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RUSSIAN FEDERATION

FISCAL TRANSPARENCY EVALUATION

May 2014

This pilot Fiscal Transparency Evaluation for the Russian Federation was prepared by a staff team of the International Monetary Fund based on the July 2013 version of the revised Fiscal Transparency Code and the information available at the completion of their visit to Moscow on October 30, 2013.

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INTERNATIONAL MONETARY FUND

Fiscal Affairs Department and

Statistics Department

RUSSIAN FEDERATION

FISCAL TRANSPARENCY EVALUATION

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Glossary and Legend

BCG	Budgetary Central Government
EBU	Extra-budgetary Unit
FAD	IMF Fiscal Affairs Department
FTC	IMF's Fiscal Transparency Code
FTE	Fiscal Transparency Evaluation
GDP	Gross Domestic Product
GFS	Government Finance Statistics
GFSM	Government Finance Statistics Manual
GFSY	Government Finance Statistics Yearbook
GG	General Government
IPSAS	International Public Sector Accounting Standards
NWF	National Wealth Fund
OECD	Organization for Economic Cooperation and Development
OEF	Other Economic Flows
PDMR	Public Debt Management Report
PFR	Pension Fund of Russia
RDIF	Russia Direct Investment Fund
Rosstat	Federal Statistics Service
SDDS	Special Data Dissemination Standard
SFA	Stock-Flow Adjustment
SNA	System of National Accounts
SNA93	1993 System of National Accounts
STA	IMF Statistics Department
VAT	Value Added Tax

LEGEND FOR TABLES 1.7, 2.5, AND 3.5

Levels of Practice under Fiscal Transparency Code (July 2013 version)

LEVEL OF PRACTICE	Not Met	Basic	Good	Advanced

Levels of Importance to Fiscal Management

LEVEL OF IMPORTANCE	High	Medium	Low

Preface

In response to a request from the Ministry of Finance of the Russian Federation, a mission from the Fiscal Affairs Department (FAD) and Statistics Department (STA) of the International Monetary Fund (IMF) visited Moscow during the period October 15-30, 2013 to conduct a pilot Fiscal Transparency Evaluation (FTE). The mission was led by Richard Hughes and included Tom Josephs and Gösta Ljungman (all FAD staff), Viera Karolova (STA staff), and Vladimir Krivenkov (FAD expert).

The objective of the mission was to evaluate Russia's fiscal reporting, fiscal forecasting and budgeting, and fiscal risk management practices against the standards set by the revised draft of the IMF's Fiscal Transparency Code (FTC).[1] In the conduct of the evaluation, the mission met with representatives from the Ministry of Finance, Federal Treasury, Ministry of Economic Development, Ministry of Energy, Federal Statistics Service (Rosstat), Bank of Russia, Accounts Chamber of the Russian Federation, Budget and Tax Committee of the State Assembly (Duma), Economic Experts Group, and Gaidar Institute.

This evaluation is based on information available at the time it was completed in October 2013. The findings and recommendations represent the views and advice of the IMF mission team and do not necessarily reflect those of the government of the Russian Federation. Unless otherwise specified, the data included in the text, figures, and tables in the report are estimates made by the IMF mission team and not official estimates of the government of the Russian Federation.

The mission would like to thank the Russian authorities and other participants for their excellent collaboration in the conduct of this pilot evaluation and for the frank and open exchanges of views on all matters discussed. Particular thanks go to Deputy Minister Alexei Lavrov, Andrey Blokhin, Anna Belenchuk, and Aleksandr Zolotin for their support to the mission before, during, and after its time in Moscow.

[1] The evaluation was based on the version of the Code that was released for public consultation on July 1, 2013, a copy of which can be found at www.imf.org/external/np/exr/consult/2013/fisctransp/index.htm.

EXECUTIVE SUMMARY

Most aspects of Russia's fiscal reporting and budgeting practices are in line with good or advanced practice under the July 2013 draft of the Fiscal Transparency Code, and the disclosure and management of fiscal risks has significantly improved in recent years (Table 0.1). Specifically, over the past decade and a half:

- the 1998 Budget Code and subsequent amendments have established a comprehensive legal framework for fiscal management at all levels of government;
- the government began publishing cash-based in-year and year-end fiscal reports and accrual-based annual financial statements as well as fiscal statistics which consolidate Federal, regional, and municipal governments in line with international standards;
- detailed and credible medium-term macroeconomic forecasts have been prepared since early 2000, and a new oil price-based fiscal rule was introduced in 2013 to encourage sustainable and counter-cyclical fiscal policymaking;
- the coverage of the Federal government budget has steadily expanded and the three main remaining extra-budgetary funds are presented and approved alongside it in a timely manner;
- the policy-orientation of the budget has improved thanks to a comprehensive and detailed medium-term budget framework introduced in 2008, and a new program and performance budgeting system introduced in the 2014 Budget; and
- firm central controls over key sources of fiscal risks have been established, including annual limits on the issuance of debt, credit, and guarantees by the Federal government, and on borrowing by sub-national governments.[2]

At the same time, this evaluation highlights a number of important areas where fiscal transparency practices could be further improved:

- while fiscal reports provide a relatively comprehensive picture of the Federal and sub-national government finances, they exclude the financial activity of various classes of government-controlled enterprises with net expenditure of at least 29 percent of GDP and liabilities of at least 127 percent of GDP in 2012;[3]

[2] As a result of these successive enhancements to fiscal disclosure, between 2006 and 2012 Russia's rating under the International Budget Partnership's Open Budget Index has risen from a score of 47 to 74 out of 100 and from a ranking of 28th out of 59 countries to 10th out of 100 countries.

[3] Figures quoted here and in the remainder of this report are based on data from the 26 largest government-controlled enterprises by liability.

- government balance sheets recognize most conventional financial and nonfinancial assets and liabilities, but they exclude the government's 200 percent of GDP in sub-soil oil and gas assets and 287 percent of GDP in liabilities accrued to date from public pensions and public-private partnership (PPP) arrangements;
- financial statements make no provisions for assessed but unlikely to be collected taxes or non-repayment of the government's 4 percent of GDP in loans, while budgets overstate likely payouts against the government's 2 percent of GDP stock of guarantees. In addition, there are no regular estimates of the estimated 1-2 percent of GDP in annual revenue foregone through tax expenditures;
- while the Federal budget is relatively comprehensive, 14 percent is currently classified as secret for national security reasons, and there are plans for extra-budgetary expenditure and lending via sovereign wealth funds;
- there is scope to enhance the credibility, transparency, and scrutiny of official fiscal forecasts; and
- reporting and analysis of near-term fiscal risks is incomplete and fragmented and forecasts of longer-term fiscal pressures to be published in 2014 will extend only to 2030.

Addressing these gaps in fiscal transparency practices would enable the government to provide a more complete picture of its fiscal position, prospects, and risks. Based on data for 2012, this more comprehensive view of public sector finances (summarized in Table 0.1) would suggest that:

- the public sector accounts for a considerable share of economic activity with revenues of at least 71 percent of GDP, expenditures of at least 68 percent of GDP, and an estimated surplus of 3 percent of GDP;
- the public sector has an extensive balance sheet with assets amounting to 381 percent of GDP (200 percent in sub-soil assets, 82 percent in other fixed assets, and 100 percent in financial assets) and liabilities amounting to 400 percent of GDP (282 percent in unfunded pension liabilities, 16 percent in other government liabilities, and 102 percent in net liabilities of public corporations); and
- estimates of the current net worth and projections of the long-term sustainability of the public sector are highly sensitive to assumptions about future economic growth, oil production and price developments, demographic trends, and other risks. Over the long-run, declining oil and gas revenues and rising pension and healthcare costs are likely to place considerable pressure on the fiscal position.

This report makes nine recommendations aimed at enhancing the information base for fiscal decision-making and ensuring the country keeps pace with evolving international transparency standards and practices. They are to:

- clarify the boundary between general government, public, and private sectors and expand the institutional coverage of fiscal reports to encompass the whole public sector;

- expand the coverage of balance sheets to include subsoil assets as well as pension and public-private partnership liabilities;
- enhance the consistency between budgets, statistics, and accounts in their treatment of non-cash flows and valuation of fixed assets;
- improve disclosure and management of the revenue foregone from tax expenditures;
- improve the coverage and detail of the annual budget;
- enhance the independent scrutiny and transparency of the official macroeconomic and fiscal forecasts;
- improve the disclosure and analysis of fiscal risks;
- publish regularly long-term fiscal projections covering at least thirty years; and
- strengthen the financial oversight of government-controlled enterprises.

The sequence of actions required to implement these reforms over the next five years have been incorporated into a Fiscal Transparency Action Plan that is appended to this report.

Table 0.1. Summary Assessment Against Fiscal Transparency Code (July 2013 version)

LEVEL OF IMPORTANCE	LEVEL OF PRACTICE		
	1. FISCAL REPORTING	2. FISCAL FORECASTING AND BUDGETING	3. FISCAL RISK ANALYSIS AND MANAGEMENT
HIGH IMPORTANCE	1.1. Structure of Public Sector	1.2. Gross Budgeting	1.1. Macroeconomic Risks
	1.2. Coverage of Institutions	1.4 Medium-term Budget Framework	1.2. Specific Fiscal Risks
	1.3. Coverage of Stocks	4.4 Fiscal Sustainability Analysis	2.2. Asset and Liability Management
	1.4. Coverage of Flows	5.2. Supplementary Budgets	2.3. Natural Resources
	3.2. Data Consistency	5.3. Forecast Reconciliation	3.2. Public Corporations
			3.4. Health and Social Security
MEDIUM IMPORTANCE	1.5. Tax Expenditures	1.1. Budget Unity	1.3 Comparability of Fiscal Data
	3.1. Classification	2.1. Fiscal Strategy Report	2.1. Contingency Reserves
	3.3. Historical Consistency	4.3. Citizens' Budget	2.6. Financial Sector Exposure
	4.1 Statistical Integrity	5.1. Independent Evaluation	2.7. Major and Multi-Annual Contracts
			3.3. Quasi-Fiscal Activity
LOW IMPORTANCE	2.1. Frequency of In-Year Reports	1.3. Macroeconomic Forecasts	2.4. Financial Derivatives
	2.2. Timeliness of Annual Statements	2.2.Budget Submission	2.5. Guarantees
	4.2. External Audit	2.3. Budget Approval	2.8. Environmental Risks
	4.3. Statistical Dissemination	3.1. Organic Budget Legislation	3.1. Sub-National Governments
	4.4. Reliability of Financial Statements	3.2. Revenue Collection	
		4.1. Fiscal Policy Objectives	
		4.2. Performance Information	

LEGEND	LEVEL OF PRACTICE			
	Not Met	Basic	Good	Advanced

Table 0.2. Russia: Estimated Public Sector Finances Overview, 2012

(Percent of GDP)

	General Government				Public Corporations [2]					
	Central[1]	**Sub-national**	**Consoli-dation**	**Total**[6] (Consolidated)	**Non-Financial**	**Financial**	**Consoli-dation**	**Total**[6] (Consolidated)	**Consoli-dation**	**Public Sector**[6] (Consolidated)
Net Lending/Net Borrowing	**2.7**	**0.4**		**3.0**	**-0.8**	**0.8**		**-0.1**		**3.0**
Revenue	30.4	25.0	-10.9	44.4	23.1	5.6	0.0	28.6	-1.7	71.3
Expenditure	27.7	24.6	-10.9	41.4	23.9	4.8	0.0	28.7	-1.7	68.4
Net Financing	**2.7**	**0.4**		**3.0**	**-0.8**	**0.7**		**-0.1**		**2.9**
Acquisition of Financial Assets	3.6	1.4	-0.7	4.3	0.2	10.9	-0.8	10.3	-1.1	13.5
Acquisition of Liabilities	1.0	1.0	-0.7	1.2	1.0	10.2	-0.8	10.4	-1.1	10.5
Net Financial Worth	**16.2**	**1.9**		**18.1**	**-31.2**	**-4.9**		**-36.1**		**-18.0**
Financial Assets	30.5	8.7	-5.0	34.2	17.0	73.8	0.0	90.8	-25.2	99.7
Liabilities[5]	14.3	6.8	-5.0	16.1	48.1	78.7	0.0	126.9	-25.2	117.7
Of which: Shareholders' equity					*32.4*	*11.3*		*43.7*	*-11.4*	*32.3*
Net Worth (excl. pensions)[3]	**240.8**	**22.7**		**263.5**	**0.0**	**0.0**		**0.0**		**263.5**
Nonfinancial Assets[4]	224.6	20.8		245.4	31.2	4.9		36.1		281.5
Of which: Subsoil assets	*200.0*	*0.0*		*200.0*						*200.0*
Alt. Net Worth (incl. pensions)	**-41.2**	**22.7**		**-18.5**						**-18.5**
Pension liabilities	282.0	0.0		282.0						282.0

1/ Including Social Security Funds, consolidated
2/ Estimates based on the 26 largest corporations by liability.
3/ Net Worth refers to the difference between assets and liabilities (including shareholders' equity). For public corporations it equals to zero when the market price of equities is not available.
4/ Central government: including PPPs assets of 2% of GDP (estimation)
5/ Central government: including government pension liabilities of 3% of GDP and PPPs of 2% of GDP (estimation)
6/ The totals are consolidated, i.e. intra-flows/stocks within the related sector are eliminated.

