>1 572.6</b>	<b>45.1</b>	<b>-5.8</b>	<b>-11.0</b>
<b>Subventions</b>	<b>519.5</b>	<b>14.1</b>	<b>428.5</b>	<b>10.9</b>	<b>278.6</b>	<b>8.0</b>	<b>-35.0</b>	<b>-38.6</b>
<b>Other intergovernmental fiscal transfers</b>	<b>940.9</b>	<b>25.6</b>	<b>803.6</b>	<b>20.5</b>	<b>577.9</b>	<b>16.6</b>	<b>-28.1</b>	<b>-32.1</b>

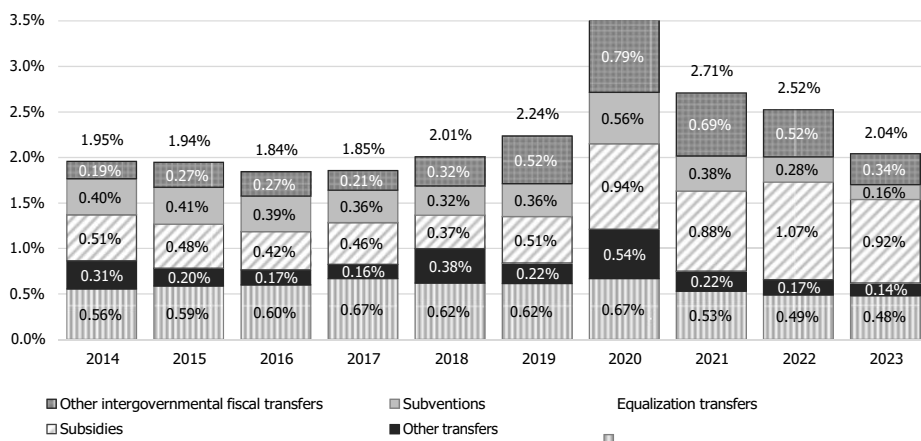
Sources: Federal Treasury, Rosstat, own calculations.

Taking into account the new regions, the nominal volume of intergovernmental fiscal transfers rose by 2.7%, but the real volume dropped by 3.0%. The main source of revenues of the new regions were grants to support measures to ensure equalization of budgets (18.1% of budget revenues of the new regions) and other grants not related to fiscal equalization and budget balance (57%), which affected the dynamics of grants. Thus, the nominal volume of grants grew by 52.2% and the real volume by 43.8%, while the nominal volume of grants to support measures to balance budgets grew by 153.2% and the real volume by 139.2%. All other intergovernmental fiscal transfers decreased, even taking into account the new regions, both in nominal and real terms: subsidies – by 5.6% and 10.8%, subventions – by 34.8% and 38.5%, other intergovernmental transfers – by 22.6% and 26.9%, respectively. The share of non-targeted financial aid increased by 12.5 p.p. and amounted to 38.5%.

As a share of GDP, the total volume of fiscal transfers to the regions (excluding new regions) decreased from 2.52% to 2.04%, but exceeded the level of the period 2014–2018<sup>1</sup> (Fig. 10). At the same time, the volumes of certain types of intergovernmental fiscal transfers changed significantly over the period 2014–2023. Thus, in 2023, the level of equalization grants was still low (0.48% of GDP, the lowest value for the whole period) and the volume of subventions reached the minimum (0.16% of GDP). The volume of other intergovernmental transfers (0.34% of GDP) in 2023 declined to about the level of 2018, while the volume of subsidies, despite the reduction, remains significant (0.92% of GDP, the third highest value over the entire period).

Taking into account the new regions, the level of fiscal transfers amounts to 2.35% of GDP, while the level of grants for fiscal equalization, subsidies and

<sup>1</sup> However, the base effect should be taken into account as real GDP declined in 2015, 2020 and 2022, giving overestimates of transfers as a share of GDP.



*Fig. 10. Intergovernmental fiscal transfers to the regions from the federal budget, % of GDP*

Sources: Federal Treasury, Rosstat, own calculations.

subventions remains unchanged, and the level of other intergovernmental fiscal transfers slightly increases to 0.36% of GDP. The main contribution is made by other grants: without taking into account the new regions their level is 0.14% of GDP, and taking into account new regions – 0.42% of GDP.

