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Research Report

## Russia's government budget swings around elections and recessions

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# BOFIT Policy Brief 2022 No. 1

Vesa Korhonen

Russia's government budget swings around  
elections and recessions



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## Contents

Abstract .....	3
1. Introduction.....	4
2. Russian government budget balance, revenue and expenditure .....	6
2.1 Despite large downswings in the balance, budget deficits relatively moderate in recessions....	6
2.2 The growing role of non-oil revenue streams helped stabilize budget revenues .....	8
2.3 Russia's election-time spending wanes, responses in recessions matched by many countries .	9
3. Five categories of government budget expenditure .....	13
3.1 Russia's election-time spending increases on social benefits and wages are far behind .....	13
3.2 Russia's recession spending hikes focused on social benefits and corporate subsidies .....	15
3.3 Increases in spending categories in comparison – different in two recessions.....	16
4. Russia's strong fiscal position provides buffer for weak economy .....	18
Annex. Government budgets: data, budget deflators and real volumes.....	20

Vesa Korhonen

## Russia's government budget swings around elections and recessions

### Abstract

This policy brief examines the shifts in Russia's government budget flows around election times and economic recessions. The issue is intriguing as Russia has basically pursued a policy of maintaining budget surpluses. Indeed, the government budget sector has shown a positive net financial stock position for many years – a rare achievement for almost any country. Large downward and upward shifts in revenue and expenditure have induced sizeable changes in the balance, although in recent years swings in budget revenues have decreased as non-oil revenue streams gained importance.

The real volume of government budget expenditure increased strongly around election time a decade ago. Such spending accelerations faded by the election cycle of autumn 2016 to early 2018 and remained subdued around the Duma elections in autumn 2021. Counter-cyclical budget spending policies were implemented around the 2009 and 2020 recessions to contain economic harms. The stimulus focus was on social benefits and corporate subsidies. Russia's spending increases in real terms around the 2009 recession reached the mid-range of increases when compared to twelve European economies and the US. During the 2020 recession, Russia's increases were short-lived and fell short of the hikes in almost all 13 comparison countries relative to size of GDP, but not drops in GDP.

Keywords: Russia, government budget, recession, election

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# 1. Introduction

Stability is important to society, and state leaders fond of power devote special attention to it. In Russia, stability has been a popular political theme especially after the oil price windfall and the consequent economic boom of 2000–2008. When oil prices collapsed, real GDP plunged almost by 8 % in 2009. Growth in foreign finance, the workforce, the stock of production capital, usage of idle production capacity and productivity all slowed or turned negative.

Russia's leaders have ever since actively pursued measures for maintaining economic stability, including rather unusual limitations to the functioning of markets. Import substitution policies, for example, took root over the past decade through subsidies, restrictions on government public procurements and purchases of state-owned companies. When unemployment spiked during the 2009 recession, regional leaders were explicitly tasked with assuring employment and threatened with the loss of their own jobs.

Apart from monetary policy, tackling inflation has involved temporary price restrictions during price spikes, mostly on select basic consumer goods, or industrial and agricultural products. Since the floating of ruble's exchange rate in late 2014, the government has taken part in tackling the steep drops in the ruble's value (2014–2015 and 2020) by limiting the forex operations of large state-owned companies.

While the temptation may occasionally appear to resort to such interventionist and restrictive policies, which may look cost-free but delay the eventual cost to citizens, the government budget is a constant and major money allocation arena. There are also intense periods when accelerations in government spending may arise, most notably around economic recessions to mitigate *economic and social instability* and around elections to encourage *voter stability*.

This review explores swings in Russia's government budget flows around economic recessions and elections. We first look at changes of the balance and revenue during recessions. The focus is on how the government may have increased budget expenditure as a whole and in major spending categories around recessions and elections.<sup>1</sup> We consider spending around several national election cycles in Russia.<sup>2</sup> We then examine three recessions that hit Russia (the global financial crisis of 2008–2009, the Russian recession of 2014–2015 and the recession of 2020).<sup>3</sup> We compare the Russian government's spending accelerations to 13 other economies (12 European countries and the US) around the time of the recessions of 2008–2009 and 2020.<sup>4</sup>

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<sup>1</sup> Using banks as a support channel in those circumstances can be important. While effects from increased government budget spending are direct, successes of central bank and government efforts to provide support via banks are harder to distinguish from developments in banking sector totals (e.g. the extent to which bank lending and credit restructuring are the result of support measures or unsupported actions by banks). Besides sizes of bank support packages, assessments can also require figuring out factors such as central bank interest rate policy and non-conventional measures, regulatory easing, government lending guidance to state-controlled banks, bank lending rates and other financing conditions, as well as the role of non-bank financing. See e.g. Zuzana Fungáčová, Koen Schoors, Laura Solanko and Laurent Weill. Political cycles and bank lending in Russia, BOFIT Discussion Paper 8/2020 <https://helda.helsinki.fi/bof/bitstream/handle/123456789/16987/dp0820.pdf?sequence=1>.

<sup>2</sup> Four duma and presidential cycles, and the recent Duma election, i.e. the Duma election in December 2003 & presidential election in March 2004; December 2007 & March 2008; December 2011 & March 2012; and September 2016 & March 2018; as well as the duma election in September 2021.

<sup>3</sup> Note that from Russia's viewpoint, all three recessions were at least partly oil price recessions, i.e. caused by sharp falls of oil prices and other factors behind or alongside oil prices, e.g. COVID-19 in 2020. Seasonally adjusted real GDP in Russia, as computed by Rosstat, declined from the previous quarter in 2008Q3–2009Q2, 2014Q3–2015Q2 (and 2015Q4), and 2019Q3–2020Q2. GDP was back to its pre-recession level in 2011Q3, 2017Q2 and 2021Q2.

<sup>4</sup> The 13 economies comprise eleven EU countries: seven largest of the countries that joined the EU during or after the 2004 expansion (Bulgaria, Croatia, Czech Republic, Hungary, Poland, Romania and Slovakia), four largest of the earlier EU members (France, Germany, Italy and Spain), the United Kingdom and the United States. Some other

The budget sector covered is the entire *consolidated budget* of the general government.<sup>5</sup> Russian national practice consolidates the budgets of the federal government, regional governments, local governments and state social funds. The general government budget is covered as an aggregate (the notions of government budget sector, government budget, government and budget used in this review refer to that aggregate). The five main categories of government budget expenditures covered are *social benefits*, *compensation of employees*, *use of goods and services*, *corporate subsidies* (current transfers to public corporations and private enterprises) and *capital investments*. They are categories in the economic classification of expenditures in Government Financial Statistics (GFS) and Eurostat Government Finance Statistics template tables (EU GFS). Government expenditure categories in the functional classification (such as administration, defence, education and healthcare) are not covered.<sup>6</sup>

To avoid using inflated nominal data, we trace and use real volumes of government revenue and expenditure. This is done by deflating nominal budget data (mostly quarterly) with purpose-built budget deflators. In order to depict the magnitude of changes in the real volumes for the economy, ratios of the changes to the real volume of GDP (one year earlier) are computed. For easier distinction in the text, this ratio is abbreviated as CRV/GDP.<sup>7</sup>

The key findings are that Russia earlier accelerated increases in government budget expenditure in real terms around the times of national Duma and presidential election. The focus was on social supports and government budget sector wages. However, that line cooled off on the road to the election round of September 2016 to March 2018 and remained so also around September 2021 Duma elections. Out of Russia's three post-1998 recessions, Russia managed to counteract the recessions of 2009 and 2020 through accelerated spending. The similar effort in 2015–2016, however, became negative in real terms due to high inflation. The main spending items in tackling recessions have been social support and subsidies to firms. In the 2020 recession, Russia's increases were short-lived and outpaced by hikes in almost all 13 comparison economies relative to the size of GDP, but not the drop in GDP.

## 2. Russian government budget balance, revenue and expenditure

### 2.1 Despite large downswings in the balance, budget deficits relatively moderate in recessions

The 2000–2008 economic boom in Russia provided rapidly increasing budget revenues to the extent that the government had no problem simultaneously increasing budget spending and posting large surpluses (Figure 1). Since that time, budget stability has been a core objective of Russia's budget planning. When the economy and budget balance have been stable or stability has been projected as

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economies of similar interest for comparison, notably, Serbia and Ukraine, were dropped due to lack of comparable up-date government budget data.

<sup>5</sup> The general government sector consists of all government units and all resident non-market non-profit institutions controlled by government units, as well as those public enterprises legally constituted as corporations and delineated as non-market producers (Government Financial Statistics Manual, 2014: <https://www.imf.org/external/Pubs/FT/GFS/Manual/2014/gfsfinal.pdf>).