I. FISCAL REPORTING

1.0. Introduction

1. **Fiscal reports should provide a comprehensive, timely, reliable, comparable, and accessible summary of the government's financial performance and position.** This chapter assesses the quality of fiscal reporting practices against those set out in the July 2013 draft of the IMF's Fiscal Transparency Code. In doing so it separately considers the following dimensions of fiscal disclosure:

i. coverage of public sector institutions, stocks, and flows;

ii. frequency and timeliness of reporting;

iii. quality, accessibility, and comparability of fiscal reports; and

iv. reliability and integrity of reported fiscal data.

2. **Fiscal reporting is characterized by a high degree of uniformity, frequency, and timeliness. All government units follow a uniform budget classification, chart of accounts, and reporting format.** The main in-year and annual fiscal reports, summarized in Table 1.1, cover the consolidated accounts for central, regional, and municipal governments. Monthly, quarterly, and year-end budget execution reports prepared by the Federal Treasury include cash revenue, expenditure, financing, and debt and are classified according to the standardized national budget classification. Year-end budget execution and financial statements also produced by the Federal Treasury present both cash and accrued revenues, expenditures, and financing and include a balance sheet of financial and (above ground) nonfinancial assets and liabilities also based on the national budget classification. Finally, monthly and annual fiscal statistics produced by the Treasury and Federal Statistics Service (Rosstat) respectively follow the IMF's Government Finance Statistics Manual 2001 standards, though, as discussed below, the coverage is not complete.

Table 1.1. Russia: List of Fiscal Reports

REPORT	COVERAGE			ACCOUNTING			PUBLICATION	
	Institutions	Flows	Stocks	Basis	Class	Non-tax Rev	Freq	Date
IN-YEAR REPORTS								
Monthly Budget Execution	GG, except EBU	Rev, Exp, Fin	Debt	Cash	Nat	Gross	M	30 days
Quarterly Budget Execution	GG, except EBU	Rev, Exp, Fin	Debt	Cash	Nat	Gross	Q	35 days
Fiscal Statistics	GG, except EBU	Rev, Exp, Fin	CG Debt	Cash	GFSM 2001	Gross	M	60 days
YEAR-END REPORTS								
Budget Execution	GG, except EBU	Rev, Exp, Fin	Debt	Cash	Nat	Gross	A	5 months
Financial Statements	GG, except EBU	Rev, Exp, Fin	Assets, Liab	Accrual	Nat	Gross	A	5 months
Fiscal Statistics	GG	Rev, Exp, Fin, OEF	Assets, Liab	Accrual	GFSM 2001	Gross	A	10 months
	GG, except EBU	Rev, Exp	None	Cash	SNA 1993	Gross	A	18 months
FISCAL FORECASTS								
Main Directions of Budget Policy	BCG	Rev, Exp	Debt	Cash	Nat	Gross	A	Jul
	GG	Rev, Exp	None	Cash	Nat	Gross		
BUDGETS								
Budget Proposal	BCG	Rev, Exp, Fin	Debt	Cash	Nat	Gross (excl self-finance)	A	Oct
	GG, except EBU	Rev, Exp, Fin	None	Cash	Nat	Gross (excl self-finance)	A	Oct
	GG	Rev, Exp, Fin	Debt	Cash	Nat	Gross (excl self-finance)	A	Oct

Note: GG: general government, BCG: budgetary central government, EBU: extra-budgetary units (EBUs include budgetary and autonomous units, the Housing and Communal Services Reform Fund, Russian Nanotechnology Corporation, and the Russian Road Company). Rev: revenue, Exp: expenditure, Fin: financing, OEF: other economic flows, Liab: liabilities.

1.1. Coverage of Fiscal Reports

1.1.1. Structure of the public sector (Basic)

3. As of October 2013, the public sector comprised 81,954 separate institutional entities of various legal forms. As shown in Table 1.2 this includes:

- 12,402 budgetary central government entities including federal government ministries, agencies, budgetary organizations, and legislative and judiciary bodies who receive all of their funding from the Federal Budget and keep their accounts with the Federal Treasury;
- 4,389 central extra-budgetary organizations. These autonomous and semi-autonomous government entities are partially financed by transfers from the Federal budget and partly by payments from the beneficiaries of their services;[4]
- 87 social security funds including the Federal Pension Fund, Social Insurance Fund, and Mandatory Medical Insurance Fund as well as 84 regional governments. These funds depend on transfers from the Federal budget for 47 percent of their revenue;
- 23,185 sub-national governments including 83 state (regional) governments (46 oblasts, 21 republics, 9 areas, 2 federal cities, 4 autonomous regions, and 1 autonomous oblast) and 23,102 local governments (municipalities). Regional governments partly depend on transfers from central government, while municipalities partly depend on transfers from the regions;
- 31,092 public corporations comprised of 22,440 unitary enterprises, 308 government corporations (11 financial and 297 nonfinancial) and 8,344 joint stock companies; and
- 10,799 other, unspecified government-controlled entities included in the official statistical register of the Federal Statistics Service (Rosstat).

4. The government maintains but does not publish a comprehensive register of all public entities. For the purpose of compiling economic statistics in line with the 1993 System of National Accounts (SNA93), Rosstat maintains a relatively comprehensive register of government units and public corporations. However, this statistical register is currently under review because it does not classify these entities to these sectors according to international standards, as discussed below. The Treasury maintains a separate register of government entities for the purpose of compiling accounts but this does not cover all government-controlled entities as defined by international standards or include any public corporations. In addition, the list of individual units included in the general government is not consistent between the two registers.[5]

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[4] GFSM2001-based statistics also include three non-market enterprises in this category: the Housing and Communal Services Reform Fund, Russian Nanotechnology Corporation, and the Russian Road Company.

[5] According to Rosstat's statistical register, the general government comprises 41,891 entities. According to the Treasury's accounting register, the general government comprises 40,063 entities.

Table 1.2. Russia: Estimated Public Sector Institutions and Finances

(Percent of GDP, 2012)

	Number of entities	Revenue[1]	Expend-iture[1]	Balance[2]	Net impact of transfers	Net Balance
		1	2	3 = 1 - 2	4	5 = 3 - 4
I. GENERAL GOVERNMENT (Consolidated)	**40,063**	**44.4**	**41.4**	**3.0**	**-0.8**	**3.8**
Central government (Consolidated)	**16,878**	**30.4**	**27.7**	**2.7**	**-4.0**	**6.6**
Budgetary central government	12,402	22.4	20.2	2.2	-11.5	13.7
Extrabudgetary units/entities	4,389	2.5	2.7	-0.3	0.3	-0.6
Social security Funds	87	13.5	12.7	0.7	7.3	-6.5
Subnational government, (Consolidated)	**23,185**	**25.0**	**24.6**	**0.4**	**3.2**	**-2.8**
State governments	83	16.3	16.1	0.3	-1.1	1.3
Local governments	23,102	8.6	8.5	0.1	4.2	-4.1
II. PUBLIC CORPORATIONS (Consolidated)	**41,891**	**28.6**	**28.6**	**-0.1**	**0.8**	**-0.9**
Unitary enterprises	22,440					
Government corporations	308					
Joint-stock companies	8,344					
Other government controlled enterprises	10,799					
III. PUBLIC SECTOR (Consolidated)	**81,954**	**71.3**	**68.3**	**3.0**	**0.0**	**3.0**

1/ Consolidated revenue/expenditure at the subsector and sector level exclude intra-flows within the related subsector/sector.
2/ Net Lending/Borrowing
Source: Number of units: Rosstat as of October 2013; GFSM 2001 data for GG and staff estimates based on annual reports of the 26 largest public corporations.
Note: Consolidation reflects current and capital transfers, subsidies and dividends. Taxes paid by public corporations to government are not consolidated.

5. **The definitions of the general government and public sector do not follow international standards and differ across fiscal reports.** The Federal Treasury defines the general government based on the legal status of each entity rather than on the "market test" used in international statistical standards.[6] As a result, some of the 31,092 entities classified by the Federal Treasury as "commercial" in legal form, and therefore excluded from fiscal reports, would likely fall within the general government based on the market test. The sector classification applied in Rosstat's general government fiscal statistics include some of these entities but also do not systematically apply the market test to the different classes of entities. These differences in the coverage of general government entities likely account for some of the up to 1.8 percent of GDP discrepancy in the general government net lending/borrowing between Rosstat's national accounts and the Treasury's government finance statistics.

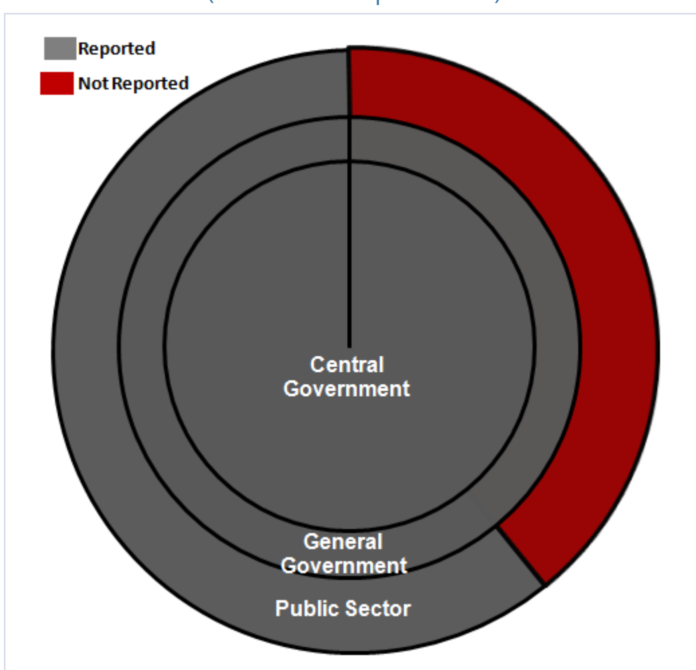
[6] The market test looks at an entity's source of financing (government vs. corporation sector) and the economic significance of the prices it charges. Economically significant prices are prices that have a significant effect on the amounts that producers are willing to supply and on the amounts purchasers wish to buy.

1.1.2. Coverage of institutions (Good)

6. **Based on a data from the country's 26 largest public corporations, the consolidated public sector accounted for at least 68 percent of GDP by expenditure in 2012.** Within this, central government net expenditure (i.e., excluding the impact of transfers to other public sector units) accounts for 33 percent (22 percent of GDP), sub-national governments for about 26 percent (18 percent of GDP), and public corporations for at least another 41 percent (28 percent of GDP) of consolidated public sector expenditure.[7]

7. **The most comprehensive fiscal reports cover the consolidated general government as defined in national legislation and about 60 percent of public sector expenditure.** The Treasury's budget execution reports and financial statements cover most non-corporate central and sub-national government entities but leave out three extra-budgetary entities (the Housing and Communal Services Reform Fund, Russian Nanotechnology Corporation, and Russian Road Company), whose net expenditure accounts for 2.7 percent of GDP. Rosstat's annual GFSM 2001-based fiscal statistics also consolidate these three entities (Figure 1.1).

Figure 1.1. Russia: Coverage of Public Sector in Fiscal Reports, 2012
(Percent of Expenditure)



Source: GFSY, staff estimates, annual reports of 26 largest public corporations.

