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REGIONS | RUSSIA

REVENUES INFLUENCED BY LAST YEAR'S ECONOMIC SITUATION

Analysis of preliminary data on the execution of Russia's regional budgets for five months of 2022

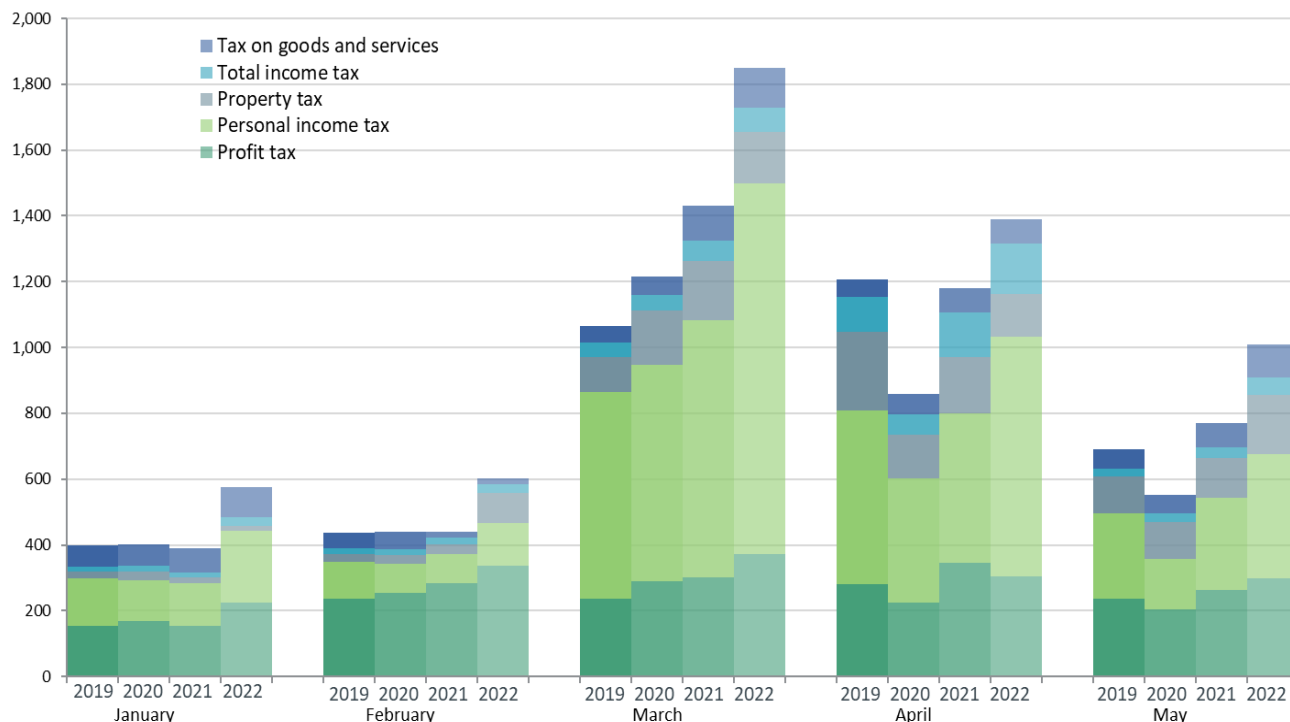
Preliminary data¹ published on the Unified Portal of the Budget System of the Russian Federation (UPBS) shows that total unconsolidated revenues of Russian regions for five months of 2022 have beaten all previous records and reached RUB 7.17 tln, an increase of more than a quarter compared to results for the same period last year. This indicator hit its highest point since records began. Tax and non-tax revenues (TNTR) increased by 31% to RUB 5.8 tln. They grew mainly due to the increase (+48%) in profit tax revenues. At the same time, the increase in revenues from this type of tax provided more than half of the total growth in revenues over the first five months of this year.

Amid a 13% increase in the region's budget expenditures, the interim surplus of non-consolidated budgets was almost three times higher than the surplus for the first five months of last year and amounted to 23% of TNTR (RUB 1.35 tln).