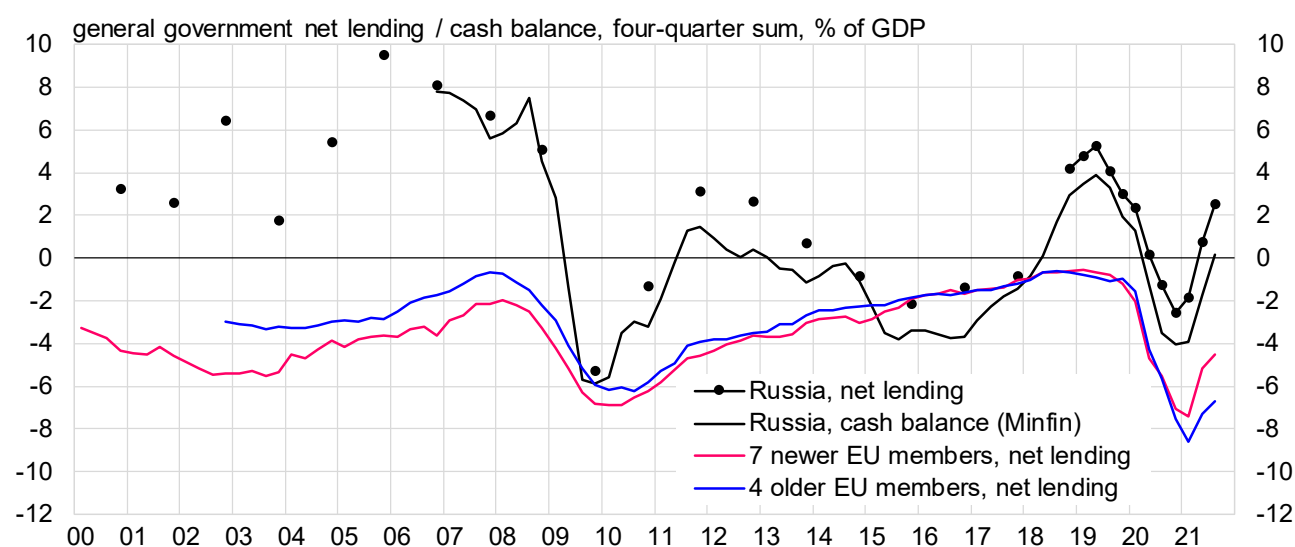
<sup>6</sup> Government operations in domestic financial assets (loans, debt securities, deposits, equity and other receivables) and government guarantees granted to domestic bank loans are not included due to insufficient data for the 13 comparator economies in international data bases.

<sup>7</sup> Data sources, budget deflators and issues related to the data, real volumes and CRV/GDPs are presented in the Annex at the end of the brief.

continuing at the moment of planning the following year's budget – or with no national elections in the nearest future – Russia has sought to limit the government budget deficit to around 2–0.7 % of GDP (2013 to 2017) or even maintain surpluses (2018 onwards). While stable and no-election periods since 2008 have been rare, pursuit of budget stability has extended into economic recessions. Thus, as soon as budget deficits have arisen in downturns, plans for curbing the deficit quite quickly have been laid out. This applies to all three post-recession years of 2011, 2016 and 2021).<sup>8</sup>

Russia's budget balance also showed relatively small deficits or surpluses during the stable periods after 2008 and during recoveries. The deficits have been smaller than the continuous shortfalls in almost all of the 13 comparison economies. Russia's policy of staying close to budget balance has generated room for allowing surpluses to diminish or become deficits as necessary. Thus, the large surpluses before the global recessions around 2009 and in 2020 allowed moving to deficits, which, however, were smaller than in most of the 13 comparison economies in 2009 and much smaller than in any of them in 2020.

**Figure 1.** Government budget in Russia has generated surpluses and showed smaller deficits during recessions than in the EU comparison countries.



Sources: GFS, IFS, EU GFS, Russian Ministry of Finance, Rosstat.

Out of the three economic recessions in Russia, the downturns of 2009 and 2020 led to very large shifts from surplus to deficit in the government budget (Figure 2).<sup>9</sup> The shift in the balance was also considerable in Russia's 2015 recession that was due to the collapse in oil prices. The rebalancing of the budget occurred quickly after 2009, more slowly after 2015 and quickly again in 2021.

Relative to all 13 comparison economies, the shift of Russia's budget surplus to deficit in the recession of 2009 was far deeper, even if the deficit per se was not. With that and the 2015 recession Russia had more experience of downswings than any of the 13 other economies when the COVID-

<sup>8</sup> Several annual issues of Основные направления бюджетной, налоговой и таможенно-тарифной политики на 2011 год и на плановый период 2012 и 2013, Министерство финансов, Российской Федерации, up to the latest which is for 2022–2024

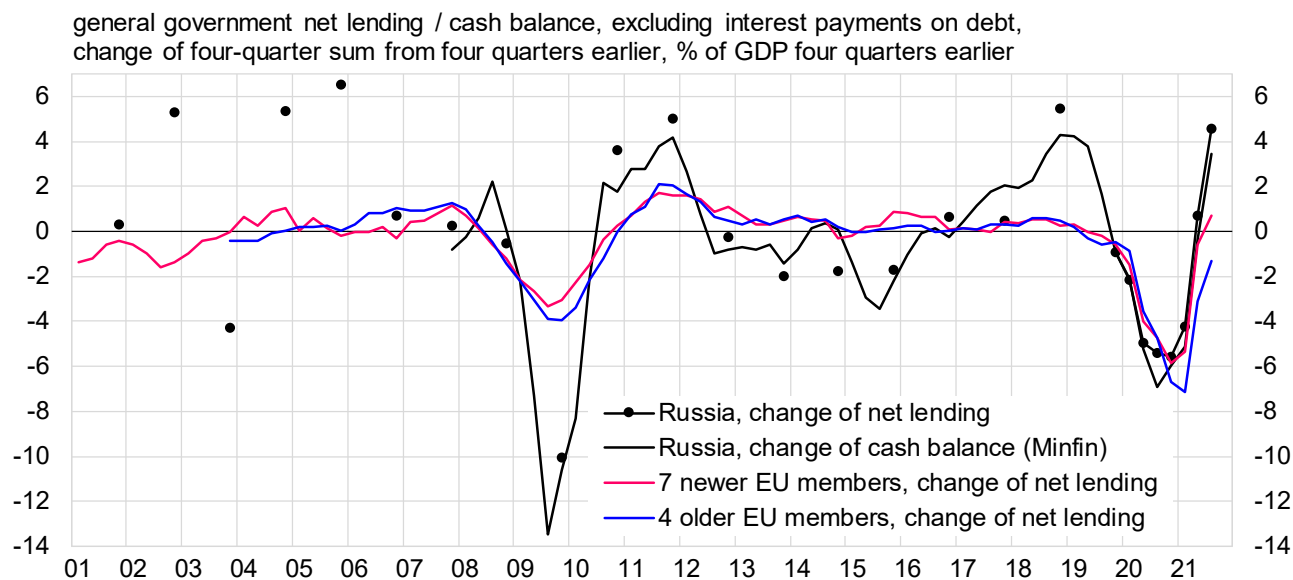
[https://minfin.gov.ru/ru/document/?id\\_4=134362-osnovnye\\_napravleniya\\_byudzhethnoi\\_nalogovoi\\_i\\_tamozhenno-tarifnoi\\_politiki\\_na\\_2022\\_god\\_i\\_na\\_planovyi\\_period\\_2023\\_i\\_2024\\_godov](https://minfin.gov.ru/ru/document/?id_4=134362-osnovnye_napravleniya_byudzhethnoi_nalogovoi_i_tamozhenno-tarifnoi_politiki_na_2022_god_i_na_planovyi_period_2023_i_2024_godov).

<sup>9</sup> A negative/downward change in the government budget balance (declining surplus, growing deficit, or flip from surplus into deficit) is commonly taken to reflect an easing of fiscal policy. At the same time, it is worth noting that a negative change in the balance may arise from declining revenues and unchanged expenditure, or even reduced expenditure if the fall in revenues is larger.



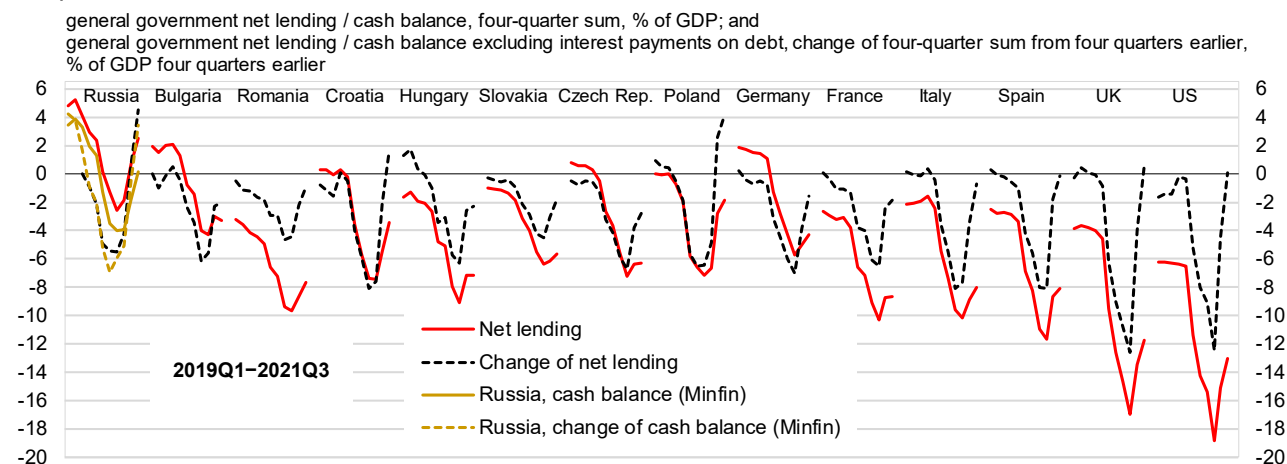
19 recession hit in 2020. 2020 was the moment when Russia's budget shift to deficit was matched or surpassed by most of the eleven EU economies, and even more by the UK and US, which created huge downswings in their budget balances (Figure 3).