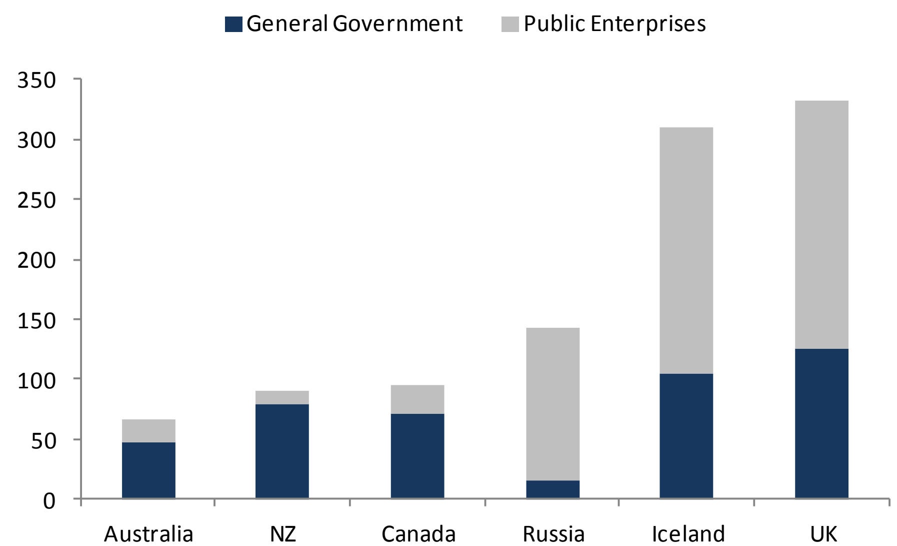
[7] Comprehensive financial data on Russia's public corporations are not available. The figures quoted here and in the rest of the report for the size of the public corporations sector and consolidated public sector are based on data from the country's 26 largest public corporations by liability.

8. However, the very large public corporation sector is not covered by any consolidated fiscal report. As discussed in the previous section, none of Russia's consolidated fiscal reports cover the large number of entities classed as commercial enterprises in national legislation, some of which would likely be classified as general government entities under international standards. While financial reports for individual government enterprises are collected by different ministries and government agencies, aggregated information on the financial position and performance of the whole public sector does not exist. However, the government recently committed to publishing fiscal statistics for the consolidated public sector, with preliminary estimates to be published in 2016-18. A project group has been established between the Ministry of Finance, Federal Treasury, Rosstat, and the Central Bank to: (i) define the scope of the public sector; (ii) establish a database covering all public corporations; and (iii) report statistics for the consolidated public sector in national accounts, financial accounts and balance sheets, and government finance statistics.

9. Expanding the institutional coverage of fiscal reports from the general government to encompass the wider public sector would significantly increase total revenue and expenditure but not significantly alter the overall balance. For example, for 2012, incorporating into the fiscal accounts of the largest 26 public corporations, would add a further 27 percent of GDP to expenditure and revenue. Since most of these corporations run operating balances, consolidating them into public sector accounts does not materially alter the overall fiscal surplus of 3 percent of GDP in 2012.

Figure 1.2. Russia: Public Sector Gross Liabilities

(Percent of GDP)



Source: Staff estimates; National budgets. Data for Russia cover only the 26 largest public corporations, 2012. Data for other countries is from 2008-12.

10. In addition to their sizeable revenues and expenditures, public corporations also have very large asset and liability holdings, relative to both the government and to public

corporations in other countries. As shown in Figure 1.3, the largest 26 public corporations had liabilities of around 102 percent of GDP compared with general government liabilities of only 11 percent of GDP in 2012. Understanding the financial position of these entities and their relationship with the government is therefore critical to understanding the financial position and sustainability of Russia's public sector as a whole.

1.1.3. Coverage of stocks (Good)

11. A consolidated general government balance sheet is published on an annual basis. This information on the general government's fixed and financial assets and liabilities is published on an annual basis in the Treasury's year-end financial report and Rosstat's government finance statistics. As shown in Table 1.3, the balance sheet for 2012 provides a detailed breakdown of the general government's 11 percent of GDP in liabilities, 34 percent of GDP in financial assets, 43 percent of GDP in nonfinancial assets, and an overall net worth of 67 percent of GDP.

Table 1.3. Russia: Reported General Government Balance Sheet, 2012
(Percent of GDP)

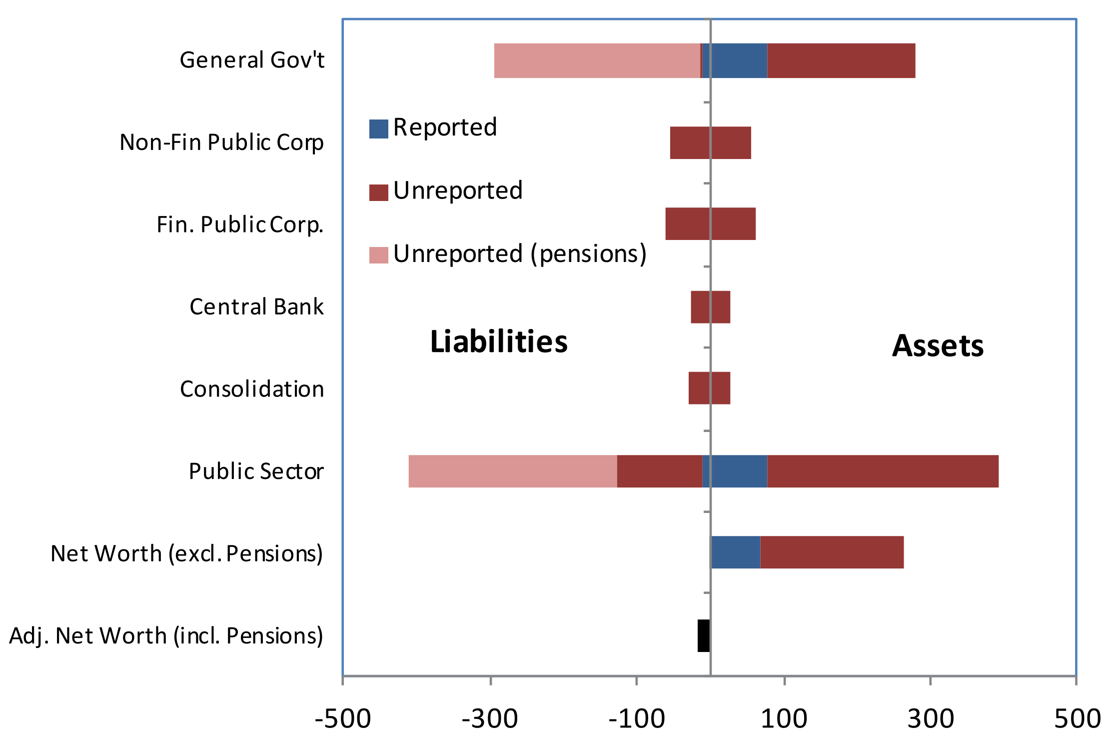
	Central Government				State Government	Local Government	General Government (Consolidated)
	Budgetary	Extra-budgetary	Social Security	Central Government (Consolidated)			
Nonfinancial assets	**20.1**	**2.3**	**0.1**	**22.6**	**12.1**	**8.7**	**43.4**
Fixed assets	14.5	2.2	0.1	16.8	10.9	6.6	34.3
Inventories	5.0	0.1	0.0	5.2	0.4	0.2	5.7
Nonproduced assets	0.6	0.0	0.0	0.6	0.9	1.9	3.4
Financial assets	**29.7**	**-0.9**	**3.6**	**30.5**	**6.1**	**2.5**	**34.2**
Currency and deposits	9.8	0.3	4.2	14.3	1.2	0.4	15.9
Securities excl. shares	0.0	0.0	0.2	0.2	0.0	0.0	0.3
Loans	4.2	0.0	0.0	4.2	0.2	0.0	3.7
Shares & other equity	11.6	0.2	0.0	10.0	6.5	3.3	15.7
Other assets	4.1	-1.5	-0.8	1.7	-1.9	-1.2	-1.4
Liabilities	**9.0**	**2.2**	**0.0**	**9.3**	**4.7**	**2.1**	**11.1**
Securities excl. shares	8.2	0.0	0.0	8.2	0.6	0.0	8.8
Loans	0.2	0.2	0.0	0.4	1.4	0.3	1.4
Shares & other equity	0.0	1.9	0.0	0.1	2.6	1.6	0.1
Other liabilities	0.5	0.1	0.0	0.6	0.2	0.1	0.9
NET WORTH	**40.8**	**-0.8**	**3.7**	**43.8**	**13.5**	**9.2**	**66.5**

Source: GFSY, 2012

12. However, this balance sheet does not reflect the true value of some general government assets and liabilities and excludes those held by public corporations. As shown in Table 1.4 and Figure 1.2, consolidated public sector asset holdings (covering the general government sector and the largest 26 largest corporations) are estimated to be at least 381 percent of GDP and its liabilities are estimated to be around 400 percent of GDP in 2012. The differences between these figures and those reported in financial statements and statistics reflect the fact that:

- the government has unrecognized subsoil assets of around 200 percent of GDP, as discussed further in Section 3.2.3;
- the government has unreported liabilities for pension rights accrued to date of around 285 percent of GDP, as discussed further in Section 3.2.2;
- the government has growing obligations under public private partnership (PPP) contracts estimated at 2 percent of GDP, as discussed further in Section 3.2.7;
- public corporations have 97 percent of GDP in liabilities to the private sector and 127 percent of GDP in fixed and financial assets, as discussed further in Section 3.3.2; and
- finally, though not reflected in the above estimates, government holdings of nonfinancial assets are most likely significantly underestimated, as they are reported in the balance sheet at historical prices, and do not take into account subsequent price changes. It is estimated that there is at least a ten-fold difference between the historical and market value of these assets. In addition, shares and other equities are not recorded in market prices.

Figure 1.3. Public Sector Balance Sheet Coverage in Fiscal Reports, 2012
(Percent of GDP)



Source: GFSY 2012, staff estimates

Table 1.4. Russia: Estimated Public Sector Balance Sheet, 2012

GENERAL GOVERNMENT (Consolidated)		Billions of Rubles	Percent of GDP
Reported	Nonfinancial assets	27,167	43.4
	Financial assets	21,403	34.2
	Liabilities	6,966	11.1
	Net Worth	**41,605**	**66.5**
Not Reported	Subsoil assets	125,198	200.0
	PPPs assets	1,252	2.0
	Pension liabilities	1,850	3.0
	PPPs liabilities	1,252	2.0
	Net Worth (excluding PAYGO pensions)	**123,348**	**197.0**
	Unfunded PAYGO pension liabilities	176,529	282.0
	Net Worth (including PAYGO pensions)	**-53,181**	**-85.0**
Total (Not Reported)	Nonfinancial assets	153,617	245.4
	Fin assets	21,403	34.2
	Liabilities	10,068	16.1
	Net Worth (excluding PAYGO pensions)	**164,953**	**263.5**
	Unfunded pension liabilities	176,529	282.0
	Net Worth (including PAYGO pensions)	**-11,577**	**-18.5**
PUBLIC CORPORATIONS			
Not Reported	Nonfinancial assets	22,599	36.1
	Financial assets	56,820	90.8
	Liabilities	79,418	126.9
	Net Worth	**0.0**	**0.0**
PUBLIC SECTOR (Consolidated)			
Total (Not Reported)	Nonfinancial assets	176,216	281.5
	Financial assets	62,437	99.7
	Liabilities	73,700	117.7
	Net Worth (excluding PAYGO pensions)	**164,953**	**263.5**
	Unfunded PAYGO pension liabilities	176,529	282.0
	Net Worth (including PAYGO pensions)	**-11,577**	**-18.5**

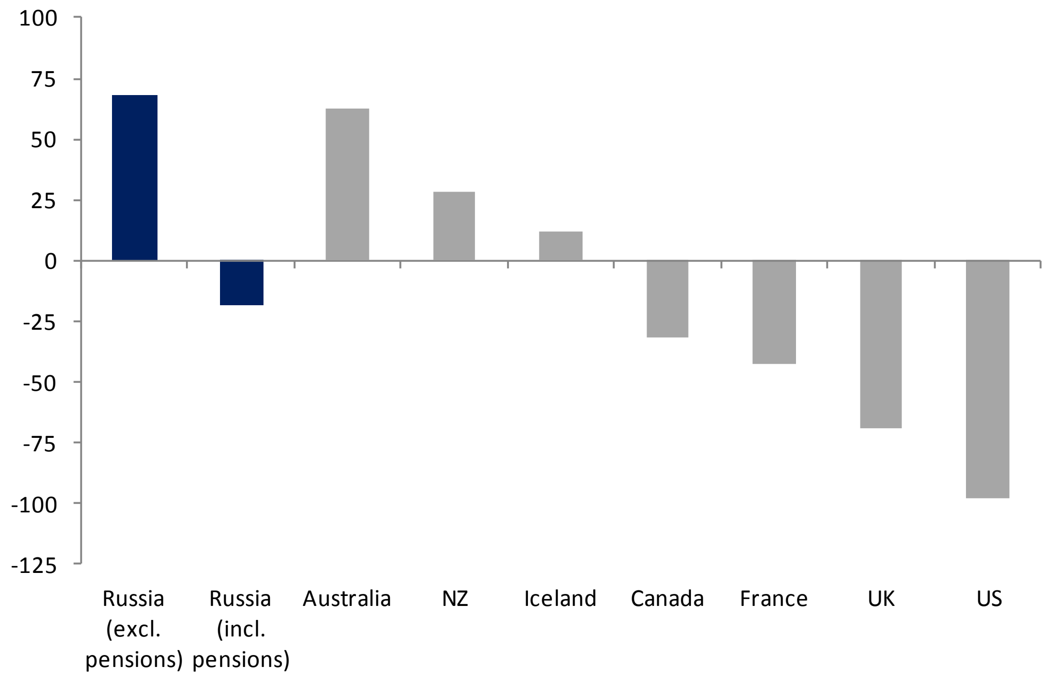
Source: GFSY 2012, staff estimates

13. **Taking a more comprehensive view of the public sector balance sheet substantially alters the estimated fiscal position, though the estimate of overall public sector net worth is highly sensitive to underlying assumptions.** As shown in Figure 1.4, consolidating the government's sub-soil assets, PPPs, funded pensions, and balance sheets of the 26 largest public corporations delivers an overall net worth for the public sector of positive 264 percent of GDP.