Interregional differentiation of average per capita tax revenues assessed by means of the coefficient of variation, in 2023 decreased compared to 2022, if we do not take into account the federal territory "Sirius" (Table 14). The differentiation of average per capita tax and non-tax revenues has also decreased. At the same time, fiscal equalization in 2023 was slightly more effective than in the previous year: if in 2022 after equalization the differentiation of tax and non-tax revenues decreased by 17.8%, in 2023 – by 19.3%. Thanks to the provision of subsidies in general, the differentiation of tax and non-tax revenues declined by 22.4% in 2023, which is approximately the same as in 2022 (22.0%). A significant effect was also achieved through subsidies, while other intergovernmental transfers had little impact on the reduction of differentiation.

*Table 14*

**The variance coefficient of the consolidated regional budgets revenues (per capita, adjusted to the budget expenditure index)**

Year	Tax-generated revenues	Tax-generated and non-tax revenues	Tax and non-tax revenues, fiscal equalization transfers	Tax and non-tax revenues, grants	Tax and non-tax revenues, subsidies	Tax and non-tax revenues, grants, subsidies, other intergovernmental transfers
2015	0.678	0.700	0.566	0.541	0.495	0.483
2016	0.549	0.568	0.442	0.423	0.391	0.391
2017	0.548	0.572	0.437	0.422	0.394	0.401
2018	0.572	0.590	0.458	0.429	0.398	0.405



Year	Tax-generated revenues	Tax-generated and non-tax revenues	Tax and non-tax revenues, fiscal equalization transfers	Tax and non-tax revenues, grants	Tax and non-tax revenues, subsidies	Tax and non-tax revenues, grants, subsidies, other intergovernmental transfers
2019	0.593	0.620	0.489	0.459	0.415	0.405
2020	0.552	0.570	0.437	0.391	0.322	0.318
2021	0.549	0.562	0.448	0.415	0.339	0.325
2022	1.470	1.384	1.253	1.214	1.039	0.984
2023	1.930	1.909	1.758	1.723	1.526	1.476
2022*	0.591	0.614	0.505	0.479	0.382	0.373
2023*	0.537	0.553	0.446	0.429	0.345	0.343

\* Minus federal territory "Sirius".

Sources: Federal Treasury, Rosstat, own calculations.

### Deficit and the regional debt

In 2023, the consolidated regional budgets were executed with a deficit of Rb171.7 bn (Rb200.1 bn including new regions), while in 2022 – with a surplus of Rb50.6 bn. The number of regions with budget surplus decreased from 36 to 34 (*Table 15*). In 14 regions (17 including new regions) the consolidated budget deficit exceeded 10% of tax and non-tax revenues (in 2022 – in 12 regions). Thus, the budget balance of the consolidated regional budgets slightly deteriorated.

*Table 15*

### Execution (deficit/surplus) of the consolidated budgets of the Russian Federation

Year	Number of RF subjects that have executed the budget	
	With deficit	With surplus
2014	74	11
2015	76	9
2016	56	29
2017	47	38
2018	15	70
2019	35	50
2020	57	28
2021	19	66
2022	50	36
2023	52 (55*)	34 (35*)

\*With new regions.

Sources: Federal Treasury, own calculations.

The volume of public debt of the subjects of the Russian Federation (excluding new regions) at the end of 2023 increased from Rb2.79 trillion to Rb3.19 trillion, while its ratio to the volume of tax and non-tax revenues of the budgets of the subjects of the Russian Federation decreased slightly from 20.9% to 20.5% compared to 2022. In 2023, the debt burden on the budgets of individual regions changed: the ratio of debt to tax and non-tax revenues declined in 40 regions and rose in 45 regions. In 8 regions the debt burden growth exceeded 10 p.p., and all these regions also had a high level of consolidated budget deficit. A high level

