

RUSSIAN FEDERATION

FEDERAL COUNTRY

EURO-ASIA

BASIC SOCIO-ECONOMIC INDICATORS

Income group - UPPER MIDDLE INCOME Local currency - Russian rouble

POPULATION AND GEOGRAPHY

AREA: **17 098 240** km²

POPULATION: **143.820** million inhabitants (2014), an increase of 0.2% per year (2010-14)

DENSITY: **8** inhabitants/km²

URBAN POPULATION: **73.9%** of national population

CAPITAL CITY: **Moscow** (8.47% of national population)

Sources: OECD, World Bank, UNDP, ILO

ECONOMIC DATA

GDP: **3 358.6** billion (current PPP international dollars) i.e. 5 150 dollars per inhabitant (2014)

REAL GDP GROWTH: **0.6%** (2014 vs 2013)

UNEMPLOYMENT RATE: **5.1%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **22 891** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **20%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.798** (high), rank **50**

TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGs
20 055	2 351	83	22 489
19 769 URBAN AND RURAL SETTLEMENTS AND 286 INTRA-CITY ENTITIES	1 788 MUNICIPAL DISTRICTS (RAYONS) AND 563 CITIES (URBAN OKRUGS)	SUBJECTS OF THE FEDERATION	

MAIN FEATURES OF TERRITORIAL ORGANISATION. Most of the legal principles governing SNGs can be found in the 1993 Constitution which guarantees the principle of self-government (article 12). The Russian Federation is divided into 83 regions ("subjects of the Federation") with various degrees of autonomy. They include 21 republics, 46 provinces (*oblasts*), 1 autonomous oblast, 9 "territories" (*kraj*), 4 autonomous districts (*avtonomny okrugs*), and 2 cities with federal status (Moscow and St. Petersburg). Direct election of governors has been re-established in 2012, after being abolished on 2005. A municipal reform was carried out between 2003 and 2005, resulting in an increase of the number of municipalities from around 12 000 to more than 20 000 today. Each region has either one or two tiers of local governments. In regions with two local government levels, the upper level is made up of 1 788 municipal districts and 563 cities and the lower level comprises 1 592 urban and 18 177 rural settlements as well as also 19 intra-city districts and 267 intra-city territory in cities of federal importance. Since 2000, there is also a federal administration at territorial level composed of 8 federal districts, run by an appointed presidential envoy, for the purpose of overseeing regional governments.

MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES. The federal Constitution and the 2003 Federal Law 131-FZ on the General Principles of Local Self-Government determines the main areas falling within the jurisdiction of the Federation, the regions (regional transport) and shared competences (minority rights, environment, health, education, science, culture, labour law, social security, family law, and natural disasters). Regarding local government management is concerned, regions may adopt their own legislation on local self-government provided that it is compatible with federal legislation. Local authorities are empowered to carry out all public services of local interest i.e. education (pre-school, primary, general and vocational education), public health (primary care facilities), public order and safety, land use planning, social protection and employment, local economic development, environmental protection, utilities (local energy, waste), local roads and public transport, culture and recreation (sport facilities). Some tasks are increasingly shared with the federation and the regions.