**Figure 2.** Russia experienced severe fluctuations in government budget balance.



Sources: GFS, IFS, EU GFS, Russian Ministry of Finance, Rosstat.

**Figure 3.** Government budget deficit in the 2020 recession was notably smaller in Russia than in any of the 13 comparison economies, and the downward shift of the balance was milder than in most.

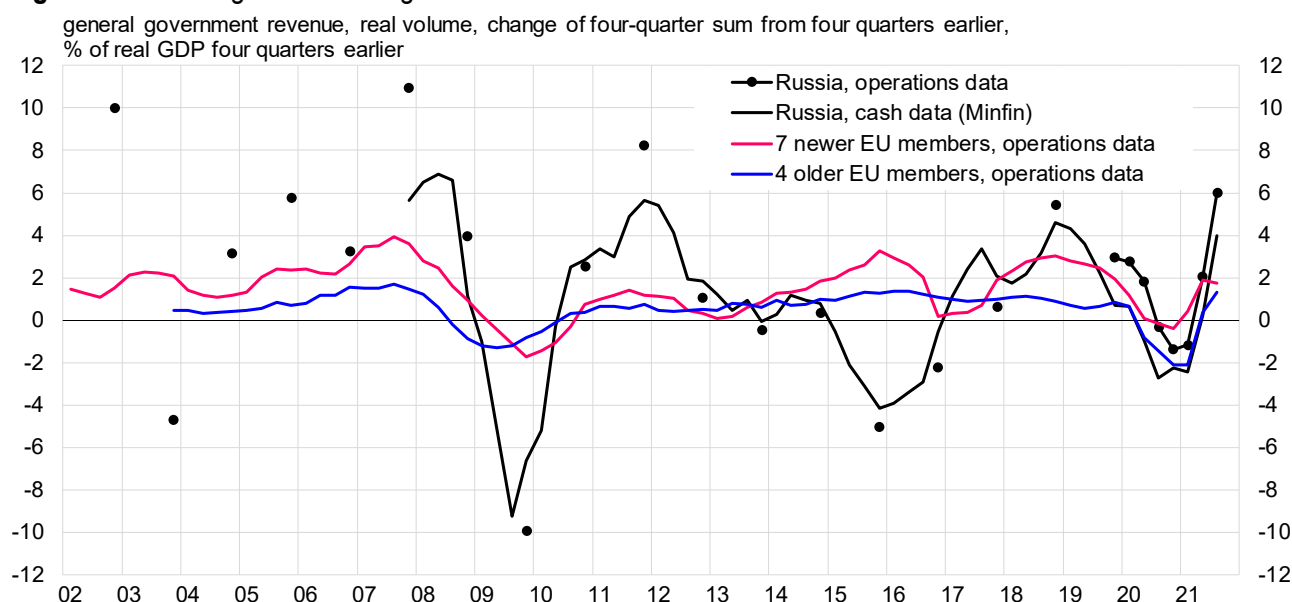


Sources: GFS, IFS, EU GFS, Russian Ministry of Finance, Rosstat.

## 2.2 The growing role of non-oil revenues helped stabilize budget revenues

The large downward changes in Russia's government budget balance resulted mostly from falling revenues in 2009, but in 2014–2015 and 2019–2020 much more of the shift in balance came from spending increases. The real volume of Russia's revenues shrank significantly in all three recessions, even if the declines have moderated over time in CRV/GDP terms (Figure 4). Luckily for Russia, revenues also rebounded fast especially in 2010 and 2021. Relative to all comparison economies, the 2009 slump was particularly gloomy for Russia whereas in the 2020 recession the negative revenue CRV/GDP was smaller in Russia on operations basis than in half of the 13. To a large extent, this reflects differences in the rates of GDP decline. In 2009, it was 8 % in Russia and around 3–7 % in almost all of the 13 comparison economies. In 2020, it was only 3 % in Russia and around 3–11 % for virtually all 13 comparison economies.

**Figure 4.** The swings in Russia's government revenues have moderated over time.



Sources: GFS, IFS, EU GFS, Russian Ministry of Finance, Rosstat.

There are two important caveats in comparing changes of budget revenues of different time periods and across countries. First, taxation may change. For example, Russia increased the general VAT rate at the start of 2019, which should have increased budget revenues by about 0.6 % of GDP. During recessions, governments may find large-scale tax overhauls unappealing as they can be uncertain in creating counter-recessionary effects and risk further revenue losses. Changes may still be implemented in a recession based on earlier decisions. A recent example in Russia was halving the general 30 % rate of mandatory employer social taxes on wages over a certain limit for small and medium-sized firms. The change was approved in 2019 and implanted in 2020 (with the expectation of lost budget revenues corresponding to 0.4 % of GDP). Second, budget revenues can rise on one-off items. Russia's budget revenues were goosed by three very large lump sum payments in 2007, 2016 and 2020–2021 (each equal to about 1 % of GDP). All of them resulted from ownership changes in large corporations.<sup>10</sup>

A major feature in Russia's government budget is revenue swings amplified by special production taxes and export duties on the oil and gas sectors. Almost all of these are designed to rise automatically and progressively with the oil export price. Budget revenues flowing from them ("oil revenues" for brevity) accounted for a hefty share of total budget revenues (between 14 % and 28 % in 2006–2020) and have fluctuated very significantly with changes in the oil export price. Thus, oil revenues have played a major role in the drops of total budget revenues in the three recessions. This obviously makes Russia different from the 13 comparison countries, even if Russia's oil revenue CRV/GDPs have become – and potentially remain – somewhat smaller than earlier as the ratio of oil revenues to GDP has gradually diminished (from 10 % in the pre-recession year 2008 to 9.4 % in 2014 and 7.3 % in 2019).

Large swings in the oil price have been a major factor driving the Russian economy into recession and back to recovery, thus impacting the government budget's non-oil revenues as well. The share of non-oil revenues in Russian government budget has always dominated, while their volatility is clearly lower. These two features earlier combined to non-oil revenue CRV/GDPs that coincided closely with those of oil revenues. However, mirroring the gradually declining role of oil revenues, the non-oil revenue CRV/GDPs have for most of the time since the 2015 recession fared more stably and considerably better than those of oil revenues. This holds even if the revenue increases from the VAT hike and the one-off revenue bumps in 2016 and 2020–2021 are excluded. Part of the better performance reflects improvements in collection of major non-oil tax revenues in recent years.

## 2.3 Russia's election-time spending waned responses in recessions matched by many countries

Government budget spending makes a focal economic policy arena during recessions and may become such around elections as well. Recessions and elections are naturally not strictly separate contexts even when they do not overlap in time, as tackling recessions is one factor that can support the popularity of leaders.

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<sup>10</sup> In 2007, Yukos, a large private oil company, was nationalized and required to pay tax arrears and other payments to the government. In 2016, part of an equity stake owned by a government-owned company in Rosneft, Russia's largest oil company, was sold while the seller company paid the funds it received to the federal budget as dividend revenue of the government. The 2020 operation involved the central bank selling its majority stake in Sberbank, Russia's largest bank, to the federal government, which drew on funds from the National Wealth Fund. The central bank then paid the funds (most in 2020 and the remainder in 2021) to the government as budget revenue from the central bank's surplus earnings on the sale.

Russia's pursuit of reasonable balance led to a stagnant and even declining trajectory in the real volume of government budget expenditure between 2013 and 2019.<sup>11</sup> The long spending track also contains large upward turns. Election cycles in 2007–2008 and 2011–2012, as well as the three Russian recessions (2009, 2015 and 2020) saw accelerated increases of spending in *nominal* roubles (excluding interest payments on debt, which applies throughout this review both as regards expenditure in Russia and all comparison economies). However, the purchasing power of nominal spending increases has sometimes been severely eroded by high inflation, in fact to such an extent that government spending in Russia has faced considerably larger erosion than in all 13 comparison economies due to rapid increases in Russia's budget deflator.

Expenditures can contain large one-off jumps. During the years covered, Russia had two massive one-time budget expenditure operations, one at the end of 2014 and one in 2016. Each was equal to about 1 % of GDP. The first measure was counter-recessionary, the second defence-driven and not directly electoral or counter-recessionary in its timing.<sup>12</sup> This one-off caveat naturally applies to government spending in the 13 comparison economies.

Increases of total government spending during the four election periods in Russia differ a bit, but the overarching feature is that election-time spending accelerations have largely vanished. Elections in late 2003 and early 2004, though, did not see spending step-ups (not even in nominal terms), probably a reflection of the fact that large spending increases had just occurred. Even if high inflation during the boom-time 2007–2008 election cycle consumed a large part of the massive nominal spending increase, the outcome was a sharp rise in the real volume of spending as such and in CRV/GDP terms (Figure 5). The 2011–2012 election cycle came with a similar, but more moderate, pattern: nominal spending rose rapidly and relatively low inflation allowed the real volume of spending to also increase briskly.