However, a more comprehensive measure which also includes 282 percent of GDP in unfunded pay-as-you-go pension obligations delivers an overall public sector net worth of minus 19 percent of GDP if these long-term obligations are recognized as liabilities (Table 1.4).

Figure 1.4. Public Sector Net Worth in Selected Countries

(Percent of GDP, 2012)



Source: Staff estimates, national budgets and statistical agencies.
Note: The figure presents data on net worth for countries where such estimates were available. For other countries these are estimates for 2010-11 covering nonfinancial and financial assets and liabilities as well as pension liabilities. The data for Russia present estimates for 2012. Pension estimates refer to unreported civil service pension obligations accrued to date.

1.1.4. Coverage of flows (Good)

14. **Budget execution reports are cash-based, but annual financial statements provide accrual data for the general government.** According to the Budget Code, the national accounting rules take into account international standards for financial reporting of public units such as GFSM 2001 and IPSAS. Cash-based budget execution reports provide a detailed breakdown of revenue receipts, expenditure payments, and financing. However, the financial statements record individual revenue, expenditure and outstanding amounts of assets and liabilities on an accrual basis, e.g., expenses and the related payables are recorded when goods and services are delivered and not when government makes cash payment.

15. **However, not all accrued flows are fully or appropriately captured in financial statements.** For example, reported tax revenue is based on assessments and declarations, and provisions for amounts unlikely to be paid are not created. The same is true for the treatment of the 4 percent of GDP in government loans, where no provision was made for write-offs in 2012.

In addition, pension liabilities from the state-funded pension scheme and the related flows are omitted from official fiscal reports. Finally, changes in market prices of stocks of fixed assets and shares and other equities are not reflected as other economic flows that affect net worth.

16. In addition, there are some inconsistencies in the treatment of non-cash flows across different types of fiscal reports. In particular, government budgets include provision for nearly the full amount of guarantees issued each year (RUB 115 billion or 0.2 percent of GDP in 2012) which tends to overstate forecast liabilities as only 5 percent of the total value guarantees have been called over 2012-13. Furthermore, there are large accrued rents to Federal and sub-national governments in fiscal statistics for which no cash counterpart can be identified. The resulting differences between accrual and cash transactions are noticeable, as shown in Table 1.5, with accrued revenues consistently exceeding cash receipts by 4-7 percent of GDP and the accrual balance consistently exceeding the cash balance by 0.2 to 1.4 percent of GDP between 2009 and 2012. The differences between accrual and cash revenue and expenditure are to a large extent reflected in other (unspecified) accounts receivable/payable in the balance sheet.

Table 1.5. Russia: Difference between Accrued and Cash Revenue and Expenditure

(Percent of GDP)

	General Government				Federal Budget				Sub-national Govts			
	2009	2010	2011	2012	2009	2010	2011	2012	2009	2010	2011	2012
Revenue	**6.5**	**4.1**	**7.4**	**4.9**	**0.7**	**1.7**	**3.7**	**2.3**	**6.3**	**3.0**	**3.5**	**3.7**
Taxes	0.1	-0.2	-0.6	0.2	0.0	-0.2	-0.3	0.1	0.1	0.1	-0.3	0.1
Social contributions	0.1	0.0	-0.1	-0.2	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.6	0.5	0.2	0.5
Other revenue	6.3	4.3	8.1	4.9	0.7	1.8	4.0	2.2	5.5	2.4	3.6	3.1
Expenditure	**6.3**	**3.0**	**6.7**	**3.7**	**0.8**	**1.0**	**2.5**	**0.6**	**6.2**	**2.5**	**3.7**	**3.4**
Employee compensation	1.0	0.0	0.8	0.0	0.0	0.0	0.0	0.0	1.0	0.0	0.8	0.0
Goods and services	1.5	1.6	0.9	0.9	0.3	0.6	-0.1	0.0	1.1	0.8	0.9	0.9
Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Subsidies	3.6	1.8	1.8	2.4	2.3	0.4	0.1	0.5	1.3	1.4	1.7	2.1
Grants	0.0	0.0	0.0	0.0	0.1	0.2	0.1	0.1	0.5	0.3	0.2	0.5
Social benefits	-0.1	-0.1	0.6	0.0	0.0	0.0	-0.1	0.0	0.1	0.0	0.1	0.0
Other expense	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.1	0.1	0.0	0.0
Net acquisition of NFA	0.2	-0.4	2.5	0.2	-1.9	-0.2	2.5	0.1	2.2	-0.1	0.1	0.0
Net lending / borrowing	**0.2**	**1.1**	**0.7**	**1.2**	**-0.1**	**0.8**	**1.3**	**1.6**	**0.1**	**0.5**	**-0.2**	**0.3**
Net impact of other accounts receivable/ payable	0.6	1.3	0.0	1.0	0.4	1.0	0.3	1.4	-0.1	0.4	-0.9	-0.4

Source: GFSM 2001, staff estimates

1.1.5. Tax expenditures (Basic)

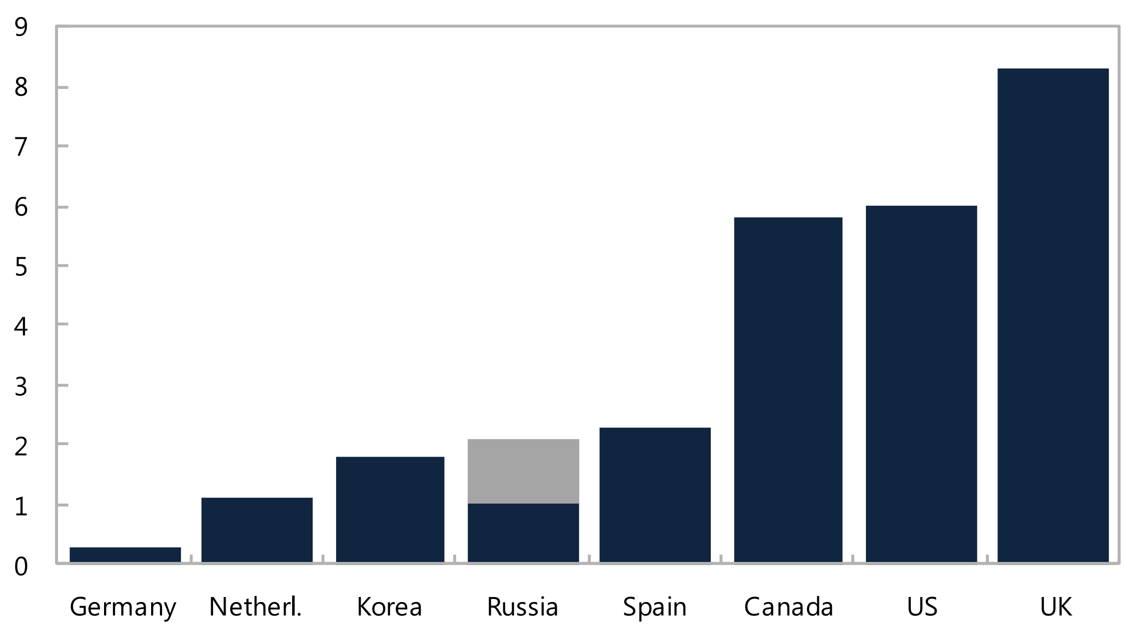
17. There is limited disclosure of revenue loss due to tax reliefs and tax subsidies. By making exceptions in the tax system for certain taxpayers, activities or transactions—in the form of deductions, exemptions, allowances, rate reliefs, deferrals, or credits—the government decides to forgo revenue that otherwise would have been collected. Since the foregone revenue benefits some tax payers and not others, it is akin to a subsidy on the expenditure side of the budget. To fully capture the redistribution of economic funds through the budget, the extent of the loss of revenue through tax expenditure should be disclosed.

18. While there have been efforts to estimate the size of tax expenditures, the government does not have an official methodology for calculating tax expenditures. Tax expenditures are difficult to measure directly. To make an estimate of the revenue loss, a benchmark tax—defined as the rate structure, deductions, and accounting treatment prevailing in the absence of any tax expenditures—must be identified. Tax expenditure analysis also requires a choice between three estimation methodologies, based on either revenue foregone, revenue gain, or outlay equivalent. No official approach has yet been agreed by the Russian government.

19. Preliminary unofficial estimates indicate federal tax expenditures in the range of 1-2 percent of GDP in 2010. This would put the size of tax expenditure toward the low end compared with a sample of advance countries included in a recent OECD survey, as shown in Figure 1.5. However, these estimates exclude the foregone tax from corporations operating in the 24 Special Economic Zones which offer generous tax incentives. Given that several initiatives to stimulate innovation through tax exemptions have been taken in recent years—for example in the area of energy efficient equipment and regional development—the estimate is likely on the low side and revenue loss from tax expenditures is likely to grow. As indicated above, these estimates are also sensitive to the definition of the benchmark tax, in particular whether VAT on certain services are included.

Figure 1.5. Tax Expenditures

(Percent of GDP)



Note: Estimates for the year 2008, except Germany: 2006; Netherlands: 2006; Korea: 2006; and Canada 2004. Dark and light blue colors for Russia illustrate two different estimates for the size of tax expenditures.
Sources: Tax Expenditures in OECD Countries (2010); T. Malinina (2010); Estimates of Tax Expenditures and Reliefs: International Experience and Russian Practice.

1.2. Frequency and Timeliness of Fiscal Reporting

1.2.1. Frequency of in-year reports (Advanced)

20. Cash-based in-year budget execution reports and in-year fiscal statistics are produced with a high degree of frequency and timeliness. Cash-based budget execution reports are produced on a monthly basis and published within 30 days of the end of each month. Quarterly reports are available 35 days after the end of the quarter. These budget execution reports are also translated into the monthly cash-based GFSM 2001 statistical format and published within two months.

1.2.2. Timeliness of annual financial statements (Advanced)

21. Annual accounts covering the Federal government budget and the consolidated budgets of the Russian Federation are published within five months of the end of the financial year. Under the Budget Code, Russia produces two sets of annual accounts covering all nationally-defined general government entities. First, a cash-based annual budget execution report shows government revenues, expenditure, and financing for the previous year. Second, an accrual-based financial statement provides an income statement, balance sheet, and cash flow statement for the previous year. Both reports are published within five months of the end of the year.

1.3. Quality of Fiscal Reports

1.3.1. Classification (Good)

22. Fiscal reports include an administrative, economic and functional classification. The administrative classification reflects the existing structure of the budgetary units. The uniform chart of accounts employed by all nationally-defined general government entities allows for the compilation of consolidated fiscal reports for the nationally-defined general government sector which generally follow GFSM 2001 economic and functional classifications. As discussed in Section 2.4.2, a program classification is currently being prepared for the 2014 budget which will also be incorporated into ex post fiscal reports.

