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## [Two Lean Years: Russia's Budget for 2018-20](#)



President Vladimir Putin will soon sign the country's 2018-2020 budget into law. Passed by the state Duma on November 29th, this budget reflects a relatively optimistic view of Russia's economic prospects. In 2018, budget revenues [will amount to](#) 15.258 trillion roubles, the expenditures will reach 16.529 trillion, and the deficit will stand at 1.3 percent of GDP. In 2019, the revenues are planned to reach 15.555 trillion, expenses will amount to 16.374 trillion, whereas the deficit will stand at 0.8 percent of the GDP. By 2020, the revenues are estimated at 16.285 trillion with expenditures at 17.155 trillion, and the deficit is also expected to reach 0.8 percent of the GDP. To put this in U.S. dollars, the 2018 expenditures should amount to USD 255 billion.

Those statistics look promising. Too promising, in fact. In reality, government expenditures are very likely to be much higher. The budget is drawn up with the base price of Urals oil set at USD 40 per barrel in 2017 prices (subject to the annual indexation of 2 percent, starting from 2018). According to estimates made by the Ministry of Finance, the average annual exchange rate of the dollar will amount to 64.7 roubles to the dollar (Maxim Oreshkin, who heads the Economy Ministry, [predicts](#) that the exchange rate will fall to 65.7 roubles to the dollar by the end of 2018.) These estimates are both wide of the mark: The average annual price of Urals oil has been above USD 51 in 2017 (with an upward trend), the average annual exchange rate of the dollar has declined and remains under 60 roubles to the dollar. However, the budget's understated price of oil, and the overstated dollar exchange rate virtually balance each other off in terms of rouble-denominated income. Thus, according to the September adjustment of the annual budget, the increased oil price generated 418 billion roubles of revenues, yet the understated rouble-to-dollar exchange rate reduced the revenues by 364 billion. In other words, revenues ultimately increased by less than 0.1 percent of the GDP.

The deficit will be financed from borrowings and the National Welfare Fund (starting from 2018, the Fund will incorporate the Reserve Fund, which will, in fact, confirm that the National Welfare Fund is certainly not an instrument of long-term investments for the benefit of future generations, contrary to previous claims). The NWF will hold a little more than 4 trillion roubles and it is unclear how this money could finance the 2019-2020 deficit of 8.3 trillion, even taking into account the new borrowings of 1.8 trillion roubles. Apparently, more borrowing will be needed. The 2018 GDP is set at 97.462 trillion roubles (up by 2.1%), and in 2019 the authorities plan to lift it by 2.2%, with 2.3% in 2020. In their reports, the [World Bank](#) and [OECD](#) experts doubt these very modest forecasts, even though the figures are below the growth rates observed in the global economy, as well as the European and North American economies.

Furthermore, Russian statistics give rise to ever more questions year after year. Based on [2016 results](#), it turned out that the GDP growth was ensured mainly by various adjustments and estimates, such as allegedly unregistered growth in the small business sector, recalculations of previous years' results (upwards, of course) or the immense statistical error of over 1.5 trillion roubles, amounting to approx. 1.5 percent of GDP (previously, it was held at 250-300 billion roubles). Such figures easily 'eat up' the planned GDP growth for 2017.

In this case, the flaws in official statistics are brushed aside by government reports on successes. Recently, in a televised interview with the First Channel, prime minister Dmitry Medvedev [said](#) that 'real income of the country's population is growing, and real wages are rising.' In the past, president Vladimir Putin [repeatedly stated](#) the same thing. In fact, according to Rosstat (Russia's Official Statistical Office), the real income of

Russian citizens [decreased by](#) 1.3 percent over the course of the first ten months of 2017.

### **Average Wage Stagnation, Cuts to Healthcare and Education**

Voters should remember Putin's promises made before the last presidential elections. At that time, Putin [said](#) that 'the average real wages in Russia should increase by at least 60–70 percent by 2020, and the authorities should focus on creating highly efficient jobs.' In 2011, the average salary/wages in Russia amounted to 25.6 thousand roubles (the calculations take a 13 percent income tax into account). By November 2017, the average figure [rose](#) to 38 thousand roubles. However, the [inflation rate](#) for the same period amounted to 53 percent. In other words, the real salaries/wages did not increase by 70 percent, but, instead, fell by more than 5 percent, and people's real income dropped by more than 10 percent. (The difference is explained by the fact that real income takes into account retirement pensions and income from entrepreneurial activity, both of which decreased even more dramatically). People's real income in the Russian Federation has been declining for four consecutive years: by 5.9 percent in 2016, by 3.2 percent in 2015, and by 0.7 percent in 2014. Two-thirds of the working population in Russia receive below-average wages.