During the longer election cycle from autumn 2016 to early 2018 even nominal spending increases were meagre. The change in the real spending volume ranged from negative to slightly positive and basically came from a one-time pension payout in early 2017. This cool line in spending is at least partly explained by the government's plan to cut the budget deficit that appeared during the 2015 recession while the leadership enjoyed high favourability in the polls.<sup>13</sup> In a similar vein, the Duma election in September 2021 only featured lump-sum payouts to pensioners and select groups of government employees. One limitation on spending is that Russia also presently has a plan to wipe out the 2020 budget deficit. Moreover, COVID-19 and the 2020 recession already required significant extra spending, and the leadership's poll ratings still range from good to mediocre.

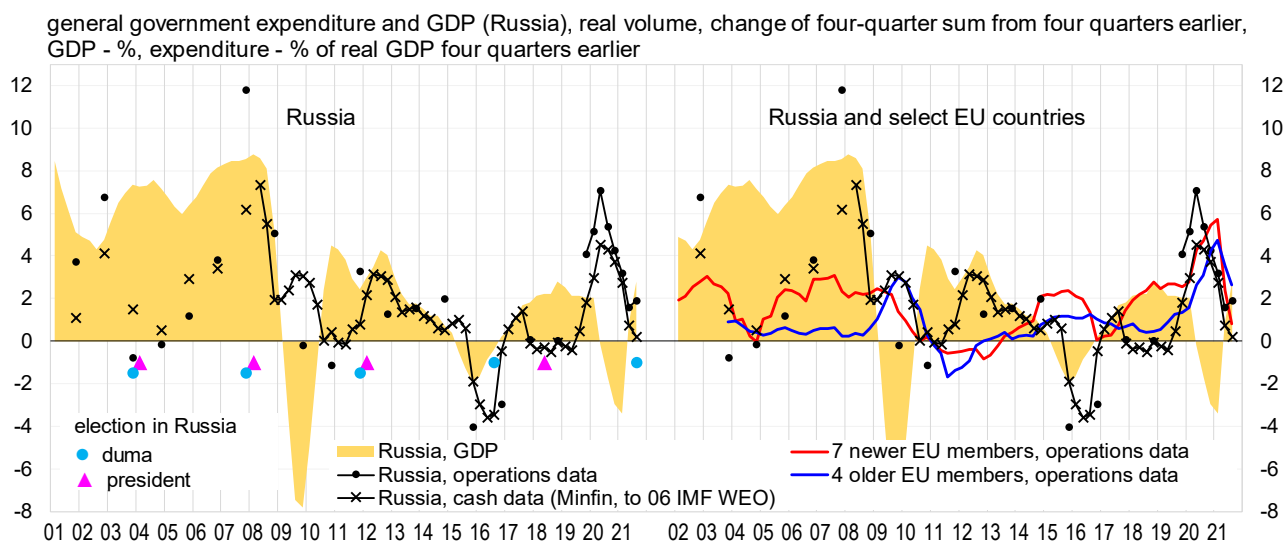
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<sup>11</sup> Vesa Korhonen, Chasing real developments in Russia's budget, BOFIT Policy Brief 10/2020 <https://helda.helsinki.fi/bof/bitstream/handle/123456789/17553/bpb1020.pdf?sequence=1>.

<sup>12</sup> The first operation, decided in late 2014, involved the immediate paying of a lump sum for bank capitalization. The operation that took place in late 2016 provided a lump sum to the defence industry for repaying bank debts.

<sup>13</sup> Levada Analytical Center (Levada-Center) <https://www.levada.ru/indikatory/> VCIOM (Russian Public Opinion Research Center) <https://wciom.ru/ratings/dejatelnost-gosudarstvennykh-institutov/>.

**Figure 5.** Increases in Russia's spending in real terms accelerated notably in two election cycles. Russian counter-recessionary spending matched by many EU countries.



Sources: GFS, EU GFS, Russian Ministry of Finance, Rosstat, WEO database.

The early phases of Russia's three recessions in 2009, 2015 and 2020 saw strong nominal government spending hikes of around 20 %, but the outcomes for real spending volume differed greatly. A sour result arose in 2015 when rapid inflation overwhelmed the nominal spending boost so completely that the real volume of spending plunged soon after the large bank re-capitalization payout in late 2014.

Russian inflation was much lower during the 2009 and 2020 recessions. Nevertheless, a policy conclusion regarding the 2009 recession depends on whether the assessment is made from operations-based or cash-based budget data,<sup>14</sup> and whether the period of assessment is restricted solely to 2009 or widened to include 2008. The real volume of Russia's government expenditure on the operations basis jumped sharply in 2008, but dropped slightly in 2009 and 2010. Increases in cash expenditure were spread much more evenly across the 2008 to 2010 period.<sup>15</sup> Stretching the period to 2008–2009 (or even 2008–2010) yields a clear increase in the real volume of operations-based government spending and a hefty positive CRV/GDP value (although still much smaller than in the preceding economic boom years). On the cash basis, maintaining spending increases in real terms applies well for 2009, the core recession year.

The 2020 recession in Russia saw brisk nominal spending increases, which started in latter part of 2019, possibly due to a decline of seasonally adjusted GDP already from 2019Q3 onwards. The real spending increase remained at over 10 % and the CRV/GDP was strongly positive. Russia's

<sup>14</sup> Expenditure data are not fully operations-based due to a standard GFS adjustment that excludes *consumption of fixed capital* and includes the *net of acquisitions and disposals of non-financial assets*. For brevity, the adjusted data are referred to in the text and charts as operations. See the Annex for further details.

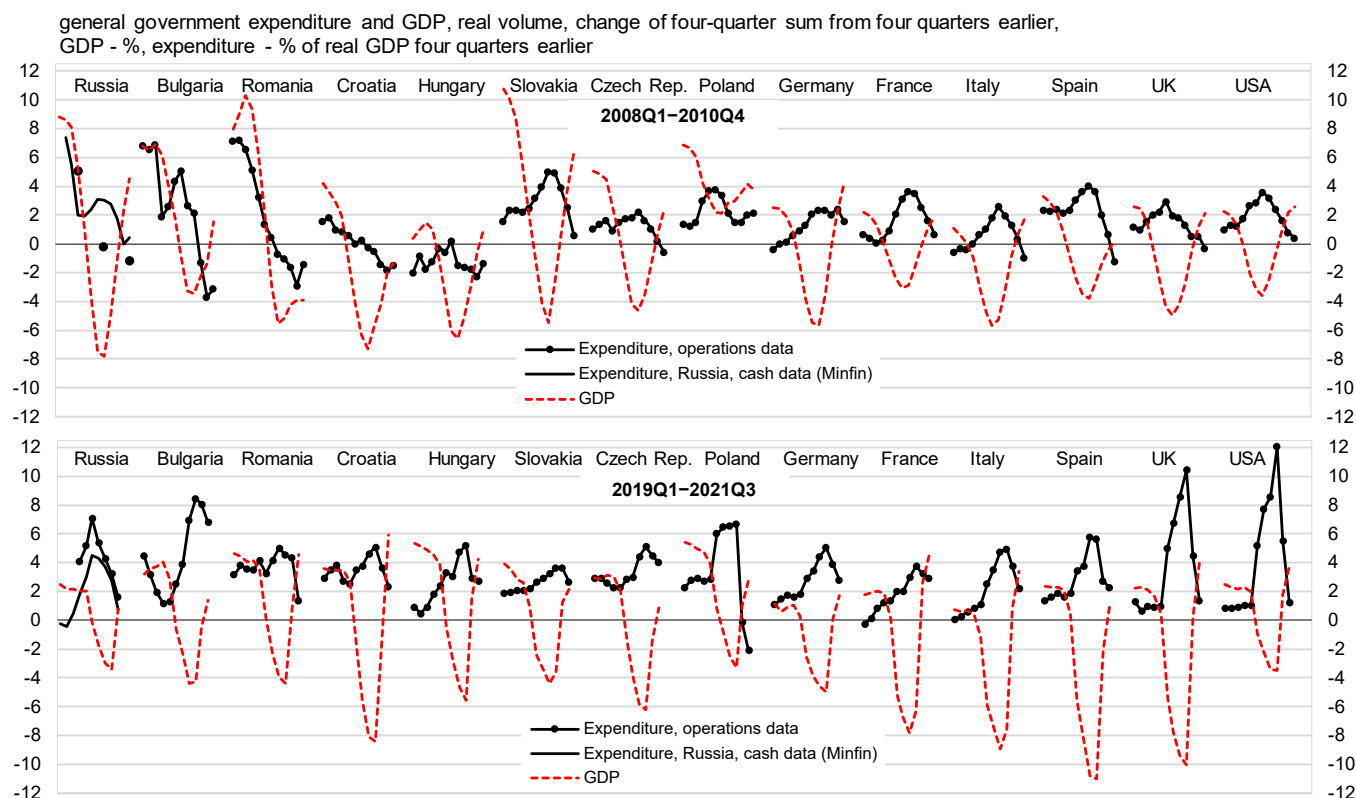
<sup>15</sup> This adds weight to the view that it may be meaningful in some spending assessments to widen the data period around 2009. Governments may have prepared and implemented their stimulus spending over longer time spans. Unfortunately, only a full-year widening around 2009 is possible for inter-country comparisons involving Russia as more frequent budget operations data for Russia are not available before 2018. This is especially the case for the five expenditure categories covered in this brief. Neither operations nor cash within-year data on them are available for the period around 2009. Taking on board the entire years of 2008, 2010 or both may mean overstressing the period of assessment. In Russia and most of the 13 comparison economies, the recession, measured in negative changes of seasonally adjusted real GDP from the previous quarter, started in 2008Q3 and ended in 2009Q2.

government spending impulse was rather short-lived, however, as GDP declined only moderately and the plan to reduce the budget deficit reasserted itself.