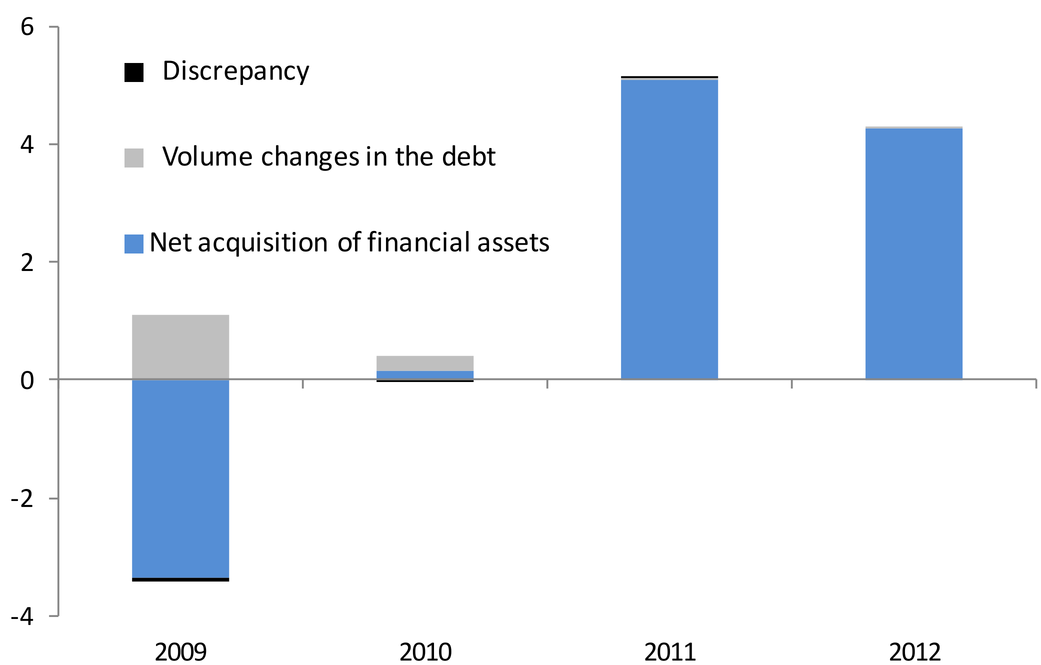
23. However, there are several differences between the national and GFSM 2001 classification rules. In particular, according to national budgetary rules, "above the line" transactions include outflows due to the acquisitions of shares and other equities. Such operations are treated as financial ("below the line") transactions in GFSM 2001, on the assumption that the government has acquired a financial asset which will generate a sufficient, market rate of return. Another example is the treatment of holding gains from sales of nonfinancial assets which are treated as revenue in the budget execution reports, but in GFSM 2001 are defined as other economic flows not impacting the operating balance. Finally, external debt is defined by the Budget Code as debt in foreign currency, while according to international standards it should refer to the holdings of debt by non-residents.

1.3.2. Data consistency (Basic)

24. **Annual government finance statistics and accounts provide a reconciliation of above and below-the-line transactions.** However, this is only one of the three internal consistency checks called for under the July 2013 draft of the Fiscal Transparency Code. The government does not publish consistency checks that explain either the stock-flow adjustments in government finance statistics or the differences in government debt issuance figures compiled by the Treasury and government debt holdings compiled by the Central Bank. In addition, as discussed in Section 1.1.4, there are significant unexplained differences between the net lending/borrowing compiled by the Treasury and Rosstat.

25. **Stock-flow adjustments (SFAs) are significant and have been especially large in recent years.** A shown in Figure 1.6 and Table 1.6, these differences in the change in debt and net lending/borrowing have averaged 1.9 percent of GDP over 2009-12 compared with 1.1. percent of GDP in EU countries. SFAs were particularly large in 2011 and 2012 (5.2 and 4.3 percent of GDP respectively) indicating that the government issued debt, despite of the positive performance (surpluses). The borrowed funds were deemed to be used for acquisitions of financial assets—shares and equities. Changes of the value of foreign currency-denominated debt which are not captured in financial statements may also account for some of this unexplained discrepancy between stock and flow figures. The absence of information explaining the SFA elements may give rise to doubts concerning the correctness of the treatment of some flows and stocks and ultimately on the reliability of the main fiscal aggregates.

Figure 1.6. Russia: Stock Flow Adjustments
(Percent of GDP)



Source: IMF Government Finance Statistics Yearbooks

Table 1.6. Russia: Sources of Stock-Flow Adjustments
(percent of GDP)

	2009	2010	2011	2012
Net borrowing(+)/lending(-)	**4.6**	**1.4**	**-3.4**	**-3.0**
Net acquisition of financial assets	**-3.4**	**0.2**	**5.1**	**4.3**
Currency and deposits	-4.8	-1.5	3.0	1.6
Securities other than shares	-0.1	0.0	-0.3	0.0
Loans	-0.6	-0.1	0.2	0.1
Shares and other equity	0.6	0.9	2.4	1.6
Other financial assets	1.5	0.9	-0.1	0.9
Adjustments	**1.1**	**0.2**	**0.0**	**0.0**
Revaluation of the debt	0.0	0.0	0.0	0.0
Volume changes in the debt	1.1	0.2	0.0	0.0
Discrepancy	-0.1	0.0	0.0	0.0
Change in the debt	**2.3**	**1.9**	**1.8**	**1.3**
Stock-Flow Adjustments	**-2.3**	**0.4**	**5.2**	**4.3**

Source: GFSM 2001
Note: Net lending/borrowing is here reported using reverse sign convention, e.g., surpluses are recorded as negative figures contributing to the reduction of debt.

1.3.3. Historical consistency (Basic)

26. While revisions to historical fiscal data have typically been small, a major revision of fiscal data for 2009 led to a 9.5 percent of GDP increase in net borrowing. This revision related to the exceptional flow which was not recorded in financial statements in line with the GSFM 2001 methodology. Before 2009, according to the national accounting rules, holdings of government shares and equities had not been reported among government assets. A decision to include them into the balance sheet led to the inclusion of large one-off receipt to government in 2009 financial statements. Treatment of this inflow was reconsidered by statisticians in 2011 and reclassified as another economic flow that did not count as revenue and therefore required a large upward revision to reported borrowing in 2009.

27. Historical statistics are not reviewed on regular basis to take into account new information on public finances. Apart from the exceptional revision for 2009, there have not been any revisions to historical fiscal data. Because Russian GFS reports are based on final data sources, the authorities state that revisions due to new information are not needed. This does not follow the practice in most advanced countries where historical data are routinely updated to reflect new information on government finances—in particular on specific government transactions (e.g., capital injections, super-dividends, debt assumptions, or debt cancellation), changes in the sector delimitation, identification of non-compliant treatments of flows and stocks in the nationally based reports, or accounting errors uncovered by the auditor. These updates are incorporated into historical statistical reports and explained to ensure a consistent and accurate time-series.

1.4. Integrity of Fiscal Reports

1.4.1. Statistical integrity (Good)

28. Comprehensive GFSM 2001-based fiscal statistics are produced and disseminated by the Federal Treasury. The Treasury is a semi-autonomous institution under the Ministry of Finance, and an executive order establishes that fiscal statistics are to be based on accounting data and compiled in accordance with international standards. While Rosstat functions under the Ministry of Economic Development, it was granted professional independence by the 2008 Statistical Law. However, Rosstat compiles only annual government nonfinancial national accounts according to SNA methodology and with a delay of almost two years.

1.4.2. External audit (Good)

29. The annual budget execution reports and financial statements are audited independently by the Chamber of Accounts in line with the Constitution. Under Article 7 of the Federal Law on the Audit Chamber, the chair of the Chamber of Accounts is proposed by President and appointed by the Parliament for the period of six years. He or she can only be removed from office for gross misconduct and following a resolution passed by both Houses of Parliament. The conclusions of the audit report are presented to Parliament alongside the final versions of the statements themselves by the start of September. However, the report does not provide an opinion as to whether the financial statements present a true and fair view of the government's financial position.

1.4.3. Statistical dissemination (Good)

30. Fiscal statistics meet the IMF's Special Data Dissemination Standard (SDDS). The Federal Treasury produces and publishes monthly cash-based and annual accrual-based government finance statistics in accordance with the SDDS requirements, using a flexibility option on the timeliness of the monthly data. The authorities are currently working on preparing quarterly data on general government operations on accrual basis. To meet SDDS plus standards, Russia would need to publish quarterly data on general government within 12 months and quarterly debt within four months after the end of the reference quarter.

1.4.4. Reliability of financial statements (Good)

31. Annual accounts meet national accounting standards and their reliability is validated by the Account Chamber. Russia has applied a national accrual-based accounting standard for all government entities since 2006. The audit report of the Accounts Chamber typically includes a number of recommendations for improving the construction and presentation of the accounts based on this standard. There is an ongoing project to introduce IPSAS, even though not all IPSAS standards have been issued. The new accounting standard for government would bring the classification of revenue and expenditure in line with the generally accepted international accounting standard and improve the valuation and recognition of assets including subsoil assets and land. However, it is not envisaged that the new standard will require the recognition of accrued pension liabilities in balance sheets.

1.5. Conclusions

32. Fiscal reports meet either good or advanced practices in most areas, but there is scope for improvement in several areas. Table 1.7 summarizes the quality of Russia's fiscal reporting relative to the standards set by the July 2013 draft of the Fiscal Transparency Code as well as the relative importance of each area. This assessment highlights a number of areas where reporting can be improved. These include:

- accounts and fiscal statistics limit their coverage to general government units and do not reflect the significant financial activity of publicly-controlled corporations;
- summary balance sheet data does not include the government's significant subsoil assets, pension liabilities, and PPP obligations;
- fiscal reports do not include provisions for non-recoverable taxes and loans and assets are recognized at historical cost rather than market value; and
- there is no regular estimation or active management of the revenue loss from tax expenditures.

Chapter IV includes a series of recommendations for how fiscal reporting can be enhanced in these areas by consolidating available fiscal information into a new set of more comprehensive summary fiscal reports.

Table 1.7. Russia: Summary Assessment of Fiscal Reporting*

Principle		Assessment	Importance**	Rec
1.1	**Structure of the Public sector**	**Basic:** The government maintains a register of public sector entities	**High:** Significant proportion of 41,891 public corporations may belong in general government	1
1.2	**Coverage of Institutions**	**Good:** Fiscal reports consolidate all general government units	**High:** Public corporations with expenditure of 28% of GDP in 2012 outside consolidated fiscal reports	1
1.3	**Coverage of Stocks**	**Good:** Fiscal reports cover all conventional financial and nonfinancial assets and liabilities	**High:** Subsoil assets of 200% of GDP and pensions liabilities of 285% of GDP not included in balance sheets.	2,3
1.4	**Coverage of Flows**	**Good:** Fiscal reports cover cash and accrued revenues and expenditures	**Medium:** Non-recognized non-recoverable claims of 0.4% of GDP reduce reliability of the fiscal balances	3
1.5	**Tax Expenditures**	**Basic:** There is annual disclosure of revenue loss due to some tax reliefs subsidies	**Medium:** Estimated 1-2% of GDP in annual revenue foregone due to tax expenditures.	4
2.1	**Frequency of In-year Fiscal Reports**	**Advanced:** Cash-based budget execution reports are published on a monthly basis	**Low:** Monthly fiscal reports are published within 30 days	
2.2	**Timeliness of Annual Financial Statements**	**Advanced:** Annual financial statements are published in a timely manner	**Low:** Annual reports are published within 5 months of the end of the financial year	
3.1	**Classification**	**Good:** Fiscal reports include an administrative, economic and functional, classifications comparable with international standards	**Medium:** Inconsistent classifications of some transactions lead to different levels of the fiscal balances	
3.2	**Data Consistency**	**Basic:** Fiscal reports reconcile cash balance and financing	**High:** Unexplained stock-flow adjustment of 4-5% of GDP in recent years	3
3.3	**Historical Consistency**	**Basic:** Material revisions to historical fiscal statistics are reported	**Medium:** Historical statistics are not revised on regular basis to reflect new information	
4.1	**Statistical Integrity**	**Good:** Statistics are prepared by semi-autonomous government agency	**Medium:** Statistical integrity is supported by a government order.	1
4.2	**External Audit**	**Good:** Government accounts are audited by an independent supreme audit institution	**Low:** Accounts Chamber independence is protected by the Constitution	
4.3	**Statistical dissemination**	**Good:** Fiscal statistics meet SDDS	**Low:** Reforms required to meet SDDS plus are underway	
4.4	**Reliability**	**Good:** The annual financial statements meet national accounting standards and their reliability is validated	**Low:** No significant qualifications to recent accounts	

* See Glossary and Legend on page 4 for color coding

** All figures refer to 2012 unless otherwise indicated

II. FISCAL FORECASTING AND BUDGETING

2.0. Introduction

33. This chapter assesses the quality of current fiscal forecasting and budgeting practices relative to standards set by the July 2013 draft of the IMF's Fiscal Transparency Code. It focuses on four main areas:

i. the comprehensiveness of the budget and associated documentation;

ii. the timeliness of the budget and its passage;

iii. the policy orientation of budget documentation; and

iv. the credibility of the fiscal forecasts and budget proposals.

34. The budget process in Russia is comprehensively regulated by the Budget Code of the Russian Federation, which sets the rules and procedures for the preparation, approval, and execution of federal, regional, and municipal budgets. This comprehensive legal framework ensures consistent classification and treatment of expenditure and revenue, and enables strong central control over government finances. Budgets at all levels of government are generally comprehensive, excluding only some extra-budgetary social funds which collect social contributions but also receive transfers from the budget. The budgets of the Federal government, sub-national governments and extra-budgetary funds are consolidated and presented to Parliament in October of each year.

