

ANALYSIS OF RUSSIAN REGIONS' BUDGET EXECUTION IN 2021 AND BUDGET PLANS FOR 2022

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THIS YEAR, DEFICITS WILL MOSTLY BE COVERED BY THE SOURCES THAT DO NOT INCREASE DEBT**ANALYSIS OF RUSSIAN REGIONS' BUDGET EXECUTION IN 2021 AND BUDGET PLANS FOR 2022**

- The total revenues of regional non-consolidated budgets grew by 18% year-on-year in 2021, or by RUB 2.4 tln. Tax and non-tax revenues (TNTR), which increased by 29% compared to 2020, or RUB 2.6 tln, accounted for all of this growth.
- More than half of TNTR growth came from corporate income tax, which grew by 55% year-on-year, or by RUB 1.6 tln.
- In terms of revenues, budgets were executed with a surplus of 28% compared to initial plans, while a number of regions recorded excess revenues of 40% and more.
- The surplus of non-consolidated budgets amounted to RUB 605 bln last year. 66 regions finished the year with a surplus, with the overall surplus amounting to RUB 777 bln.
- The planned growth of expenses by 3% and decline in revenues by 7% will lead to a RUB 1.1 tln deficit (RUB 0.7 tln excluding Moscow).
- Most regions that recorded uncharacteristic TNTR growth in 2021 are expected to experience a decline in TNTR in 2022, including the Lipetsk, Tyumen, Kursk, and Vologda Regions, the Krasnoyarsk Krai, the Republic of Sakha (Yakutia), and other.
- Only six regions plan to execute their budgets with a total surplus of RUB 10 bln in 2022; four others have projected a non-deficit budget.
- Judging by historical data, we assume that the achievement of the announced total deficit of RUB 0.7 tln (RUB 1.1 tln including Moscow) this year is unlikely.
- In absolute terms, the deficits planned by a number of regions for 2022 are smaller than the surpluses they recorded last year. If these surpluses could be retained in accounts, then the aforementioned regions would be able to fully cover their deficits without increasing borrowings, which is important in terms of adhering to commercial debt refinancing conditions.
- It is assumed that the total budget deficit of the regions (excluding Moscow) this year will be almost 50% financed using sources that do not result in changes to debts. Bank loans account for a third, while net attraction of bonds will allow regions to cover only 18% of the deficit.

CORPORATE INCOME TAX ACCOUNTED FOR MORE THAN HALF OF THE GROWTH OF REGIONS' TAX AND NON-TAX REVENUES

The total revenues¹ of regional non-consolidated budgets grew by 18% year-on-year in 2021, or by RUB 2.4 tln. In total, they amounted to RUB 15.7 tln (RUB 12.3 tln excluding Moscow). TNTR, which increased by 29% (RUB 2.6 tln) vs. 2020 to RUB 11.8 tln, accounted for all of this growth. Transfers from the federal budget declined by 5%, or by RUB 0.2 tln.

Total revenues only fell in three Russian regions — the Republic of Crimea recorded a 6% fall in revenues, while in the Kaliningrad Oblast and the Chukotka Autonomous Okrug revenues only fell by 2% and 1%, respectively (the latter region was the only region to experience a decline of TNTR, which amounted to 10%).

Table 1. Revenues only declined in three Russian regions in 2021

	DECLINE IN REVENUES		CHANGE IN TNTR	
	%	RUB MLN	%	RUB MLN
Kaliningrad Region	-2%	-2,284	19%	8,437
Republic of Crimea	-6%	-11,733	29%	13,154
Chukotka Autonomous Okrug	-1%	-598	-10%	-2,339