Only the Great Recession of 2008–2009 and COVID Recession lend themselves to inter-country comparison (Figure 6). In 2009, Russia's negative real spending score (operations basis) placed it in the company of only few of the 13 countries, specifically those in southeastern Europe. Extending the period to 2008–2009 or 2008–2010 raises Russia's real spending increase to the mid-range of the 13 other countries. Furthermore, even if nearly all 13 had a higher *level* of spending relative to GDP, Russia's upward CRV/GDP still stayed in the mid-range while the track cooled down quickly and resembled those chosen in southeastern Europe.

The governments of all 13 comparison economies had strong spending responses to the COVID-19 recession in 2020 (Figure 6). All 13 boosted spending in real terms and almost all more forcefully than Russia. With exception of the US, all had higher levels of spending relative to GDP in 2019 than Russia. When the spending increases and relative levels are combined, the upward spending CRV/GDP in 12 of the 13 was larger (and in 11 much larger) than Russia's short-lived spending impulse from 20Q2 (when COVID-19, the related restrictions and slumps hit around the world) into 2021. The UK and US stand out in this regard. A somewhat contrary and actually important aspect is that viewed against the depth of the GDP decline, only Russia's quick spending impulse in CRV/GDP terms and the impulses in only few of the 13 were considerably larger than the GDP decline.

**Figure 6.** Around 2009, the crisis increases in Russia's real spending reached the mid-range of 13 comparison economies. Russia's strong spending hike in the 2020 recession was relatively short-lived.



Sources: GFS, IFS, EU GFS, Russian Ministry of Finance, Rosstat.

### 3. Five categories of government budget expenditure

#### 3.1 Russia's election-time spending increases on social benefits and wages are far behind

Increases of Russian government budget expenditure on the five main categories covered here (social benefits, compensation of employees, use of goods and services, corporate subsidies (current transfers to public corporations and private enterprises) and net acquisition of non-financial assets excluding consumption of fixed capital, which in the EU GFS Templates is entitled “capital investments,”<sup>16</sup> have played somewhat differing roles around elections and recessions.

Increasing government spending on two important items that provide money directly to people, i.e. pensions & other social benefits and wages of government budget sector employees, has social grounds such as tackling poverty and keeping social benefits and the wages in some reasonable relationship with corporate-sector wages. Since the mid-2000s, the Russian leadership has repeatedly voiced the need to improve and maintain the position of pensioners, whose incomes relative to both corporate and government wages have been notably low in Russia's transition. The statements later added recipients of other social benefits. Pensions continued to lag wages even more until 2007 when the ratios of the average old-age pension to the average of all recorded wages in Russia and government wages hit new lows, i.e. 23 % and 26 %, respectively. In 2007, huge pension hikes were announced with great attention to the weak position of pensioners. These ratios rose to 36 % and 39 % by 2010, but then slipped back to around 30 % by 2018.

Elections matter. In Russia, pensioners have in the past two decades accounted for around 40 % of all eligible voters and government budget sector employees about 15–20 %. While increases of wages and social benefits may be implemented before or after elections, pre-announcements of hikes may matter considerably to people if the promises of increases are sufficiently concrete and will materialize. This has been the setup in Russia since the mid-2000s.

Times around national elections in Russia in 2007–2008 and 2012–2013 saw accelerated real term increases of government spending on wages and social benefits (Figure 7). Wage hikes continued to climb in 2007 even after hefty increases in the previous years of the long economic boom. The pre-announced increase in the pension-to-wage ratio from its 2007 low and accelerated pension expenditure also well suited the election calendar. Over the 2012–2013 election cycle, the

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<sup>16</sup> A sixth notable spending category in the GFS economic classification of expenditure, which increased strongly in several of the EU eleven in and around the 2009 recession and quite strongly in most of the EU eleven in the 2020 recession, are capital transfers to corporations and quasi-corporations (to cover e.g. large operating deficits generated for a minimum of two years, as well as exceptional and extensive damages or serious injuries outside the corporation's control and to acquire non-financial non-equity assets). Capital transfers were dropped from this review as Russia's data are unavailable for 2005–2009 and 2013–2015. In the 2020 recession, there was a sharp drop in such transfers in Russia after a large increase in 2019. Government operations in various domestic financial assets such as loans, debt securities, equity, deposits and other receivables (e.g. trade prepayments and accrued, but unpaid, taxes) were not included in the review due to lack of that data in the IFS or EU GFS datasets. GFS data covers only 3 of the 13. Russia enhanced the extension of domestic loans and other receivables considerably around all three recessions. Differences between debt securities, equity and deposits as to mode and motivation make assessment without additional specific data risky. The National Wealth Fund, the federal government's reserve fund, played a role in the 2009 and 2015 recessions by acting as a source of loans and deposits to benefit banks and firms.

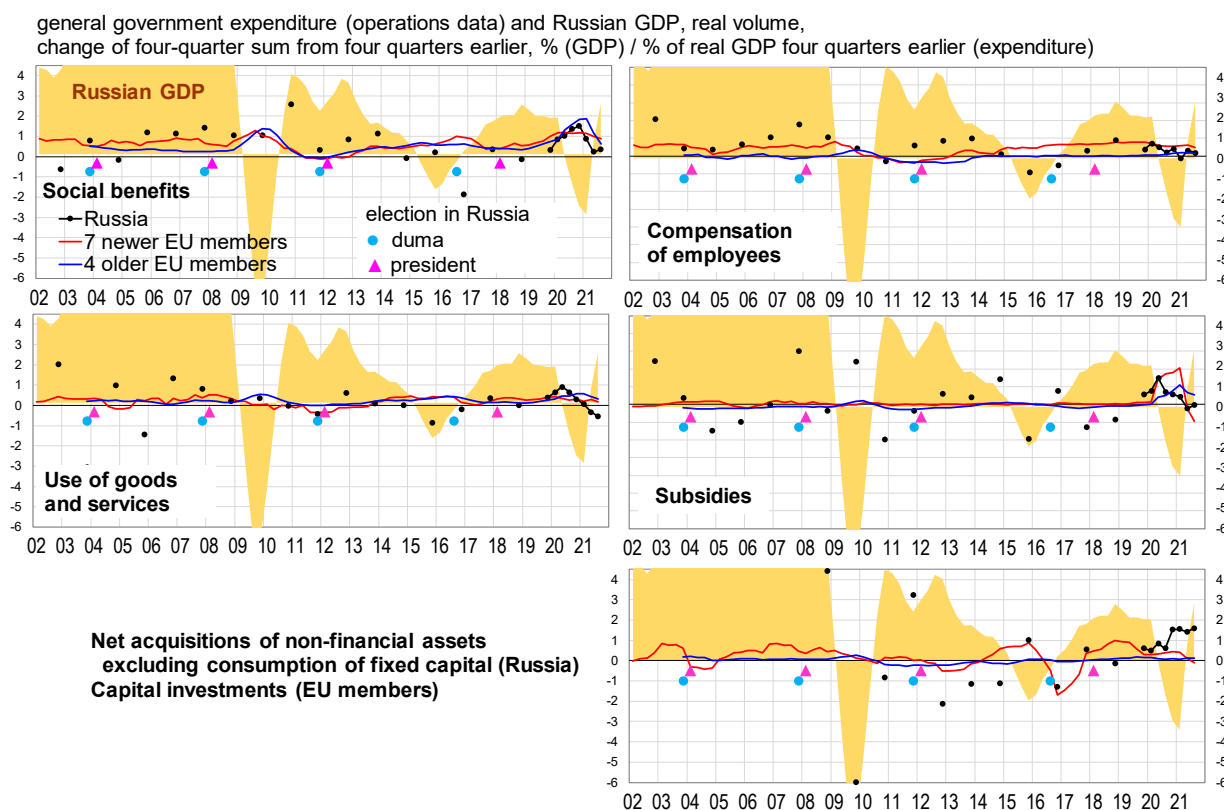
<https://minfin.gov.ru/ru/performance/nationalwealthfund/statistics/>

Government guarantees for e.g. loans extended by domestic banks to domestic borrowers were not included either. However, it is worth noting that in Russia the granting of guarantees increased during or around recessions (2009, 2016 and 2020) to non-defence industries. These guarantees appear to be anti-recessionary measures by the government. For more, see the Accounts Chamber of the Russian Federation <https://ach.gov.ru/audit/control/>. In 2020, government guarantees were also increased in all eleven EU comparison economies, in some of them very forcefully.

real volume of spending on both government-sector wages and social benefits again rose at an accelerating pace, with the average wage of government budget sector employees rising rapidly in real terms.