35. A defining feature of budgeting and fiscal forecasting in Russia is their medium-term orientation. Medium-term economic forecast prepared by the Ministry of Economic Development are comprehensive, updated regularly, and (while not a legal requirement) discussed with independent forecasting bodies**.** Budgets at all levels of government cover the upcoming year and a two-year forward planning period. Revenue, expenditure, financing, and debt are presented for all three years at the same level of detail. A parliamentary decision on the outer years of the planning period is taken each year. The recently introduced fiscal rule—linking aggregate federal expenditure to revenue calculated using a historically based oil-price—provides a bridge between aggregate fiscal planning and budget preparation. In recent years, longer-term forecasts—covering the period up until 2030—have been prepared, and a more thorough fiscal sustainability analysis is being developed. A summary of the main macro-fiscal forecasting and budget documents is presented in Table 2.1.

Table 2.1. Russia: Macroeconomic and Fiscal Forecasting and Budget Documents

Document	Description	Timing
Long-term social and economic forecast of RF for the period until 2030	350 page document issued by the Ministry of Economic Development discussing the external and domestic long-term developments, including a sectoral breakdown of the domestic economy.	Mar (2013)
Medium-term scenario analysis of social and economic parameters	35 page document issued by the Ministry of Economic Development presenting three to five scenarios for a selected number of macroeconomic and social indicators over the coming three years.	Apr-May
President's budget address	10 page document outlining the president's medium-term priorities for the upcoming budget.	June
Main directions of tax policy for upcoming year and two-year planning period	50-60 page document presenting objectives and main directions of tax policy.	June
Main directions of budget policy for upcoming year and two-year planning period	100 page document presenting medium-term macroeconomic assumptions, objectives of fiscal policy, projection of general government finances, breakdown of budget expenditure, and sources of financing.	July
Medium-term forecast of social and economic parameters	15 page document issued by the Ministry of Economic Development presenting (Sept) and updating (Dec) the medium-term forecast of macroeconomic and social parameters underpinning the budget.	Sept, Dec
Budget for upcoming year and two year planning period	The government's budget submission to parliament. In addition to the proposed law and annexes (about 4,500 pages) the budget submission includes a large volume of accompanying documents, including: update of the Main directions of budget policy; updated macroeconomic forecast; assessment of budget outturn for current year; general government forecast; objectives and performance indicators or government programs and budgets for extra-budgetary funds.	Oct
Possible supplementary budgets for current year	Same content as initial budget	June, Sept, Dec

2.1 Comprehensiveness of Budget Documentation

2.1.1. Budget unity (Good)

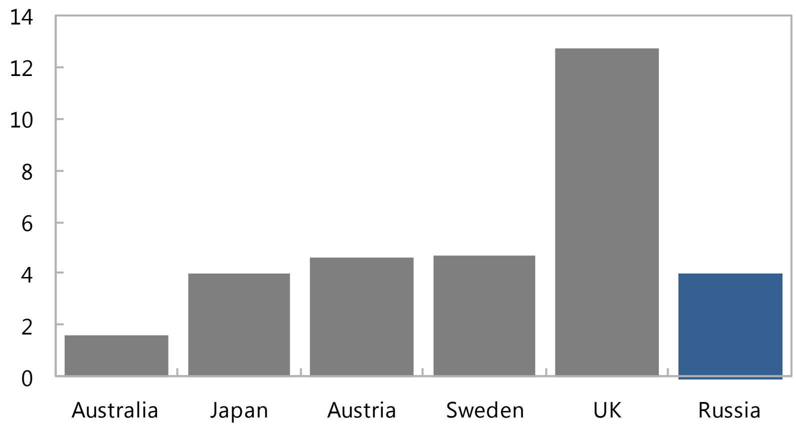
36. The Federal Budget covers all federally-funded ministries, agencies and other entities defined as budgetary in national legislation. The annual budget law includes the revenue and expenditures of all 91 main spending units (ministries and agencies) of the Federal government which receive their funding from the Federal Treasury. The budgets for the three federal extra budgetary funds – Pension Fund, Social Insurance Fund, and the Federal Mandatory Health Insurance Fund – are submitted together with the budget (Budget Code Article 192, Paragraph 5), and approved by the legislature. The budget documentation also includes a consolidated forecast of general government revenue and expenditure (Budget Code Article 192, Paragraph 44).

37. However, several public entities which carry out government functions are not presented as part of the budget documentation. Of the six state corporations (Deposit Insurance Agency, Vneshekonombank, Fund for Assisting in Housing and Utility Reform, Russian Roads, Olympstroi, and Rosatom), only the first three are classified as part of central government statistics and none are included in the annual budget. While these state corporations are legally defined as non-profit companies, their activities involve the implementation of government policies, for example managing road infrastructure PPPs (Russian Roads), overseeing the construction of public infrastructure (Olympstroi), managing the depositors guarantee scheme (Deposit Insurance Agency), supporting the diversification of the economy (Vneshekonombank), or setting nuclear energy regulations (Rosatom). There are also announced plans for extra-budgetary investment or lending by two sovereign wealth funds, the National Wealth Fund and the Investment Fund of the Russian Federation. Should these tax-funded institutions undertake such activity, they should be classified as government entities and presented in the annual budget alongside other, budget-financed, public investments.

2.1.2. Gross budgeting (Basic)

38. Most central government revenue and expenditure is authorized via the annual budget. The annual budget law covers the vast majority of tax, non-tax, and non-refundable revenue (Budget Code Article 41) collected by the federal government. However, revenue from the delivery of certain non-statutory and demand-driven goods and services—primarily in the areas of health and education—is not included in budget revenue. Instead, this revenue is allowed to off-set expenditure, with only the resulting net expenditure being drawn against appropriations in the budget. Such own-financed expenditure accounts for 4.3 percent of total central government expenditure in 2012, which is in line with other countries (Figure 2.1). Net budgeting at the sub-national level is at around the same share of total sub-national expenditure (3.7 percent in 2012). The retained revenues of predominantly fee-financed Federal and sub-national agencies are not reflected in budget documentation, though actual fees collected and gross expenditure (both appropriation and fee-financed) are disclosed in the annual accounts.

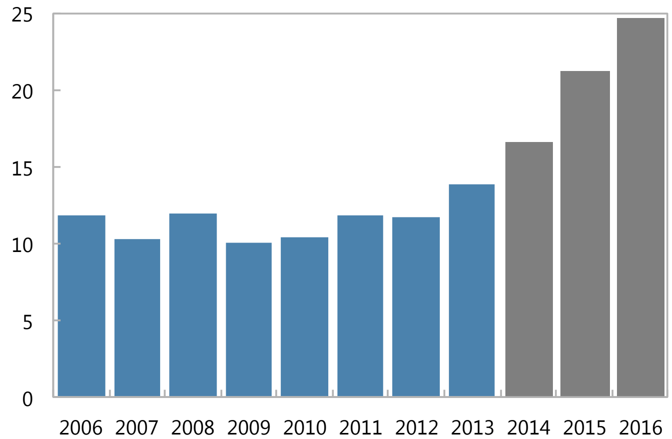
Figure 2.1. Retained Revenue
(Percent of Total Expenditure)



Note: Revenue from fees and charges paid by non-government entities (i.e. does not include payments between government entities), which is retained by the collecting agency. Reflects the fiscal year 2012, except Australia: 2011, Japan: 2009 and UK: 2011.
Sources: Authorities' Data, Staff Estimates

39. The specificity and transparency of the budget has been reduced in recent years due to a growing share of expenditure being classified as secret for national security reasons. This expenditure is shown only at an aggregate level and the detail provided for other parts of the budget is withheld. The share of the budget classified as secret has risen over the past five years and stood at close to 14 percent of total expenditure in 2013. It is forecast to increase to close to 25 percent in 2016 as more agencies and activities (such as border protection) are classified as national security and spending on armaments increases (Figure 2.2). Russia already has a relatively high proportion of budget expenditure classified as secret relative to other G-20 countries, many of whom classify less than 1 percent of total budget expenditure as secret (Table 2.2).

Figure 2.2. Russia: Hidden (Unspecified) Expenditure in the Federal Budget
(Percent of Total Expenditure)



Sources: Federal Budgets for 2006 - 2014-16

Table 2.2. Share of the National Budget Classified as Secret
(Percent of Total Expenditure in 2012)

	Below 1 percent	1 to 3 percent	3 to 8 percent	Over 8 percent
Argentina	X			
Brazil	X			
China				X
France	X			
Germany	X			
India				X
Indonesia				X
Italy				X
Korea	X			
Russia				**X**
Saudi Arabia				X
South Africa	X			
Turkey				X
UK	X			
USA		X		

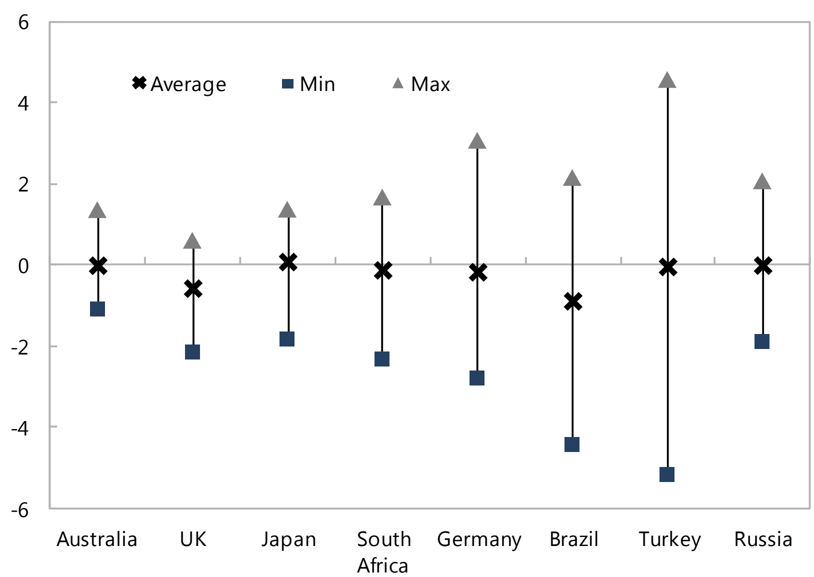
Source: Open Budget Initiative
Note: Includes only secret items in the government's budget. The actual extent of undisclosed revenue and spending could be higher to the extent there is extra budgetary spending.

2.1.3. Macroeconomic forecasts (Advanced)

40. The government produces regular, detailed, and credible medium-term macroeconomic forecasts as part of the preparation and presentation of the annual budget (Budget Code Article 192.4). The Ministry of Economic Development issues two or three medium-term macroeconomic forecasts per year. The April forecast presents three to five macroeconomic scenarios as options for internal budget preparation purposes, but the published document contains only a few key parameters. The forecast is updated in September for use in the draft Budget presented to Parliament and again in December for use in the final budget approved by Parliament. Both of these updates are published, including a comprehensive and detailed discussion on the underlying assumptions for inflation, growth and exchange rates. As shown in Figure 2.3, Russia has a strong macroeconomic forecasting record despite the relative volatility in output growth (see Figure 3.1). Except for the crisis year of 2009, forecasts for GDP-growth three-years ahead are unbiased and relatively accurate compared with other G-20 countries that publish multi-year forecasts.

Figure 2.3 Average Medium-Term Real GDP Forecasting Error 2000-12

(Percent of GDP)



Note: Excludes 2009 for all countries, except Japan, which excludes both 2008 and 2009. For Brazil the data cover 2001-12. For Turkey 2006-12. For Russia: 2005-12.
Sources: Authorities' data, staff estimates

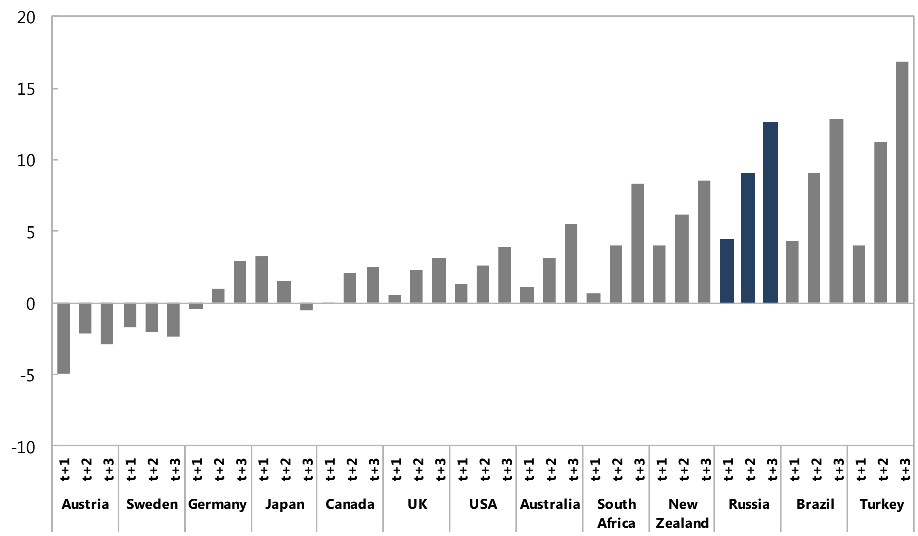
2.1.4. Medium-term budget framework (Advanced)

41. Russia has had a comprehensive and detailed medium-term budget framework mandated by the Budget Code since 2008. Budgets at the Federal, sub-national, and municipal level cover the upcoming year and two-year forward planning years. Information on forward plans is provided at the same level of detail for all years in the planning framework. Expenditure is classified by organizational unit, function, economic category, and, where specified, program. Revenue is classified by collecting entity and revenue type. Figures for the preceding two years and the current year are presented at aggregate levels.