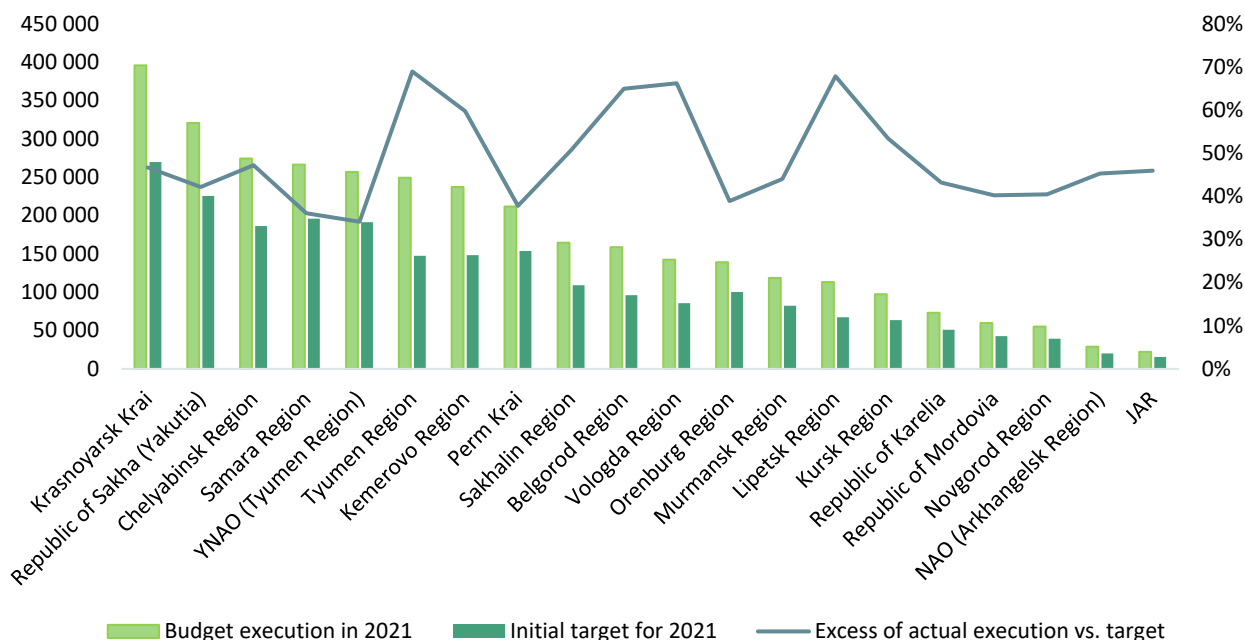
Sources: Federal Treasury, ACRA

Although the market situation characteristic of 2021, which has been repeatedly mentioned, made the main contribution to the aggregate budget surplus, the impact of last year's partial economic recovery and the low base effect of 2020 cannot be ignored.

Initially planned total budget revenues turned out to be 28% lower than the final figures. Conservative budget planning is standard practice, and there was little cause for optimism in late 2020, when plans for 2021 were made (although in Q4 2020, higher metal prices were already obvious). As a result, some regions significantly exceeded their revenue plans — by 40% or more.

¹ Hereinafter, data on the non-consolidated budgets of the regions of the Russian Federation is presented.

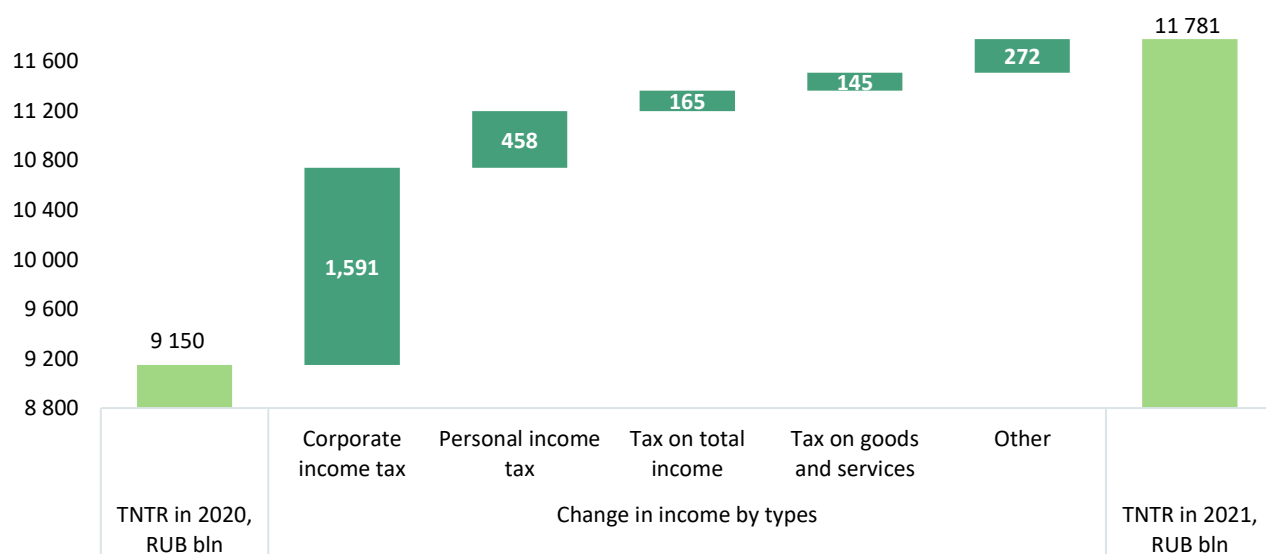
Figure 1. Many regions were unable to correctly predict their revenues for 2021