Spending policy cooled thereafter. In the election interim of 2014–2016, changes in real government budget spending on social benefits and wages declined into almost unprecedented territory. Increases in real spending growth varied from very small positive to considerably negative due to meagre nominal increases and the high inflation of 2015. Indeed, 2015 and 2016 were the first years since the late 1990s when the average government sector wage and the average pension declined in real terms – after they rose by only 1 % in 2014. This hard line was probably guided by the plan to reduce the budget deficit from the 2015 recession and underpinned by the high popularity of president Putin and the government in approval polls that came in the wake of the illegal annexation of Crimea in early 2014. The polled pro-leadership sentiment lasted into early summer 2018, when Russians were told of a coming gradual increase of the general retirement age (something the leadership had long denied), as well as an increase in the general value-added tax rate. These policy moves in spending may have been seen as a way to test pensioner sentiments and reflected restraint from indulging to a costly race between pension or government wage hikes and the very high-inflation in 2015.

**Figure 7.** Increases of Russia's real spending on social benefits and wages accelerated in earlier election cycles. Spending on social benefits and corporate subsidies rose around two recessions.



Sources: GFS, IFS, EU GFS, Russian Ministry of Finance, Rosstat.

A few weeks before the September 2016 Duma election, pensioners received a bit of comfort from a promise that they would receive a lump-sum payment in early 2017. Social spending continued to see small nominal increases in the run-up to March 2018 presidential election and beyond, resulting



in minute real volume growth of government social spending in 2017–2018 and a dip in the average real pension (while the announcements about raising the retirement age and VAT were delayed until June 2018).

Government real wage spending began to improve in 2017. A substantial increase followed in 2018, coming from a rapid correction in the average government sector real wage. The rise was partly due to a final spurt in implementing president Putin's 2012 plan to provide large wage hikes up to 2018 to specific groups of public employees, especially those working in healthcare and social services.

Looking ahead, the baseline for government wages and pensions reflect balancing between budget stability and indications that some increases can be offered. Regarding pensions, the road to September 2021 Duma election and the 2024 presidential election is paved by the reasonably comforting 2019–2024 plan laid out in legislation passed in autumn 2018, whereby annual pension increases would initially exceed the 4 % consumer price inflation target by 2–2.5 % and from 2022 to 2024 by about 1.5 %. The real outcome of the 2019–2020 hikes overperformed as actual inflation slowed to 2.5 % by early 2020. On the other hand, inflation then climbed to 7–8 % in autumn 2021. Nevertheless, pensions are indexed to at least match inflation under the new constitution, and a concrete plan has been made to compensate the higher inflation to pensioners.

Government sector wage increases have (so far at least) involved deciding once a year the general wage increase to adjust for the projected rate of inflation. In 2019 and 2020, additional features again appeared in the policy with new upward deviations to certain employee groups. The general line of keeping up with inflation and increases surpassing inflation for select groups have been incorporated into Russia's government budget guidelines for 2022–2024.

After a spending wave on social benefits in 2020, the September 2021 Duma election added few step-ups. Government real wage spending was raised in spring. Pensioners again received lump sums, as did select groups of officials in government services. The pay-outs were announced by the president, again just weeks before the election. The leadership's popularity was apparently sufficient to warrant no additional spending promises.

### 3.2 Russia's recession spending hikes focused on social benefits and corporate subsidies

Increases in some of the five main categories of Russia's government expenditures show similar patterns in the two recessions (2009 and 2020) where the government managed to limit economic decline and mitigate the recession's adverse consequences. In contrast, measures around the 2015 recession were far more modest in nominal terms and eroded further by high inflation. Indeed, the change in real spending in most categories was negative in 2015 and in all five categories for the 2015–2016 period.

Upward CRV/GDPs in government spending on social benefits have been among the strongest in the five spending categories when tackling the recessions both in 2009 and 2020. This reflects both the relatively high ratio of the level of social spending to GDP and rapid increases of the real volume of social spending during and immediately after the recession in 2009 and in the recession of 2020. Government real wage expenditure, in contrast, rose more mildly in the two recessions than around earlier elections. On the other hand, the increases of a couple percent to the average real wage of the government budget sector in the two recessions appear fairly generous considering that usually government employees in recessions enjoy the basic advantage of keeping their jobs.

Use of goods and services by the government performed pro-cyclically in the recessions of 2009 and 2015, lacking increases even in nominal terms. This was contrary to the nominal increases that took place in several years before and after both recessions. Even a decline of prices on industrial

goods in the 2009 recession did not push up the real volume much. Pro-cyclicality in the use of goods and services during recessions is hardly surprising. Cutting back on them should be relatively less painful, and there could be limits to planning surges in using goods and services as that could require some specified programmes for current non-investment procurements (stocking up would show up in the acquisition of non-financial assets). Still, a goods and services uptick did occur briefly in the 2020 recession, most likely reflecting medical procurements associated with the battle against COVID-19.

The other two main spending categories follow varying paths. Subsidies to Russian companies, which have long been and still are considerably larger (relative to GDP) than in an overwhelming majority of countries in the world, rose sharply during the 2009 recession and briefly during the 2020 recession. While short-lived, the leaps in subsidies in CRV/GDP terms played an essential role in tackling the 2009 recession and the early phase of the 2020 recession. The 2015 recession was quite different; apart from the large bank capitalization infusions of late 2014 and 2015, subsidies plunged in real terms.

Government investment expenditure has seen large increases both outside recessions and during two recessions (it fell drastically in the 2009 recession). It was the only spending block that rose in real terms amidst the recession and high inflation in 2015. During the 2020 recession, investment rose strongly, yielding a large upward CRV/GDP. The caveat in assessing the role of investment spending is that mere budget data unavoidably leaves open the issue of the extent to which investment increases in recessions result from the government's desire to provide stimulus during a recession and implementation of large projects that were already decided or started earlier.

### 3.3 Increases in spending categories in comparison – different in two recessions

In the 2009 recession, real increases in Russia's government spending on social benefits significantly exceeded those of most of the 13 comparison countries. In 2009–2010, the excess was preeminent as that includes Russia's large 2010 boost of social benefits. In CRV/GDP terms, Russia's 2009–2010 social spending surge was clearly stronger than the increase in any of the 13 comparison economies, even if they virtually all had levels of social spending relative to GDP much higher than Russia and nearly all stepped up social benefits spending in CRV/GDP terms most strongly among the five main spending categories.

Russia also topped the list in terms of pushing up real government spending on corporate subsidies in the 2009 recession. The 2009 subsidies were so large that it made Russia surpass almost all the other 13 economies if the period for assessment is stretched to 2008–2009 and most of the 13 for 2009–2010 and 2008–2010. Russia's high level of spending on subsidies relative to GDP meant that in CRV/GDP terms Russia's subsidy increase was even larger when compared to the 13 other economies.

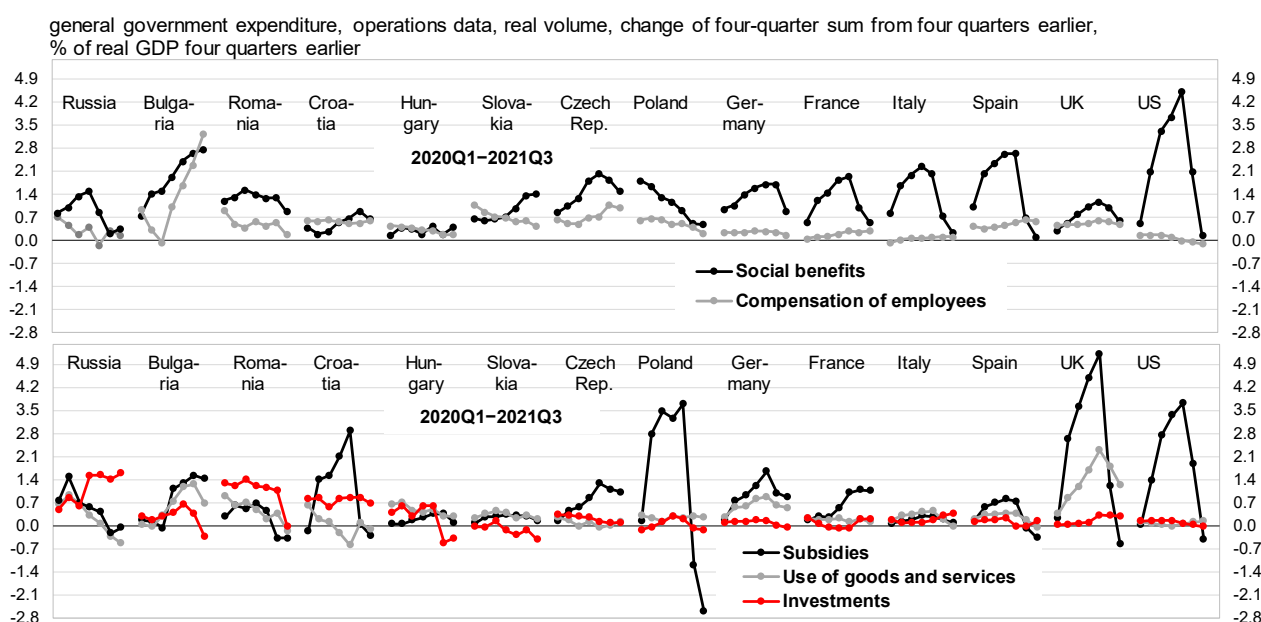
Wage spending rose cautiously in real terms in many of the 13 other economies in 2009. A few surpassed Russia's rate of increase as such and in CRV/GDP terms. On the other hand, some countries continued raising wage spending, making most of the 13 other countries in 2009–2010 notably more generous than Russia both in terms of increases and CRV/GDPs. The use of goods and services rose around the 2009 recession in real terms in most of the 13 other countries more than in Russia. This also holds in CRV/GDP terms, and stretching the period to 2008–2009, 2009–2010 or 2008–2010 does not lift Russia any higher than the mid-range of the 13 comparison economies.