SUBNATIONAL GOVERNMENT FINANCE

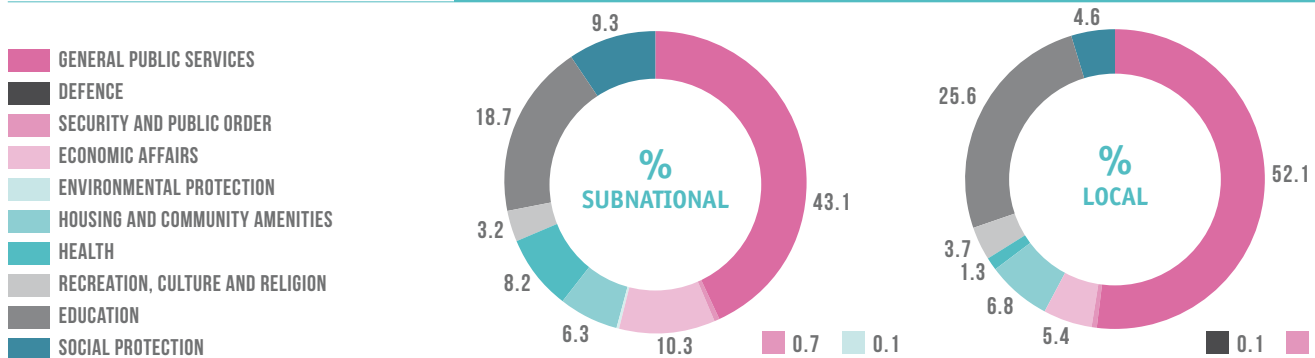
EXPENDITURE	% GDP		% GENERAL GOVERNMENT (same expenditure category)		% SUBNATIONAL GOVERNMENT	
TOTAL EXPENDITURE (2013)	24.7%	9.0%	58.4%	21.3%	100%	100%
CURRENT EXPENDITURE	22.6%	7.7%	-	-	91.3%	85.3%
STAFF EXPENDITURE	5.5%	2.3%	52.9%	22.2%	22.2%	29.9%
INVESTMENT	2.2%	1.3%	44.9%	27.6%	8.7%	14.7%

■ SUBNATIONAL DATA □ LOCAL DATA ONLY

The SNG share in GDP and public spending is high, well above numerous federations in the world, including OECD federations for which spending ratios accounted for 19.2% of GDP and 49.1% of public spending in 2013. However, Russia remains a centralised country as SNG expenditure autonomy is weak: many spending obligations are planned and imposed centrally, the regions being paying agents on behalf of the federal government. SNGs are key employers, representing more than half of public staff spending, a level which is, however, below the OECD average for federations (76.1%). The role of SNGs in public investment is relatively low compared to other federations.

EXPENDITURE BY FUNCTION

% SUBNATIONAL GOVERNMENT EXPENDITURE



The primary area of SNG spending is general public services, followed by education, economic affairs/transport, social protection and health. A majority of expenditure is made by the regions (63%) for which, the primary areas of spending after general public services are education (15%), economic affairs/transport (13%) and social protection and health (12% each). For the municipalities, education is by far the most significant spending area (after general services) representing one-quarter of local expenditure, followed by housing and community amenities. 62% of SNG investment is carried out by municipalities.

REVENUE BY TYPE

% GDP

% GENERAL GOVERNMENT (same revenue category)

% SUBNATIONAL GOVERNMENT

	SUBNATIONAL DATA		LOCAL DATA ONLY			
TOTAL REVENUE (2013)	24.6%	9.0%	57.0%	20.8%	100%	100%
TAX REVENUE	8.8%	1.5%	38.4%	6.7%	35.9%	17.2%
GRANTS AND SUBSIDIES	11.5%	5.7%	-	-	46.8%	63.5%
OTHER REVENUES	4.2%	1.7%	-	-	17.0%	19.3%

Major intergovernmental fiscal relations reforms took place at the end of the 1990s and in the early 2000s aimed at clarifying revenue and expenditure assignments, to eliminate unfunded mandates and review the way federal transfers are allocated, by establishing equalisation formula-based systems. However, SNGs have a limited revenue autonomy and are increasingly dependent on federal (or regional) transfers.

TAX REVENUE. Shared taxes represent the bulk of SNG tax revenue. The regions are the main recipient of SNG tax revenue (83%), which made up 47% of their total revenue in 2013. Most regional tax revenue comes from the share of PIT and CIT (accounting for respectively, 37% and 34% of regional tax revenue), redistributed according to uniform percentages. Regions also receive an enterprise property tax (13%), excise taxes (10%) and various other taxes. Municipalities derive the great majority of their tax revenue (71%) from PIT sharing. Municipal taxes also include a property tax on individuals and a land tax. Overall, regional and local recurrent taxes on immovable property amounted to 1.2% of GDP. Taxes are collected by the federal government which set most tax rates. Regions have, however, some leeway to modify tax rates (enterprise property tax, CIT) within limits. The budget and tax codes assign minimum municipal shares of the PIT and the land tax but regions have the ability to assign additional shares of their tax revenues to municipal budgets, within certain constraints. A reform of the municipal property tax on individuals entered in force in 2015, giving municipalities more leeway on rates.