42. Large revisions to outer years' expenditure estimates in the medium-term budget plan call into question the plan's ability to discipline expenditure. Since 2008, actual expenditure has, on average, been 9 percent higher than the initial estimate for the second year and more than 12 percent higher than the initial estimate for the third year. This level of forecast error exceeds that of other countries with medium-term budgeting frameworks (Figure 2.4). The introduction of a legally-mandated multi-year expenditure limit in 2013, as part of the new oil price-based fiscal rule, may help to strengthen multi-year expenditure discipline.

Figure 2.4 Average Difference Medium-Term Estimates and Actual Expenditure

(Percent of Total Expenditure)



Note: Covers the years 2000-12 except Austria: 2009-12; Japan 2002-2010; UK 2000-2011; Russia 2008-12; Brazil 2001-2011; and Turkey: 2006-12.
Sources: National Budget Documents, Staff Estimates

2.2 Timeliness of Budget Submission and Approval

2.2.1. Fiscal strategy report (Good)

43. The government publishes four documents which outline its fiscal strategy ahead of the preparation of the upcoming budget. The President's Budget Address (required by Article 170 of the Budget Code), normally issued in June, outlines the key issues and the main directions of budget policy for the upcoming year and the medium-term planning period, albeit in qualitative terms. In July, the government issues a preliminary version of the Main Directions for Budget Policy and the Main Directions for Tax Policy which contain fiscal projections for the general government, federal budget, extra budgetary funds, and sub-national budgets, together with an allocation of the federal budget to some 40 government programs for the upcoming year and the medium term. In the Mid-Year Performance Report—normally issued in July—the government reviews economic developments and fiscal performance mid-year, and prospects for the remainder of the year. Taken together, the information presented in these documents compares favorably with that provided by other countries' pre-budget statements (Table 2.3), though accessibility would be improved if they were combined into a single document.

Table 2.3. Timing and Contents of Pre-Budget Statements in Selected Countries

Country	Pre-Budget Statement	Issuance (months before fiscal year)	Parliamentary decision on sector/min. ceilings	Medium -term expend.	Medium -term revenue	Gen. gov't or public sector coverage	Macro-econ forecast	Debt projections
Austria	Federal Financial Framework Law	8	Yes	X	X	X	X	X
Canada	Economic and Fiscal Update	5	No	X	X		X	X
Estonia	State Budget Strategy	7	No	X	X	X	X	X
Finland	Economic Survey	8	Submitted but not adopted	X	X	X	X	X
France	Budget Orientation Debate	6	Submitted but not adopted	X	X	X	X[1]	X[1]
Nether-lands	Spring Memorandum	7	Submitted but not adopted	X	X	X	X	X
New Zealand	Budget Policy Statement	4.5	No	X	X		X	X
Russia	**President's Budget Address**	**6–9**	**No**					
Russia	**Main Dir. For Budget Policy**	**5–6**	**No**	**X**	**X**	**X**	**X**	**X**
Russia	**Main Dir. For Tax Policy**	**5–6**	**No**		**X**			
South Africa	Medium-term Budget Policy Statement	5	Yes	X	X		X	X
Sweden	Spring Fiscal Policy Bill	8	Submitted but not adopted	X	X	X	X	X
UK	Autumn Statement	5	Submitted but not adopted	X	X	X	X	X

[1.] For t+1 only.

Source: National documents

2.2.2. Budget submission (Advanced)

44. **The annual budget is submitted to the legislature in a timely manner.** According to the Budget Code (Article 192, Paragraph 1), the government should send the draft budget, including all the accompanying documentation, to the legislature (Duma) no later than October 1, i.e., three months before the start of the budget year. As shown in Table 2.4, the timelines of Russia's budget submission compares favorably with other G-20 countries.

Table 2.4. Timing of Submission of the Budget Proposal to the Legislature, 2013
(number of months before the start of the budget year)

	Four Months or More	Three Months	Two Months	One Month	After the Start of the Year
Argentina	X				
Australia			X		
Brazil	X				
Canada			X		X
China					
France		X			
Germany	X				
India			X		
Indonesia	X				
Italy		X			
Japan			X		
Korea		X			
Mexico		X			
Russia		**X**			
Saudi Arabia					
South Africa			X		
Turkey		X			
UK				X	
USA	X				

[1] Canada submits a preliminary draft of its budget two months before the start of the budget year, and a detailed draft budget after the start of the budget year.

Source: National Budget Documents.

2.2.3. Budget approval (Advanced)

45. **The budget is also approved well in advance of the start of the financial year to which it refers.** According to Article 196 of the Budget Code, the Duma should adopt the budget in three readings within 60 days of its submission, i.e., by late November. Following adoption by the Duma, the budget is sent to the upper house—Council of Federation—within five days. The Council of Federation should adopt it within 14 days (Article 208, Paragraph1), and send it to the President for signature within five days (Article 208, Paragraph 2). In the event that

the budget is not adopted by the start of the financial year, monthly expenditure not exceeding 1/12 of the previous year's budget can be executed (Article 190). For the past four years, the budget has been adopted and published in the final days of November or the first days of December, i.e. one month before the start of the financial year.

2.3 Legal Framework for Budgeting

2.3.1. Organic budget legislation (Advanced)

46. A comprehensive legal framework covers all aspects of public financial management at all levels of government. The Budget Code of the Russian Federation N145-F3 from July 31, 1998 (with amendments up until July 23, 2013) governs fiscal policy making, budget preparation and execution and accounting and audit. Fiscal policy making, including the fiscal rules for the federal budget and sub-national governments, is regulated by Section IV. Budget preparation is regulated by Section VI, budget execution by Section VII, and accounting, reporting and external control by Section VIII. In addition to the Budget Code and Tax Code, there is separate legislation regulating government accounting and reporting and financial control, including a law on the Accounts Chambers (supreme audit institution).

2.3.2. Legal basis for revenue collection (Good)

47. The legal framework for tax collection is comprehensive but could be more accessible. The Tax Code N146-F3 from July 2008 (with amendments up until October 2013) provides a comprehensive legal framework for taxation in the Russian Federation. However, there is no official tax-payer's guide to the tax system, other than those provided by non-government organizations or companies. However, the Ministry of Finance produces Main Tax Policy Guidelines each spring summarizing the main tax policy and administration changes anticipated over the coming three years. According to Article 100 of the Tax Code, a decision by the Tax Authorities can be questioned within 15 days by the tax payer.

2.4 Policy Orientation

2.4.1. Fiscal policy objectives (Good)

48. A new oil price-based fiscal rule came into effect in 2013 which sets clear and measurable objectives for the fiscal performance of the Federal Government. According to this rule, expenditure of the Federal Budget should not exceed the sum of three components:

- projected non-petroleum revenue; plus
- petroleum revenue calculated using a reference oil price; plus
- net financing equivalent to 1 percent of GDP.

Initially, the benchmark price for oil is set at the average oil price for the last five years. The backward-looking time horizon for calculating the benchmark price will increase by one year every year until a ten-year average is reached by 2018.

49. The new fiscal rule is designed to promote stable and sustainable fiscal policy by breaking the link between volatile oil revenues and expenditures. When the actual oil price is above the benchmark oil price for the current year, the additional revenue is deposited in an oil Reserve Fund. When the oil price is below the base price, the Reserve Fund can be used as a financing source for the federal budget. The government has an objective to build up the Reserve Fund's assets to 7 percent of GDP. Once this size is achieved (currently projected by the authorities to occur in 2019), the law requires 50 percent of any above-projection revenue to be deposited in the National Wealth Fund—a savings fund intended to finance future pension costs. The remaining 50 percent can be used for investments in domestic infrastructure or other projects of national importance. The rule also includes a mechanism for dealing with a sudden drop in oil prices to ensure an accelerated adjustment of expenditure to adapt to the new situation. However, to prevent sudden and discontinuous cuts in expenditure, ministerial budgets cannot be reduced below the ceilings established in the previous three-year budget.

2.4.2. Performance information (Advanced)

50. Following a series of reforms aimed at improving the performance orientation of the budget, a comprehensive program budgeting framework is being introduced in the budget for 2014-16, reorienting the existing performance budget model. Accordingly, some 40 expenditure programs have been approved covering the majority of federal budget expenditure. Each program is assigned to a ministry as the lead agency, but other ministries can also contribute to the program. For example, the Ministry of Sport is the implementing agency for Program 13: "Developing Physical Culture and Sport" with the Ministries of Health, Communication, Education, Interior, and Regional Development also participating in the program. Each program has a number of sub-programs; in the case of Program 13 there are four: (i) "Developing Physical Culture and Sport for the Entire Population"; (ii) "Developing High-Results Sports"; (iii) "Organization of the FIFA Football World Championships in 2018 and the FIFA Confederations Cup in 2017"; and (iv) "Managing the Development of Areas of Physical Culture and Sports."

51. Programs are linked to specific sets of largely outcome-based performance objectives. Each program has an Objective, which in the case of Program 13 is to: "Create conditions for all citizens to engage in physical culture and sports, increase the international competitiveness of Russian athletes, and successfully organize large international sporting events in the Russian Federation." Under each program there are Tasks, Indicators, and outcome-based Expected Results for the medium term. Examples of indicators for Program 13 include: (i) the share of the population engaging in physical culture and sports on a regular basis; (ii) the share of Russian Olympic athletes who receive medals; and (iii) the share of sports facilities in used following the organization of the FIFA World Championships in 2018 and the FIFA Confederations Cup in 2017.

52. The ministry responsible for a program is required to submit a report on the achievements of the program objectives each year. This report is sent to the Ministry of Finance and to the Ministry of Economic Development, which consolidates the reports into a single report on the performance of the government. While program documents are submitted together with the budget proposal, performance reports are not formally approved by the Duma.

2.4.3. Citizens' guide to the budget (Basic)

53. The government has committed to the publication of a Citizen's Budget starting in 2013. At the federal level, in mid-October 2013 the government published around 230 slides containing information on the main fiscal policy directions, general government finances, key figures for the federal budget, and detailed information on the composition of budget expenditure. While this is a welcome development, its length and detail means it does not provide an accessible and concise summary of the budget for citizens. The government also recommends that regional and municipalities publish their own Citizen's Budgets setting out: (i) general characteristics of revenue and expenditure; (ii) detail on the composition of revenue and expenditure; (iii) intergovernmental fiscal relations; and (iv) any other information of interest to local citizens.

2.4.4. Fiscal sustainability analysis (Not met)

54. A long-term fiscal strategy for the Russian Federation is under preparation but has not yet been published. The Ministry of Economic Development issues long-term projections for the economy, the latest one in December 2012. While this document includes a section on the development of main fiscal parameters, it is not based on a comprehensive assessment of the cost drivers of key programs. To fill this gap, the Ministry of Finance is currently developing a report on fiscal developments up to 2030. This document will have a more detailed assessment of expenditure pressures beyond the budget cycle, including analysis of the sensitivity of public finances to various macroeconomic assumptions, which should provide valuable input into the discussion of structural policies. However, a 15-year time frame is not long enough to capture the implications for Russia's fiscal sustainability of demographic change and the likely long-run decline in oil and gas revenues. The risks that these long-run trends present for Russia's fiscal sustainability are discussed further in Sections 3.2.3 and 3.3.4.