A glance at the structure of budget expenditures over the last few years is also revealing. The increase in expenditures for 'beneficial' social purposes is noticeable only in comparison with the very scarce levels observed in 2016–2017. For the sake of comparison, let us take the pre-crisis year of 2013, where the federal budget provided 607 billion roubles for education. It was 597 billion in 2016 and 630 billion in 2017. In 2018, that number will be 653 billion roubles, and 668 billion in 2020. As readers may remember, prices have already risen by a factor of 1.5. The implication? Dramatic cuts to education since 2013..

The health care situation looks even worse: 494 billion roubles in 2013, 506 billion in 2016, 452 billion in 2017, 460 billion in 2018 and 499 billion in 2020. So the numbers, again, have remained level, but what this amounts to, due to inflation, is far less. The problem is that the burden of providing healthcare will be higher with an aging population. The main costs in this case (hospitals and general schools) are borne by regional budgets, and the situation is quite lamentable there as well. Putin's 'May decrees' of 2012 -- bringing teachers' salaries to the regional average, and doctors' salaries to twice the average -- are carried out through mass layoffs (if there are two doctors earning the same salary, then if one is dismissed, the salary of the other doctor can be doubled, etc.) and statistical manipulations (for example, in the past, teachers' income consisted of a 'basic' and 'motivating' component for extra workload and pupils' academic performance; at present, only the enlarged 'basic' part has been kept but the total real salaries have shrunk rather than increased).

### **Penniless Pensioners, A Bulked up Military**

Social policy expenditures comprise primarily of retirement pensions. In 2013, such pensions totalled 3 trillion, 960 billion roubles; by 2016, that number was 4.588 trillion, and 5.71 trillion in 2017. The government's expenditure plan marks out just 4 trillion 706 billion for 2018 and 4 trillion 873 billion for 2020. Thus, while the expenditures on retirement pensions for an increasing number of pensioners did go up in 2013–2016, they are now expected to be reduced. For several years, retirement pensions of working pensioners (more than 20% of the total number) were not indexed to match inflation, and the retirement age for civil servants has been raised. In real terms, pensions will continue to shrink, which has been admitted by the authorities: for example the head of the Accounting Chamber, Tatyana Golikova, [predicts](#) a decrease of 2.7 percent.

In contrast, military spending rose from 2 trillion 141 billion in 2013 to 3 trillion 775 billion in 2016. In 2017, it fell to 2 trillion 778 billion, and will decline further in 2018 to 2 trillion 771 billion, but will grow again afterwards, to 2 trillion 808 billion in 2020. It should be borne in mind that the actual military spending in Russia is much higher than the planned figures. Traditionally, additional budget revenues, if any, are allocated to this sector. Moreover, some military expenditures are concealed under other civilian items, primarily under 'the national economy'. Police spending rose from 1 trillion 487 billion in 2013 to 1 trillion 898 billion in 2016, 1 trillion 977 billion in 2017, 2 trillion 108 billion in 2018 and 2 trillion 140 billion in 2020. The share of concealed budget expenditures in 2013 amounted to 13.8 percent of the expenditure, and increased to 18.6 percent in 2017, with a planned increase to 20.1 percent of the budget in 2020. These are absolutely bizarre figures that cannot withstand any comparison with the secret parts of budgets in developed economies. At the same time, a significant proportion of the 'secret expenses' most likely does not go to military purposes but simply remains in someone's pockets.

The income estimates have many gaps. For example, the budget is calculated on the basis of the assumption that 50 percent of profits generated by state-owned companies (as reported under the IFRS) will go to the state budget. However, it is commonly known that none of the previous declarations to that effect were fulfilled: neither Gazprom nor Rosneft or many other large companies have paid those contributions. State banks such as VTB and Rosselkhozbank, as well as the Russian Railways (RZhD) and the Rosseti power grid company have shown either a loss or a minimum profit for many years. As regards Rosneft, it transfers its dividends not to the state directly but to a state-owned intermediary structure Rosneftegaz with [classified books of accounts](#), which, without conducting any economic activity, has announced a loss for 2017.

In the coming years, the Russian budget will continue to allocate about a third of its spending to military and police needs, whereas the social policy expenditures will decline, with the ordinary citizens getting ever poorer. In general, Putin's plans for his beloved voters on the eve of the presidential elections can be described with an old Soviet anecdote from the 'Armenian radio' series (a fictitious radio station giving humorous answers to listeners' questions). A listener asks: 'Will there be money under communism?' The radio answers: 'Yugoslav opportunists say there will be money. Chinese Maoists say there won't be any money. The correct dialectical answer is that when communism is built, someone will have money and someone will not.' The situation under Putin's rule is quite similar to that anecdote. According to his new budget, the military-industrial complex will have money while the majority of the population will have none.

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