GRANTS AND SUBSIDIES. Successive reforms of the intergovernmental fiscal framework took place to finance federal mandated SNG spending and to reduce high regional disparities (of 83 regions, 10 produce more than 55% of Russia's GDP while they represent only one-third of the national population). Grants can be divided into three categories: 1) Non-conditional equalisation transfers which are formula-based. Forming the Federal Fund for Financial Support of the Regions, they aim at providing the basic level of public services across the nation. Allocation criteria are based on the assessment of revenue capacities and public service delivery costs. 2) Earmarked grants allocated by federal entities. They include unconditional earmarked grants to finance federally-mandated spending and earmarked matching grants to stimulate specific regional expenditure or investments. 3) And compensation payments and other transfers which include "balancing grants" aimed at reducing regional budget deficits. Transfers also include those from regions to municipalities, including equalisation subsidies and other financial support to municipalities. Since the late 2000s, there has been a decline of block equalisation transfers. Earmarked grants have increased to account for more than a half of all transfers in recent years, counteracting the effects of equalisation and reducing regional expenditure autonomy.

OTHER REVENUES. The shares of user charges and fees and property income (sales, rents, dividends) in SNG revenue are relatively small, compared to international standards (respectively 5.7% and 0.8%). The majority is made up fines, penalties, and forfeits.

OUTSTANDING DEBT

% GDP

% GENERAL GOVERNMENT

	SUBNATIONAL DATA		LOCAL DATA ONLY	
OUTSTANDING DEBT (2013)	3.2%	0.6%	26.3%	4.7%

A federal law of 1993 guaranteed SNGs the right to borrow. The Budget Code in 2000 and further regulations placed clear limits on the borrowing of SNGs. However, there are no specific restrictions on the use of borrowing (e.g. such as restricting the use of debt to investment projects). Debt is limited to a ceiling equal to the SNG's annual budget revenue net of federal grants. In addition, debt servicing costs must not exceed 15% of expenditure net of grants. Compliance with these limits is monitored by the Ministry of Finance who can impose financial sanctions. The average debt levels of Russia's SNGs are low by international standards, both at regional and local levels but it is likely to rise in the current economic context and higher expenditure obligations for the regions. The SNG debt is very concentrated: regions hold 82% of SNG debt and few regions only make the bulk of debt stock, including the federal city and the region of Moscow. SNG is made up financial debt (78%) and other accounts payable (12% but 33% for the municipal level). The financial debt is composed mainly of loans (67% of outstanding debt in 2013), securities accounting for 21% (mostly issued by the regions).

A joint-study of:



Sources: Federal state statistics service Rosstat (2016), Russia in Figures 2016 • Ministry of Finance (2015) <http://www.roskazna.ru/en/government-finance-statistics> • Alexeev M. et al (2015), Fiscal decentralization and budget discipline in Russia's regions • European Parliament (2015) Russia's constitutional structure: Federal in form, unitary in function - OECD (2015), OECD Territorial Reviews: The Krasnoyarsk Agglomeration, Russian Federation • OECD (2013) Russia: Modernising The Economy", "Better Policies" Series • Alexeev M. and Weber S. (2013) Russian Fiscal Federalism: Impact of Political and Fiscal (De)centralization - Drobot E. (2012) Territorial Fundamentals of Local Self-governance in Russia: Basic Reform Concept", MPRA Paper No. 6451 • Council of Europe (2010), Local and regional democracy in the Russian Federation • Vartapetov K. (2010) Russia's federal fiscal grants: regional equalisation and growth, Post-Communist Economies, 22:4, 471-481.