Sources: Federal Treasury, budget laws of Russian regions, ACRA

More than half of TNTR growth came from corporate income tax, which grew by 55% year-on-year, or by RUB 1.6 tln. This growth contributed 60% of the growth of TNTR in 2021. In comparison, the contribution of revenues from other taxes do not look so significant. For example, revenues from tax on total income provided only 6% of the increase in TNTR, although revenues generated by this type of income increased by 40% compared to last year. Revenues from taxes on goods and services also accounted for 6% of the growth of TNTR, having increased by 19%. Personal income tax increased to a lesser extent (by 14%), but due to its significant share in the structure of TNTR, it provided 17% of its growth.

Figure 2. More than half of TNTR growth was provided by higher income tax revenues



Sources: Federal Treasury, ACRA

Corporate income tax revenues, as well as total revenues as a whole, were planned conservatively by the regions. Relative to the target, these revenues increased by 64%². However, in two regions — the Tomsk Region and Kalmykia — they were below the planned level. The rest of the regions exceeded the corporate income tax revenue target, but the dynamics were heterogeneous: fluctuations from the original plan ranged from 3% in the Jewish Autonomous Region to 227% in the Kemerovo Region, and compared to the indicators of 2020 — from 4% in the Amur Region to 266% in Khakassia. Three regions — the Chukotka Autonomous Okrug, the Sakhalin Region and the Altai Republic — recorded a decrease in income tax revenues last year compared to 2020.

Despite the significant variation in growth rates, two-thirds of the regions increased their corporate income tax revenues by a third or more compared to the plan. The most successful regions in this regard were those where the metallurgy and chemicals industries play a significant role in the local economy (*see Appendix*).

The surplus of non-consolidated budgets of the regions in 2021 amounted to RUB 605 bln. 66 regions finished last year with a surplus; almost the same number of regions — 60 — ended 2020 with a deficit. The total surplus of those 66 regions was RUB 777 bln, and the list of regions with the highest budget surpluses did not come as a surprise (*Fig. 3*).

Figure 3. Growth in corporate income tax revenues led to maximum surpluses in 2021

	Surplus RUB mln		Surplus, % of TNTR
Krasnoyarsk Krai	86,846	Lipetsk Region	38%
Saint Petersburg	46,857	Jewish Autonomous Okrug	31%
Chelyabinsk Region	42,394	Vologda Region	30%
Lipetsk Region	35,505	Krasnoyarsk Krai	26%
Kemerovo Region	34,516	Belgorod Region	26%
Krasnodar Krai	33,691	Chelyabinsk Region	21%
Vologda Region	33,208	Kemerovo Region	19%
Republic of Sakha (Yakutia)	33,182	Perm Krai	18%
Belgorod Region	33,007	Novgorod Region	18%
Perm Krai	29,469	Ivanovo Region	18%
Samara Region	27,799	Murmansk Region	18%
Tyumen Region	25,297	Orenburg Region	18%
Voronezh Region	19,242	Republic of Sakha (Yakutia)	17%
Yamalo-Nenets Autonomous Okrug	19,106	Voronezh Region	17%
Moscow Region	18,859	Mari El Republic	17%

Source: ACRA

The budget deficit of the other 19 regions amounted to RUB 173 bln last year, with Moscow accounting for RUB 110 bln. Compared to the result of 2020, when the total budget deficit of the regions exceeded RUB 700 bln, the results of 2021 turned out to be better by RUB 1.3 tn.