Government investment spending in a handful of the 13 other countries fell in real terms in the 2009–2010 period, but much less than the steep dive in Russia. On the other hand, several other countries increased their investment spending so that they ended up in providing quite positive CRV/GDPs. This reflects a general mixed setup, whereby some governments in recession see increased investment spending as a way to revive the economy, while others choose to cut their

investments first to limit their budget deficits. In the latter case, policymakers likely see it as unfeasible to scale down non-investment non-discretionary spending laid down in existing laws, regulations or social agreements.

The 2020 recession was different from the 2009 recession as increases in all five government expenditure categories in all or most of the 13 comparison economies were quite forceful (Figure 8). Russia's spending increases showed sole distinction in investment spending where the increase in real terms surpassed by a large margin all but one of the 13 other countries. In CRV/GDP terms, only two other comparison economies reached around two-thirds of Russia's surge. Russia's health sector investments rose sharply, while in general the caveat naturally continues to apply that increases in investment spending during a recession may include implementation of investment projects unrelated to the government's stimulus efforts.

**Figure 8.** During the 2020 recession, Russia's real spending in most categories increased less than in the 13 comparison economies.



Sources: GFS, IFS, EU GFS, Russian Ministry of Finance, Rosstat.

Russia's hikes in real spending on social benefits clearly exceeded the spending pushes of most of the 13 other economies during 20Q2–Q4, but were so short-lived that during the period from 20Q2 into 2021 Russia fell short of most of the other 13. In CRV/GDP terms, the increases of most of the 13 countries surpassed Russia's for the same reason as in 2009–2010, i.e. their much larger relative levels of social spending. Moreover, a clear majority of the 13 economies created social spending CRV/GDPs so large that social spending again clearly became their strongest counter-recessionary spending item.

Government wage spending in the 2020 recession was an item with lower priority. While Russia's real additions to government wage spending faded during the recession, most of the 13 other economies carried on with hefty increases. In CRV/GDP terms, their wage spending led to notable impulses from 20Q2 into 2021 compared to Russia's. The increases likely stem from enhanced recruitment, wage bonuses or both for critical personnel during the pandemic, especially healthcare personnel. The emphasis in Russia was on health sector wage hikes, whereas wage increases in certain other sectors slowed.

Likewise, the real term use of goods and services by government continued to rise longer in the 2020 recession in most of the 13 comparison economies. The increases were rather brisk in half of them as e.g. vaccinations and other medical supplies were needed in the fight against COVID-19. The increases in this category in Russia evaporated from 20Q2 to 21Q1, suggesting savings on supplies to non-health sectors.

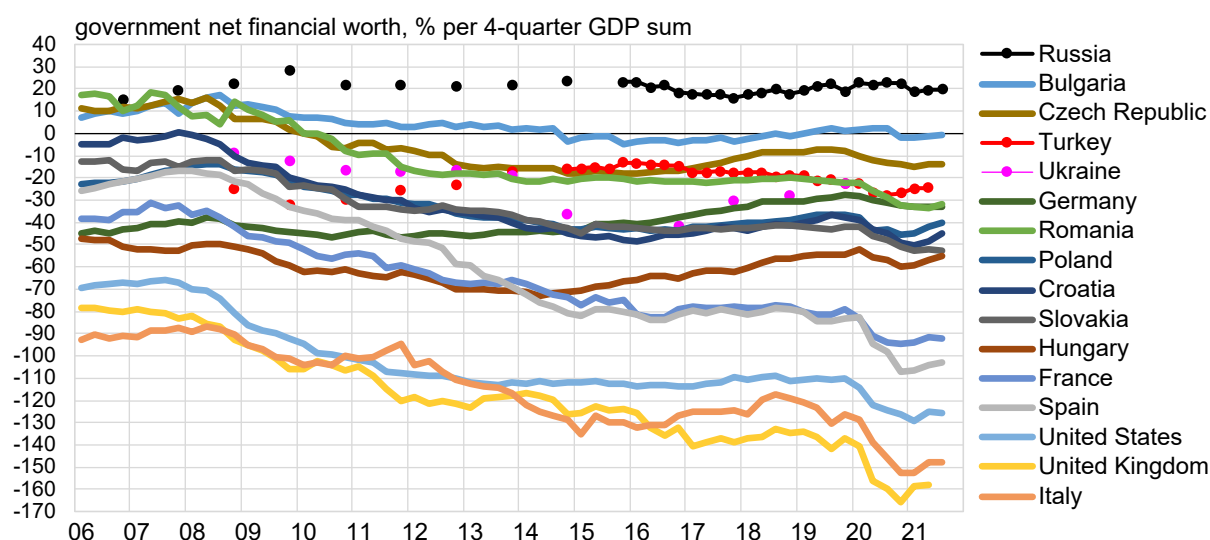
Finally, even if Russia boosted the real volume of government spending on subsidies to firms strongly, all 13 other economies were much more forceful in their subsidy reactions. The jumps typically ranged from 20 % to 80 %, but in five of the comparison economies subsidies rose 2½ to 10-fold. In these countries, the leaps in CRV/GDP terms were huge, a sharp contrast to their corporate subsidies in the 2009 recession. Despite Russia's high relative starting level of subsidies in 2019, the upward CRV/GDP in Russia from 20Q2 into early 2021 was the same or slightly larger than in only three of the 13 comparison economies.

#### 4. Russia's strong fiscal position provides buffer for weak economy

Russia's government budget has largely shown surpluses over the past two decades, and compared to most governments its financial position is solid. The position has also received further additions from keeping the liquid part of Russia's National Wealth Fund in foreign currencies as the ruble's exchange rate has depreciated over many years. For example, 2020 was one of the top years for exchange rate gain as ruble depreciation lifted the value of the fund's forex assets by more than 1.5 % of GDP.

For many years, Russia's government budget sector has shown a total positive net financial position (financial net worth in GFS terminology) amounting to over 20 % of GDP (October 1, 2021). This is quite rare. Indeed, most countries have negative government net financial positions (Figure 9). Total financial liabilities of the Russian government are not higher than 24 % of GDP, including debt securities equal to 16 % of GDP and other accounts payable 8 % of GDP. The conventionally reported government gross debt equals about 20 % of GDP.

**Figure 9.** Russia's government net financial position is solid compared to many economies.



Sources: IFS, Russian Ministry of Finance, Rosstat.

Even in a stricter assessment, where equity stakes, debt securities and loans are excluded from financial assets, and only liquid financial assets in the form of currency and deposits, as well as other

accounts receivable (amounting to 17 % of GDP and 10 % of GDP, respectively) are counted, Russia's government financial net position is still in balance.

Russia's fiscal policy oriented towards stability and sovereignty is likely to continue as has been the case for the past two decades. The government finance framework for the entire consolidated budget released last autumn foresees a shift from a budget deficit of 4 % of GDP in 2020 to a slight surplus that should persist for the next few years.<sup>17</sup> The framework's revenue estimate assumes a gradual decline in oil prices, but relatively good GDP growth. For meeting the surplus targets, the framework sets a track of limiting increases of nominal budget spending in 2022–2024 to rates slightly above projected inflation. On the other hand, plans have been drawn up to extend considerable amounts of project financing from the National Wealth Fund.

Looking ahead, the government's good financial position is an important asset. This solid position provides an interim counterweight to weak elements that hinder economic growth. In inter-country comparisons, Russia receives rather low marks for e.g. institutions (especially with respect to corruption, protection of property rights, judicial independence, police services, government regulation and government policy stability), product markets (especially trade openness) and health.<sup>18</sup> To cite another comparison, Russia is considered weak with respect to qualities such as external and internal integration, good governance (mainly public governance) and competitiveness (including market structures).<sup>19</sup>

The state of such elements in Russia continuously creates expectations of comparably low economic growth in the range of 2–3 % a year over the next few years.<sup>20</sup> Russia's long-term growth perspectives are even more tepid –around 1.5 % to 2 % at best.<sup>21</sup> For a potential catch-up economy such low growth means underperformance. The government budget revenues are also still rather highly exposed to uncertainties that surround the prices and volumes of Russia's oil and gas in the future, especially as countries decarbonize and adopt cleaner energy modalities.