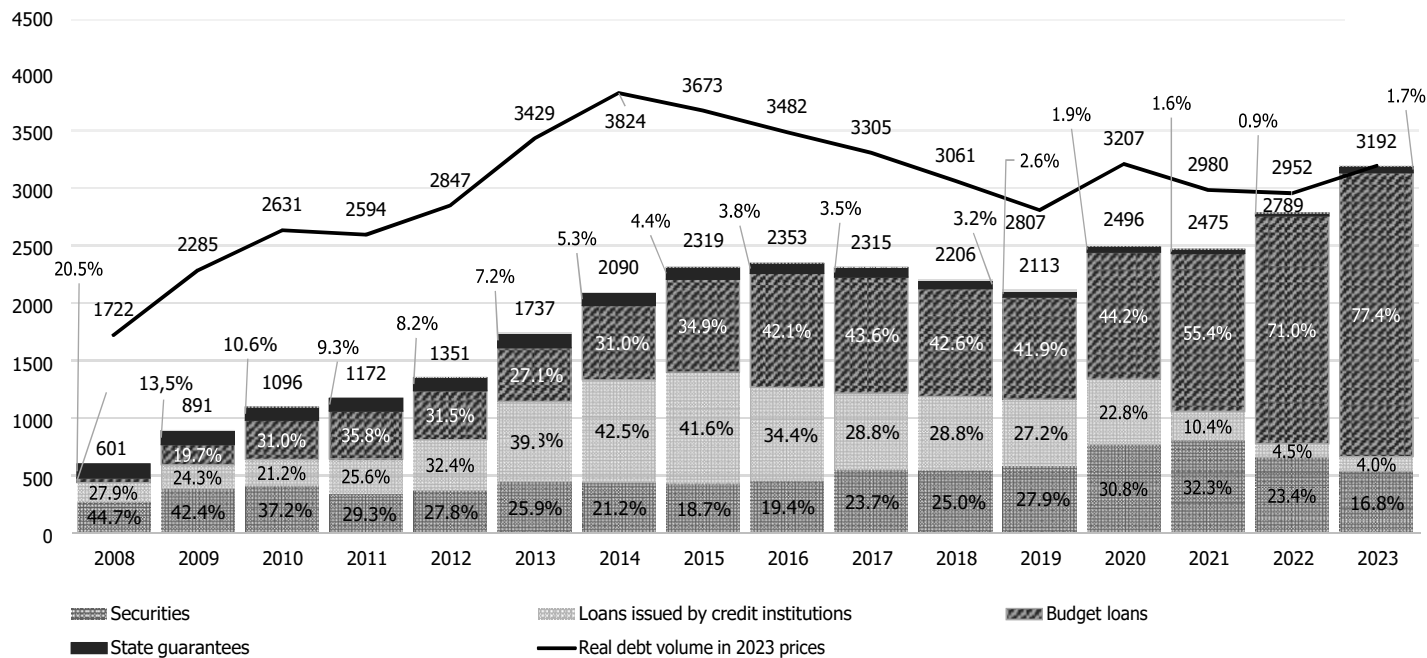


Fig. 11. Nominal volume (Rb bn) and structure (%) of public debt of RF subjects in 2008–2023

Sources: Finance Ministry of Russia, Rosstat, own calculations.

## Trends and Prospects

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of debt burden (over 50%) was observed in 24 regions (25 regions in 2022), and a super-high level (over 100%) – in none of the regions (one region in 2022). High level of both debt burden and budget deficit was observed in 10 regions against 5 regions in 2022.

Although in nominal terms the debt volume in 2023 reached the maximum over the period 2008–2023, in real terms it is lower than in 2013–2017 and 2020 (*Fig. 11*). In 2023, the debt structure continued to change: the share of budget loans went up by 6.4 p.p. and amounted to 77.4% (the maximum value over the period 2008–2023), while the share of loans of credit organizations dropped to 4.0% (the minimum value over the period 2008–2023). The nominal growth of budget credits in 2023 amounted to Rb489 bn (+24.7%), while credits of credit organizations amounted to Rb0.5 bn (+0.4%). Debt in the form of securities of the subjects of the Russian Federation decreased by Rb115 bn (-17.6%). The volume of state guarantees increased for the first time since 2013 – by Rb28 bn (+114.1%).

Thus, at the end of 2023, the deficit of consolidated regional budgets was formed and the volume of regional public debt increased. At the same time, the growth of tax revenues and federal inter-budgetary policy, including the replacement of regional “market” debt with budget loans, made it possible to restrain the growth of debt burden on regional budgets.