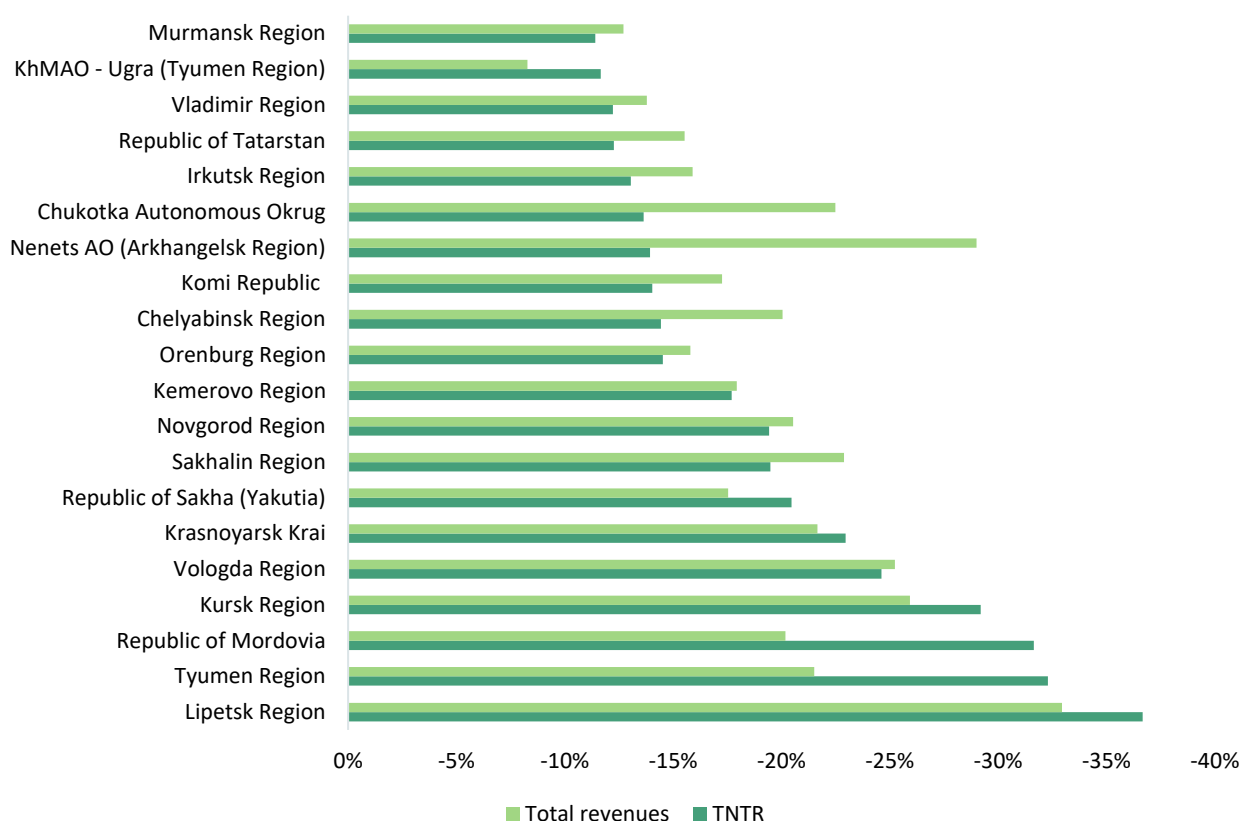
² Excluding data for Moscow, the Samara Oblast and the Perm Krai, which do not itemize tax revenues in their budget laws.

THIS YEAR, DEFICITS WILL MOSTLY BE COVERED BY THE SOURCES THAT DO NOT INCREASE DEBT

This year, regions expect³ their total revenues to decline by 7% against 2021 (or by 8% excluding Moscow). Both TNTR and transfers will decrease (by 4%⁴ and 15%, respectively). However, the amount of transfers will largely depend on the decisions of the federal government and may increase during the year.

Most of the regions whose TNTR grew atypically in 2021 project that TNTR will decline in 2022. These regions are the Lipetsk Region (a 37% decline), the Tyumen, Kursk and Vologda Regions (32%, 29% and 25% respectively), the Krasnoyarsk Krai (23%), Yakutia (20%), and the Novgorod and Kemerovo Regions (19% and 18%, respectively). The Republic of Mordovia and the Sakhalin Region stand out somewhat from this list, since their revenues grew not so much in 2021; these regions expect a decrease in TNTR in 2022 by 32% and 19%, respectively.

Figure 4. Regions do not expect the growth in TNTR to continue



Source: budget laws of Russian regions, ACRA's calculations

Regions project that at the end of the current year, the total budget deficit will amount to RUB 715 bln. Only six regions expect an aggregate budget surplus of RUB 10 bln, including the Omsk Region with a projected surplus of RUB 6.5 bln, the

³ According to the current versions of budget laws approved by Russian regions.