According to the figure below, monthly profit tax revenues over each of the first five months of 2022 were higher than a year earlier, while in March (when final settlements of profit tax for the previous year took place) these payments exceeded receipts for the same period last year by 43%. Proceeds in April (formed mainly by advance settlements for the first quarter, which are calculated based on the results for nine months of last year) exceeded the values of April 2021 by 61%. Growth continued in May, but it was more 'modest' at 31%. It is difficult to predict whether all these funds will remain the regions' budgets because returns, if any, will not begin next month.

¹ Data on the UPBS is given as of May 30, 2022, excluding the Republic of Kalmykia.

Figure 1. Monthly budget revenues in January to May 2022 reached a maximum

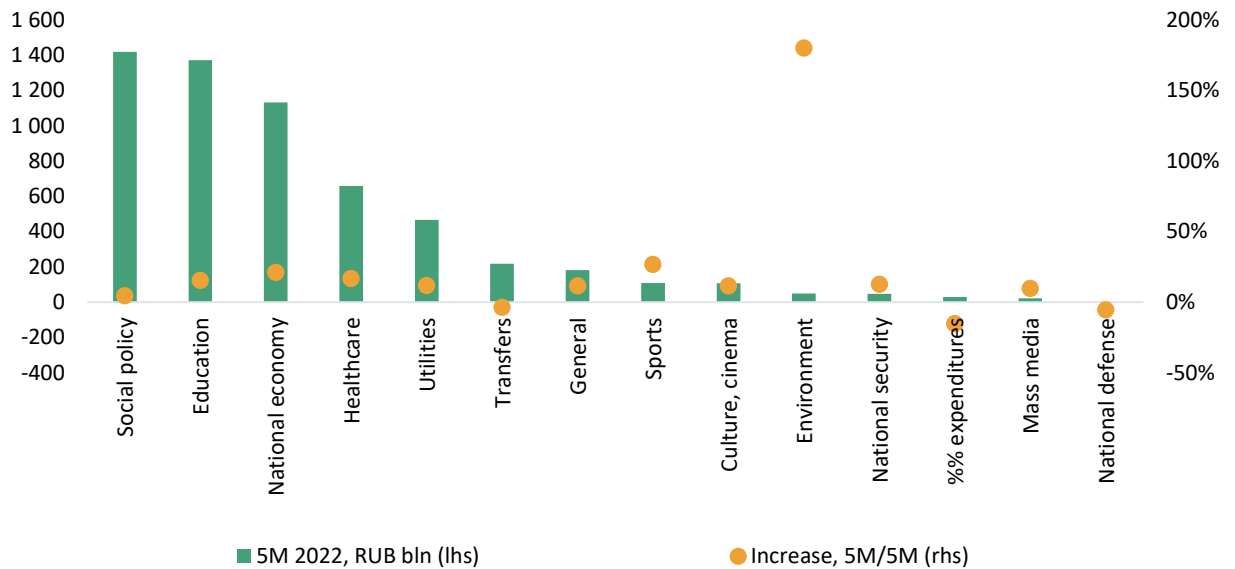


Sources: UPBS, ACRA

The dynamics of personal income tax partially reflected the ongoing structural economic changes. This April, proceeds from this type of tax revenue decreased by 12% (month-on-month vs. 2021). This situation is reminiscent of April 2020, when, against the backdrop of maximum restrictions due to the pandemic, personal income tax revenues decreased by 20% (month-on-month vs. 2019). However, then the decline continued in May, but now, on the contrary, the May dynamics turned out to be positive (+14% month-on-month vs. 2021).

The trend in budgets' expenditures is not fully indicative, which, in the current situation, is an objective reflection of uncertainty. At the moment, it is not clear how regions can contribute to a tangible improvement in the economic situation. Perhaps this will manifest itself in strengthening social support and expanding development programs, but such measures are unlikely to be financed entirely from internal revenues. Although the growth in expenditures for the national economy (+21% over the five months of 2022) contributes to the improvement of the economic situation, it is most likely a reflection of funds allocated for development programs at the beginning of the year. Expenditures on environmental protection have expectedly increased significantly (by almost three times), but their share in the total expenditures of regions is very small.