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<sup>17</sup> Основные направления бюджетной, налоговой и таможенно-тарифной политики на 2022 год и на плановый период 2023 и 2024, Министерство финансов, Российской Федерации.

<sup>18</sup> World Competitiveness Report 2019, World Economic Forum

[http://www3.weforum.org/docs/WEF\\_TheGlobalCompetitivenessReport2019.pdf](http://www3.weforum.org/docs/WEF_TheGlobalCompetitivenessReport2019.pdf).

<sup>19</sup> Transition Report 2021–22, EBRD <https://www.ebrd.com/transition-report>

For reviews of such elements of economic growth, also see e.g. RUSSIAN FEDERATION 2019 ARTICLE IV CONSULTATION – PRESS RELEASE; STAFF REPORT, IMF Country Report No. 19/260, August 2019

<https://www.imf.org/en/Publications/CR/Issues/2019/08/01/Russian-Federation-2019-Article-IV-Consultation-Press-Release-Staff-Report-48549>, and the same for 2020, IMF Country Report No. 21/36, February 2021

<https://www.imf.org/en/Publications/CR/Issues/2021/02/08/Russian-Federation-2020-Article-IV-Consultation-Press-Release-Staff-Report-50068>

Chapter 4.1 Economy, in *Russia of Power*, Ministries of Defence, the Interior and Foreign Affairs, Helsinki 2019

<https://julkaisut.valtioneuvosto.fi/bitstream/handle/10024/161710/Russia%20of%20Power.pdf?sequence=1&isAllowed=y>

Heli Simola, Long-term challenges to Russian economic policy, BOFIT Policy Brief 11/2021,

<https://helda.helsinki.fi/bof/bitstream/handle/123456789/18222/bpb1121.pdf?sequence=1&isAllowed=y>.

<sup>20</sup> Monetary Policy Report, Bank of Russia, October 2021 [http://cbr.ru/eng/about\\_br/publ/ddkp/longread\\_4\\_36/page/](http://cbr.ru/eng/about_br/publ/ddkp/longread_4_36/page/)  
World Economic Outlook Update, IMF, January 2022

<https://www.imf.org/en/Publications/WEO/Issues/2022/01/25/world-economic-outlook-update-january-2022>

Global Economic Prospects, The World Bank, January 2022 <https://openknowledge.worldbank.org/handle/10986/36519>

BOFIT Forecast for Russia 2021–2023 2/21, BOFIT Russia Team, September 2021

<https://helda.helsinki.fi/bof/bitstream/handle/123456789/18139/brf0221.pdf?sequence=1>

<sup>21</sup> Iikka Korhonen, Russia's growth potential post-COVID-19, BOFIT Policy Brief 9/2021

<https://helda.helsinki.fi/bof/bitstream/handle/123456789/18027/bpb0921.pdf?sequence=1>, and IMF Country Reports No. 19/260 and 21/36 referred to above.

## Annex. Government budgets: data, budget deflators and real volumes

### Data sources

#### *Data on consolidated general government budgets*

Government Financial Statistics (GFS) <https://data.imf.org/regular.aspx?key=60991462>

International Financial Statistics (IFS) <https://data.imf.org/regular.aspx?key=63087880>

Quarterly Summary Government Finance Statistics template tables, Eurostat (EU GFS)

<https://ec.europa.eu/eurostat/web/government-finance-statistics/data>

Russian Ministry of Finance <https://minfin.gov.ru/ru/statistics/conbud/>

Russian Treasury <https://roskazna.gov.ru/ispolnenie-byudzheto/statistika-gosudarstvennykh-finansov-rf/54649/>

World Economic Outlook Database, October 2021, IMF (budget cash data for Russia until 2006)

<https://www.imf.org/en/Publications/WEO/weo-database/2021/October/weo-report?c=922,&s=GGR,GGX,&sy=2000&ey=2026&ssm=0&scsm=1&sc=0&ssd=1&ssc=0&sic=0&sort=country&ds=.&br=1>

#### *Data on price indicators*

Rosstat <https://rosstat.gov.ru/accounts>,

[https://gks.ru/bgd/free/b00\\_24/IssWWW.exe/Stg/d000/i000870r.htm](https://gks.ru/bgd/free/b00_24/IssWWW.exe/Stg/d000/i000870r.htm)

Eurostat [https://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=namq\\_10\\_gdp&lang=en](https://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=namq_10_gdp&lang=en),

[https://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=sts\\_inppd\\_q&lang=en](https://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=sts_inppd_q&lang=en)

IFS <https://data.imf.org/regular.aspx?key=63122827>,

<https://data.imf.org/regular.aspx?key=63087884>

### Government budget data used are almost completely on operations basis

The revenue data are on operations basis, i.e. the accrual basis of recording government operations that corresponds to the accrual basis in national accounts (see GFS Manual, 2014). The data on expenditure and balance (net lending) include a standard GFS adjustment to spending that arises from operations in non-financial assets (NFA) which is presented in the next paragraph. For brevity, the adjusted data are referred to in the text and charts as operations.

The adjusted GFS spending data, i.e. expenditure, are deemed more appropriate for assessing reversals in government spending than the fully operations-based GFS spending aggregate, i.e. expense. Their difference lies in NFA flows, which cover both fixed capital and inventories. The only (and fully accrual-based) NFA item included in expense is consumption of fixed capital (CFC) while expenditure excludes CFC but adds the net of other NFA operations, i.e. acquisitions and disposals. This adjusted NFA net item (acquisitions less disposals), or “capital investments” in the EU GFS, is used here also for reviewing budget investment spending as one of the five spending categories covered in the GFS economic classification of expenditure.

Data on cash basis could be even better to reflect real-time reversals in budget spending from the viewpoint of tackling recessions, but for the countries in this review cash data available in international databases (IFS only) cover just Russia (from 2010) and one comparison economy. For Russia, nationally defined cash data (from the Ministry of Finance) are used alongside operations data. That national cash data (not reported to IFS) and IFS cash data have certain conceptual

differences and thus differ in magnitude. For example, Russia's cash spending in IFS was 1–4 % larger than the national cash spending in 2018–20.

## Price components and shortcomings of budget deflators

As inflated nominal data on government budget revenue and expenditure overstate positive changes, we trace quarterly (where available) real volumes of revenue and expenditure by deflating nominal budget data with budget deflators. The budget deflators are built by weighting (with annually moving weights) the prices that each of the five main categories in the GFS economic classification of expenditure faces in an impact-demand context. The weight is the share of each category in the total of the five.

The prices consist of *prices of private consumption* (weighted with expenditure on compensation of employees and social benefits), *prices of gross fixed capital formation* (weighted with acquisitions minus disposals of NFA) and two price baskets composed of the same two price items: *producer prices on industrial goods supplied to the domestic market* and *prices on imports of goods and services*. The weights of the two baskets differ, however. The first basket is weighted with the government use of goods and services and the second with expenditure on subsidies.

The weight of import prices in both price baskets is the share of imports in intermediate consumption (in input-output tables). In the first basket, the share of imports comes from those three sectors in the economy combined mostly operated by the government: *public administration, defence and social security; education; and healthcare*. In the second basket, the import share covers the entire economy excluding these three sectors.

For the real volume of each of the five main categories of budget expenditure, nominal data are deflated by the price indicator weighted with that spending category.

The budget deflators are proxies for the actual price baskets faced by budget expenditures because all prices used in building the budget deflators are overall price categories in the economy and not specific to government expenditure, and no prices on services provided to the non-household sector of the economy are included (as they are not available for Russia in a reasonably aggregated form and the weights needed are not available in international databases for the 13 comparison economies). Moreover, the weights of import prices are not strictly government-specific.

## Real volumes of government budget flows relative to GDP do not fully reflect their impact

The real volumes of quarterly government revenue and expenditure, which are shaky due to strong seasonal (within-year) variations, as well as the GDP volumes are smoothed into four-quarter sums. Seasonal adjustments are not used e.g. because even if budget data for the 13 economies are quarterly, only annual comparable (operations-based) budget data are available for Russia before 2018. The changes in budget flows are on-year, i.e. changes of four-quarter sums of the real volumes of revenue and expenditure from four quarters earlier.

To determine to some degree the significance of changes in the real volumes for the economy, ratios of the changes to the real volume of GDP one year earlier are computed (marked CRV/GDP in the text). This is conceptually and technically the same as calculating contributions of changes in e.g. a GDP component to changes in GDP. The numerical values of CRV/GDPs are indicative as they fall short of measuring even the direct effects of revenue and expenditure changes in the economy for two reasons.

First, a more appropriate denominator in the CRV ratio than the readily available quarterly GDP could be gross output (GDP plus intermediate consumption), which should better cover the use of government subsidies by companies who receive them.

Second, government expenditures to a varying degree create tax revenues that flow to the budget with different lags. Thus, actual direct contributions of changes in government expenditure in the economy are lower than the numeric values of CRV/GDPs. Due to the lagged return of most tax revenues generated this applies less severely over the short term. Still, even for the shortest term, expenditure on compensation of employees is an extreme category as it contains social taxes that are deducted by the government employer before wages are paid out (data on wage expenditures after the deductions are available only for some of the 13 in GFS). This is a caveat to comparisons over time and across countries.



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