⁴ Hereinafter, unless stated otherwise, data are specified exclusive of Moscow; for the Samara Region, data from the Explanatory Note to the Draft Law of the Samara Region "On the regional budget for 2022 and the planned period of 2023 and 2024" are used.

Republic of Karelia and the Smolensk Region (RUB 1.1 bln each), as well as the Tomsk Region, the Kamchatka Krai, and the Jewish Autonomous Region, where more modest surpluses are expected in absolute terms. Four more regions rely upon a deficit-free budget: these are the Yaroslavl, Tambov, Volgograd Regions, and the Republic of Mari El. The remaining 75 regions (including Moscow) will end 2022 with a total deficit of RUB 1.1 tln, against which a RUB 10 bln surplus of the six above-mentioned regions is indistinguishable.

Figure 5. Regions with maximum deficits in absolute and relative terms

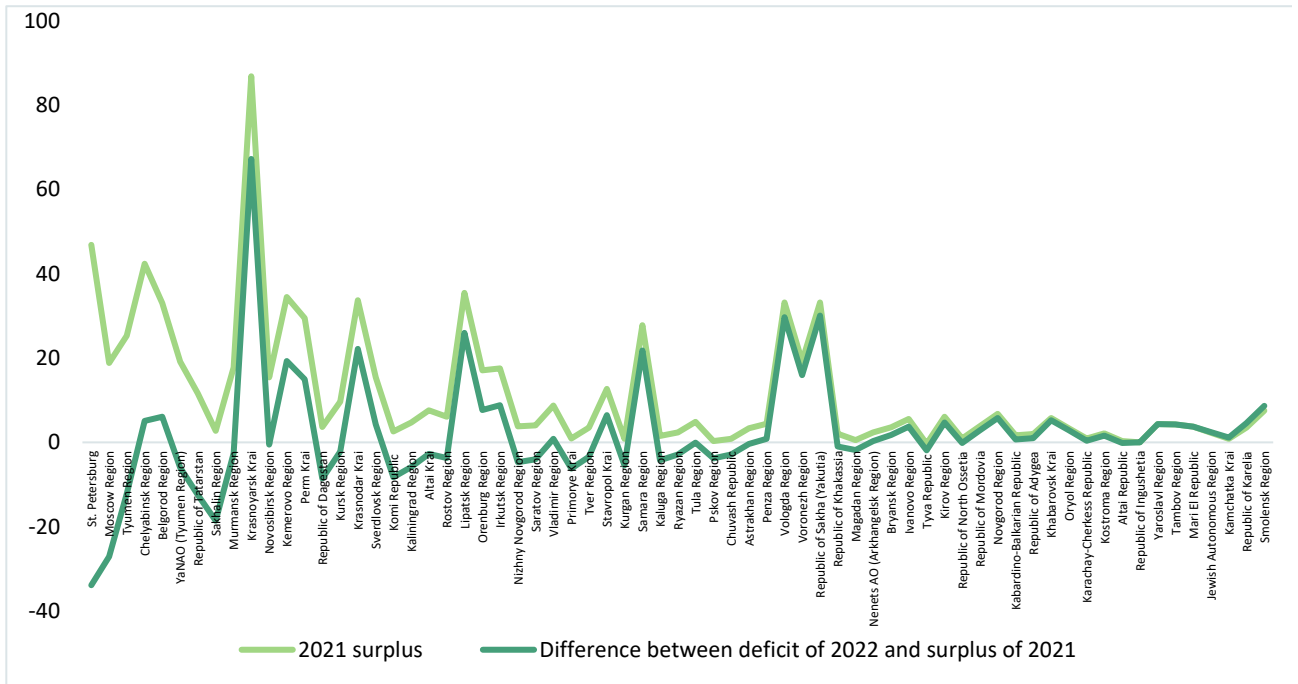
	RUB bln		% of TNTR
Moscow	372	Chechen Republic	87%
St. Petersburg	81	Republic of Dagestan	28%
Moscow Region	46	Kursk Region	24%
Tyumen Region	38	Tyumen Region	24%
Chelyabinsk Region	37	Kurgan Region	24%
Khanty-Mansiysk Autonomous Okrug - Ugra (Tyumen Region)	34	Murmansk Region	23%
Belgorod Region	27	Belgorod Region	23%
Yamalo-Nenets Autonomous Okrug (Tyumen Region)	25	Chelyabinsk Region	21%
Republic of Tatarstan	24	Tyva Republic	20%
Republic of Bashkortostan	21	Republic of Buryatia	19%
Sakhalin Region	21	Kalinigrad Region	18%
Murmansk Region	20	Sakhalin Region	18%
Krasnoyarsk Region	20	Lipetsk Region	16%
Novosibirsk Region	16	Pskov Region	16%
Kemerovo Region	15	Khanty-Mansiysk Autonomous Okrug - Ugra	15%