Figure 2. Budget expenditures of Russian regions for 5M 2022 did not demonstrate clear dynamics

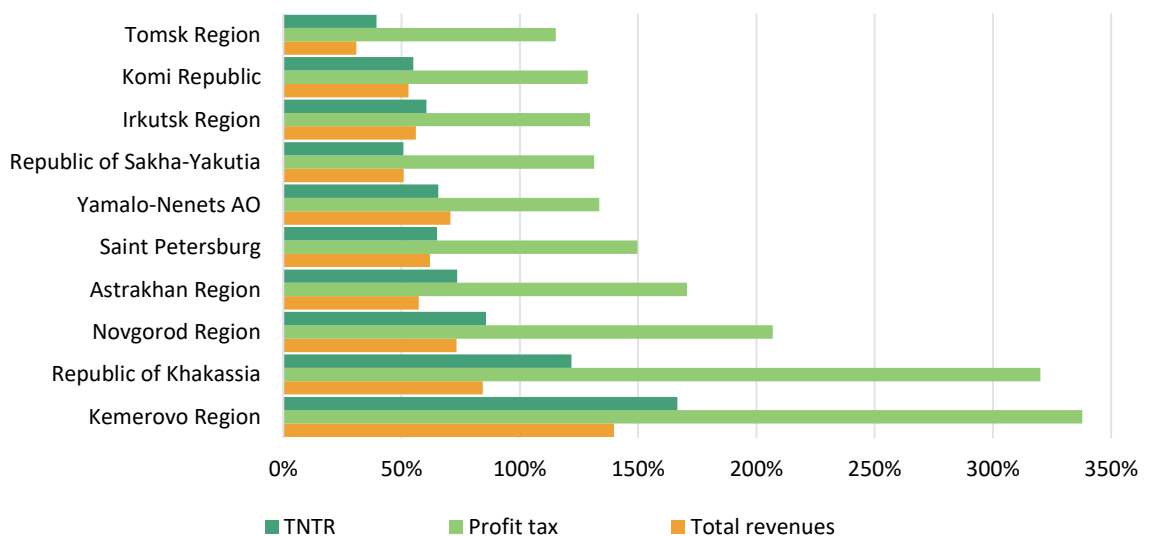


Sources: UPBS, ACRA

According to our calculations and preliminary data, there were eight deficit regions in the first five months: the Murmansk, Magadan and Ulyanovsk Regions, the Kamchatka Krai, the Chechen Republic, the Republic of Bashkortostan, the Tyva Republic, and the Republic of Ingushetia (the deficit of this republic is insignificant). The total deficit of these regions amounted to mere RUB 15 bln, while the total surplus of all surplus regions was RUB 1,367 bln.

Most of the regions whose revenues increased more strongly than other regions are in one way or another dependent on industries that were significantly affected by the increase of prices in 2021, including oil and gas, chemicals, coal, etc. In 13 regions, profit tax revenues more than doubled, while in another sixteen they increased by half and more.

Figure 3. Top 10 regions by profit tax revenue growth



Sources: UPBS, ACRA

Based on data available for January–April 2022, the volume of shipped goods in the manufacturing sector grew in all but five Russian regions. In the Omsk Region, the decrease amounted to 48.5% y-o-y, while in the remaining four regions it was less significant. Investments in fixed assets expectedly decreased in many regions (in 25), and in some cases the decrease was significant (56.4% y-o-y in the Astrakhan Region, 58.6% y-o-y in the Republic of Ingushetia, 71.1% y-o-y in the Republic of Adygea, 65.7% y-o-y in the Kostroma Region, 76.5% y-o-y in the Stavropol Krai, 76.7% y-o-y in the Omsk Region, 77.1% y-o-y in the Vologda Region, 77.9% y-o-y in the NAO). An even greater number of regions showed a decrease in trade turnover: both wholesale trade (34 regions, the fall in some cases exceeded 30%, but mostly amounted to 10–15%), and retail trade (41 regions with a maximum decrease of up to 89% against the preceding year). It is worth noting that the decrease in retail turnover occurred despite a short-term surge in retail sales in March noted by some grocery retailers. Such trends indicate a slowdown in business activity, which will affect regions' budgets. However, for some regions they are likely to have a delayed effect: the volume of shipped goods in the extractive sector in the four months of this year is very high (a decrease is observed only in eight regions, of which the Belgorod, Kursk and Murmansk Regions demonstrated high revenues from their main industries last year).

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