Source: budget laws of Russian regions, ACRA's calculations

Of 66 regions that ended last year with a surplus, 36 regions has planned a deficit for 2022 that could potentially be financed not by borrowings but at the expense of their own liquidity (provided that the entire surplus could remain in the accounts of a region). *Fig. 6* shows that the difference between the planned deficit and the existing surplus is positive for such regions.

The ability to execute the deficit-free budget or cover a deficit without the need to attract debt (primarily commercial debt) gives a region the opportunity to comply with the terms of the commercial debt refinancing program carried out in 2021. In this regard, the Krasnoyarsk Krai, Krasnodar Krai, Lipetsk, Samara and Vologda Regions, and the Republic of Sakha (Yakutia) have a maximum potential in absolute terms. In total, more than a third of the regions accumulated a significant cushion of liquidity last year to ensure their financial sustainability.

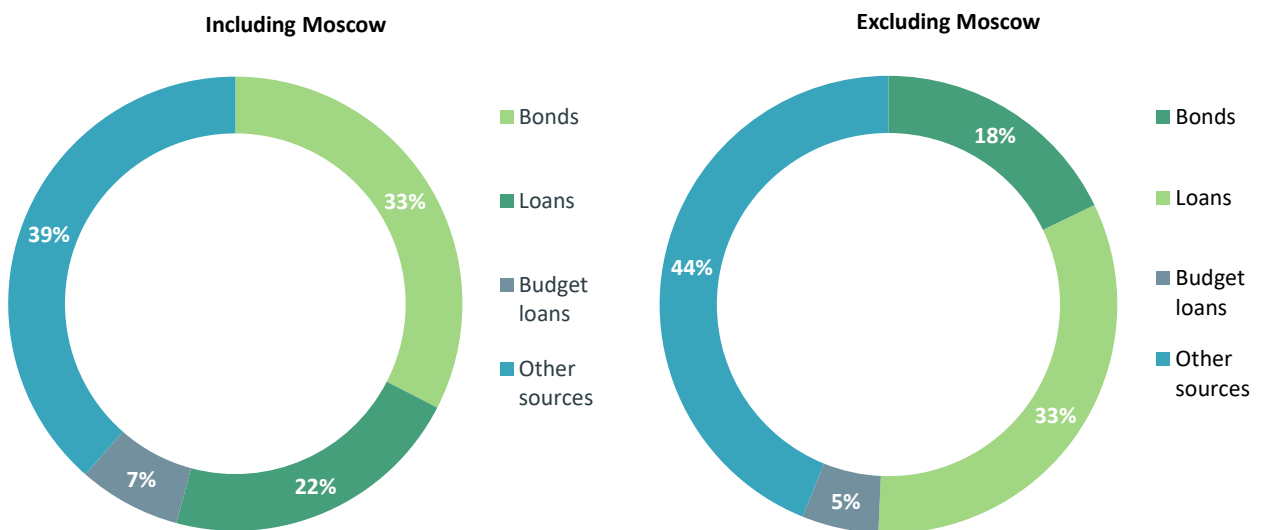
Figure 6. Over a third of regions have a planned deficit (modulo) that is less than the last year's surplus



Source: Federal Treasury Department, budget laws of Russian regions, ACRA's calculations

When financing their budget deficits, all regions in total (except Moscow) put a 44% reliance on sources that do not impact the amount of debt. Among these sources, account balances play the main role. Net bank loans (the amount of borrowings minus the amount of repayments) in 2022 will provide regions with a 33% coverage of planned deficits, net proceeds from bond issuances — 18%, and net budget loans — 5%.

Figure 7. To cover this year's deficits, regions will rely on liquidity and bank loans



Source: budget laws of Russian regions, ACRA's calculations

Expenditures indicated in the original versions of budget laws are regularly executed with some excess: over the past five years, this excess averaged to 7%, or RUB 0.7 tln. This is consistent with excessive transfers by an average of the same

RUB 0.7 tln over the past ten years and, in relative terms, by almost a half. Although the situation has been changing from year to year (for example, in 2021, transfers grew by RUB 1 tln relative to the plan, and expenditures grew by RUB 1.5 tln), we can still say that, taking into account the averaging, expenditure overruns were supported by growing transfers. All other things being equal, this means that in 2022, regions can execute their budgets with an aggregate deficit, but the declared volume of deficit (RUB 0.7 tln or RUB 1.1 tln including Moscow) seems unlikely.

APPENDIX

Corporate income tax in 2021: revenues exceeded those in 2020 and initial expectations for 2021

	2021 to 2020	Actual against expectations for 2021		2021 to 2020.	Actual against expectations for 2021
Moscow	37%	n/a	Magadan Region	8%	51%
Perm Krai	139%	n/a	Bryansk Region	47%	51%
Samara Region	82%	n/a	Penza Region	62%	51%
Kemerovo Region	231%	227%	KhMAO — Ugra (Tyumen Region)	11%	51%
Vologda Region	211%	212%	Smolensk Region	47%	50%
Lipetsk Region	205%	182%	Republic of Sakha (Yakutia)	35%	50%
Tyva Republic	185%	170%	Sevastopol	43%	48%
Belgorod Region	181%	156%	Yaroslavl Region	46%	46%
Republic of Karelia	160%	137%	Moscow Region	43%	45%
Orenburg Region	109%	126%	Karachay-Cherkess Republic	42%	45%
Novgorod Region	177%	113%	Republic of Buryatia	83%	41%
Kursk Region	105%	112%	Kurgan Region	26%	41%
Republic of North Ossetia	101%	112%	NAO (Arkhangelsk Region)	172%	39%
Komi Republic	134%	108%	Kabardino-Balkarian Republic	15%	38%
Astrakhan Region	94%	104%	Republic of Khakassia	266%	36%
Krasnoyarsk Krai	82%	99%	Rostov Region	30%	35%
Tyumen Region	75%	98%	Omsk Region	42%	33%
Murmansk Region	78%	97%	Nizhny Novgorod Region	46%	33%
Kirov Region	122%	97%	Mari El Republic	71%	33%
Ivanovo Region	73%	97%	Kamchatka Krai	17%	32%
Chelyabinsk Region	150%	95%	Novosibirsk Region	50%	32%
Vladimir Region	79%	87%	Republic of Ingushetia	29%	31%
Saratov Region	68%	82%	Tula Region	35%	31%
Irkutsk Region	65%	80%	Kaluga Region	22%	29%
Stavropol Krai	77%	72%	Amur Region	4%	26%
Oryol Region	76%	70%	Sakhalin Region	-27%	25%
Krasnodar Krai	52%	68%	Zabaykalsky Krai	42%	25%
Chechen Republic	55%	64%	Ryazan Region	33%	25%
Khabarovsk Krai	45%	63%	Republic of Crimea	51%	24%
YaNAO (Tyumen Region)	85%	62%	Ulyanovsk Region	30%	23%
Primorsky Krai	55%	61%	Volgograd Region	20%	22%
St. Petersburg	45%	60%	Chuvash Republic	17%	20%

Altai Krai	38%	60%	Kaliningrad Region	16%	19%
Voronezh Region	32%	59%	Chukotka Autonomous Okrug	-29%	16%
Arkhangelsk Region	112%	58%	Tver Region	4%	15%
Republic of Bashkortostan	92%	57%	Republic of Dagestan	27%	12%
Udmurt Republic	83%	56%	Leningrad Region	6%	9%
Tambov Region	41%	55%	Pskov Region	25%	8%
Republic of Tatarstan	85%	55%	Altai Republic	-1%	5%
Sverdlovsk Region	65%	53%	Jewish Autonomous Region	29%	3%
Republic of Mordovia	44%	53%	Republic of Kalmykia	29%	-12%
Republic of Adygea	81%	52%	Tomsk Region	56%	-16%
Kostroma Region	36%	51%			

Source: Federal Treasury Department, budget laws of Russian regions, ACRA's calculations

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