2.5 Credibility of Forecasts and Budgets

2.5.1. Independent evaluation (Basic)

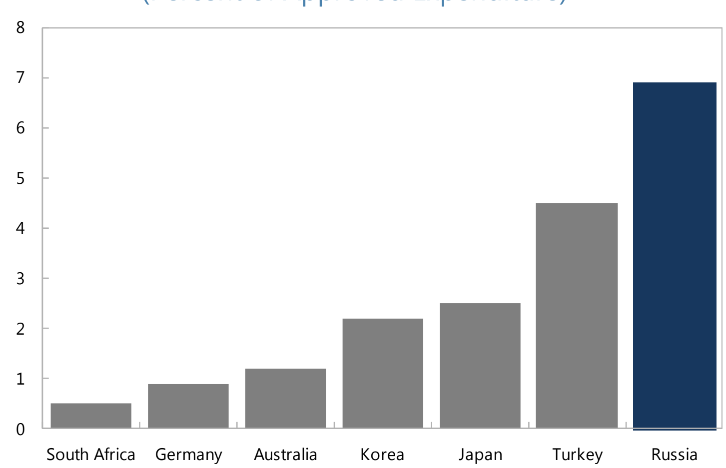
55. While there is some independent scrutiny of macroeconomic and fiscal projections, a more formalized role for independent experts would help improve credibility and contribute to the development of forecasting capacity. The Accounts Chambers is charged with assessing the government's Budget Proposal, and issues its opinion, including an evaluation of the government's macroeconomic assumptions, in early October each year as an input into the parliamentary scrutiny of the budget. This evaluation covers the oil price, GDP, inflation and exchange rate, including comparisons with forecasts of commercial banks and international finance institutes. In addition, the Ministry of Economic Development engages a number of think tanks and research institutes such as the Economic Expert Group and the Academy of Science during the preparation of macroeconomic forecasts.

2.5.2. Supplementary budget (Good)

56. Changes in the legislated budget that increase the expenditure level or substantially alter its composition require amendments to the budget by parliament. According to Articles 212 and 213 of the Budget Code, changes in the budget require parliamentary and presidential approval following the same steps as the approval of the annual budget. According to Article 217, if there are insufficient appropriations to fulfill social benefit commitments, the government is allowed to increase the budget by 5 percent without presenting a supplementary budget. Article 217 also allows for redistribution between expenditure categories of up to 10 percent of expenditure during the execution of the budget, giving the government a wide mandate to deal with unforeseen events.

57. There have been relatively large supplementary budgets in the past, though recent budgets have been more binding. There are typically two or three supplementary budgets per year, which is in line with G-20 practice. However, the size of expenditure increases authorized by in-year budget amendments has been higher than in other G-20 countries (Figure 2.5). The ability to increase overall spending without parliamentary approval and to overspend against the approved budget have, at times, been used to substantially increase expenditure above the initially approved budget (Figure 2.6). However, since 2009, supplementary budgets have been considerably smaller and all in-year spending increases have been authorized by parliament.

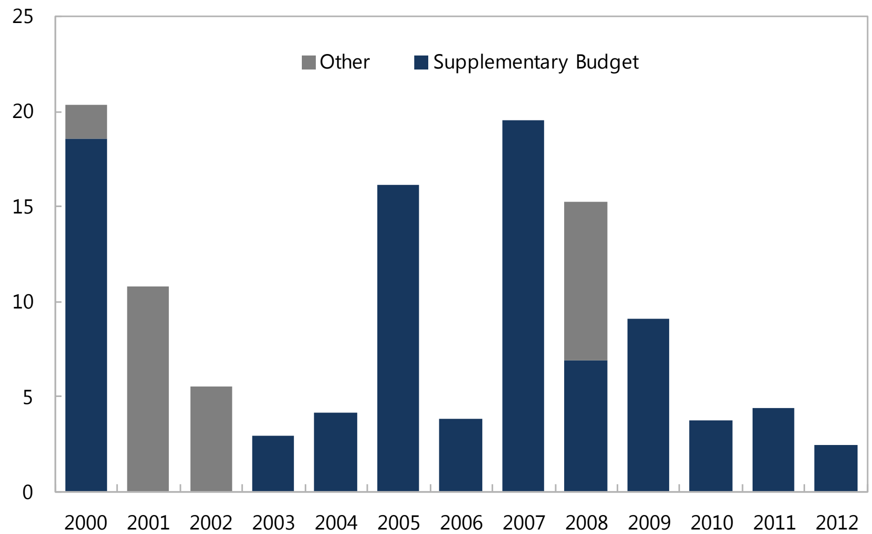
Figure 2.5. Average Size of Supplementary Budgets 2000-12
(Percent of Approved Expenditure)



Note: Excludes 2009. Korea: 2000-08; Japan: excludes 2008 and 2009, Turkey: 2004-10

Sources: Authorities' Data, Staff Estimates

Figure 2.6. Russia: Expenditure Increases Following Budget Approval 2000-12
(Percent of Approved Expenditure)



Sources: Authorities' Data

2.5.3. Forecast reconciliation (Basic)

58. Budget documentation provides relatively limited information about the sources of often substantial revisions to successive vintages of expenditure estimates in the medium-term budget. The government updates its expenditure projections for the new budget and planning period each year based on new policy commitments, updated macroeconomic and demographic projections, and any changes in the budget structure that has occurred since the previous year. While revisions to expenditure in the outer years have moderated lately, Figure 2.4 shows that, on average, second year (t+2) expenditure has been revised up by 9 percent and third year (t+3) expenditure by 12 percent compared with the original budget. The Explanatory Note to the budget contains some qualitative discussion of the impact of new policies, but lacks a comprehensive reconciliation of the new medium-term expenditure estimates with those in the previous year's budget, decomposing any changes into macroeconomic factors, volumes and case-loads, new discretionary policies and classification changes.

2.6. Conclusions

59. In summary, fiscal forecasts and budgets meet either good or advanced practices in most areas, but there are several areas where practices could be improved. Table 2.5 summarizes the quality of fiscal forecasting and budgeting relative to the standards set by the July 2013 draft of the Fiscal Transparency Code as well as the relative importance of each area. This assessment highlights a number of areas where fiscal forecasting and budgeting can be improved. These include:

- the comprehensiveness and specificity of the annual budget is at risk from planned extra-budgetary expenditure and a growing proportion of expenditure classed as secret;
- there is no unified fiscal strategy report setting the framework for budget preparation, no published independent evaluation of the credibility of the government's macro-fiscal forecasts, and no detailed reconciliation of often substantial changes to medium-term expenditure plans; and
- long-term fiscal projections under preparation only have a 16-year forecast horizon and do not explore the fiscal implications of alternative demographic or oil production scenarios.

Chapter IV includes a series of recommendations for how fiscal forecasting and budgeting can be enhanced to provide a more comprehensive and credible picture of short, medium, and long-term fiscal prospects.

Table 2.5. Russia: Summary Assessment of Fiscal Forecasting and Budgeting*

Principle		Assessment	Importance**	Rec
1.1	Unity	**Good:** Budget documentation is comprehensive but leaves out some central government bodies.	**Medium:** Up to 0.7 % of GDP in extrabudgetary lending planned from NWF.	5
1.2	Gross Budgeting	**Basic:** Revenue and expenditure are predominantly on a gross basis, except for some retained revenue from fees and charges. A growing part of the budget is not specified.	**High:** Share of budget classified as secret will grow to 25 % in 2016.	5
1.3	Macroecon Forecast	**Advanced:** The government publishes three comprehensive macroeconomic forecasts per year, including one included in the budget documentation.	**Low:** Medium-term forecast error for GDP is 0%	
1.4	Medium-Term Budget	**Advanced:** Budget documentation includes medium-term projections of revenues, expenditures, and financing by economic category, ministry, and program.	**High:** Three-year ahead forecast error for expenditure was 13% over the past 4 years.	6
2.1	Fiscal Strategy Report	**Good**: Main Directions of Budget Policy summarizes key macroeconomic and fiscal parameters.	**Medium:** .Comprehensive fiscal strategy report required to show compliance with fiscal rule	6
2.2	Budget Submission	**Advanced:** Budget is submitted to the legislature 3 months before the start of the financial year.	**Low:** Allows for 2 months of budget debate	
2.3	Budget Approval	**Advanced:** The budget is approved about one month before the start of the financial year	**Low:** Budget has been approved on time over the past 10 years.	
3.1	Budget Legislation	**Advanced:** Comprehensive legal framework for fiscal policy, budgeting, execution, accounting, and audit.	**Low:** Budget Code continually updated to address emerging issues.	
3.2	Legal Basis for Revenue	**Good:** Tax legislation is comprehensively covered in the Tax Code. Tax Authority decisions can be appealed.	**Low:** Tax legislation is comprehensive and compliance rates are high	
4.1	Fiscal Policy Objectives	**Good:** Medium-term fiscal rule is in place, but is only binding on planning and budget preparation.	**Medium:** Rule introduced in 2013, untested	
4.2	Perform. Information	**Advanced:** New comprehensive program budget introduced in 2014.	**Low:** Program budget includes all key elements.	
4.3	Citizens' Budget	**Basic:** A first Citizen's Budget was issued in Mid October. The format and content will be refined further.	**Medium:** There are more than 4,000 pages in the budget and more than 40 annexes.	
4.4	Fiscal Sustainability	**Not met:** While fiscal projections up until 2030 are being prepared, they have yet to be published.	**High:** Increase in pension expenditure up to 2050 close to 100 % of GDP on a NPV basis.	8
5.1	Independent Evaluation	**Basic:** Some independent scrutiny of budgets and forecasts, but no formalized independent fiscal agency.	**Medium:** The new fiscal rule requires unbiased forecasts.	6
5.2	Supplem. Budget	**Good:** There are clear procedures for supplementary budgets, but also wide mandates for the government to overspend and alter the composition of the budget.	**High:** Supplementary budgets increased total expenditure by more than 5% on average during 2008-12.	6
5.3	Forecast Recon	**Basic:** There is a qualitative discussion of differences between the successive vintages of the government's forecasts.	**High:** Average revision of total expenditure in medium-term plans are over 10%.	6

* See Glossary and Legend on page 4 for color coding

** All figures refer to 2012 unless otherwise indicated

III. FISCAL RISK ANALYSIS AND MANAGEMENT

3.0. Introduction

60. This chapter assesses the adequacy of fiscal risk analysis and management practices relative to the July 2013 draft of the Fiscal Transparency Code in three areas:

i. general arrangements for disclosure and analysis of macroeconomic and specific fiscal risks;

ii. risks emanating from specific sources such as government assets and liabilities, guarantees, other financial exposures, long-term contracts, and financial derivatives; and

iii. coordination of fiscal decision-making between central government, social security system, local governments, and public corporations.

61. While low general government debt and large oil and gas reserves provide room to accommodate fiscal shocks, the fiscal risks it faces are large and diverse. GDP growth and government revenues are relatively volatile, primarily due to the importance of the oil and gas sector, making medium-term fiscal forecasting and policymaking challenging. Russia's large state-owned enterprises are also a significant source of potential fiscal risk, especially those with large balance sheets operating in volatile sectors such as finance and energy. Russia's public finances also face longer-term fiscal pressures from its aging population and the likely long-term decline in hydrocarbon revenues.

62. The degree of disclosure and active management of these risks varies. The government's Budget Code and fiscal rules provide robust procedures for the management of the risks from volatile oil and gas revenues, government guarantees, and sub-national governments. However, there is no published strategy addressing specific risks arising from state-controlled enterprises or other contingent liabilities such as deposit insurance, or likely long-term expenditure risks such as rising pension and healthcare costs or the costs of nuclear decommissioning. More generally, as shown in Table 3.1, the reporting of fiscal risks is relatively limited and diffuse and there is no consolidated statement of the key risks facing Russia's public finances and the government's strategy for managing them.

Table 3.1. Russia: Selected Reports Relating to Fiscal Risk

Report	Fiscal Risks Addressed	Author
Medium-term scenario analysis of social and economic parameters	Macroeconomic risks, including alternative forecast scenarios	Ministry of Economic Development
Public Debt Management Report	Debt management; government guarantees; limited fiscal forecast sensitivity	Ministry of Finance
Long-term social and economic forecast for the period until 2030	Long-term economic and social developments to 2030, including some fiscal projections to 2020	Ministry of Economic Development
Financial stability report	Financial sector risks	Central Bank of Russia
Banking supervision report	Banking sector risks	Central Bank of Russia
Annual report	Deposit insurance	Deposit Insurance Agency
Financial Accounts	Assets and liabilities of general government	Rosstat
Annual reports	Finances of state-controlled joint-stock companies and some state corporations	Various
Debt of the Russian Federation	Debt of regional and municipal government by region	Ministry of Finance
Public finance statistics	Revenues and expenditures of regional and municipal government by region	Rosstat
Budget execution reports	Use of contingency reserves	Federal Treasury
Flows to the Reserve Fund and National Wealth Fund	Oil and gas revenues	Federal Treasury
Statement on national oil and gas reserves	Volume of oil and gas reserves	Ministry of Natural Resources and Environment
Public finance statistics	Social insurance, pension and health insurance funds	Rosstat

3.1 Risk Disclosure and Analysis

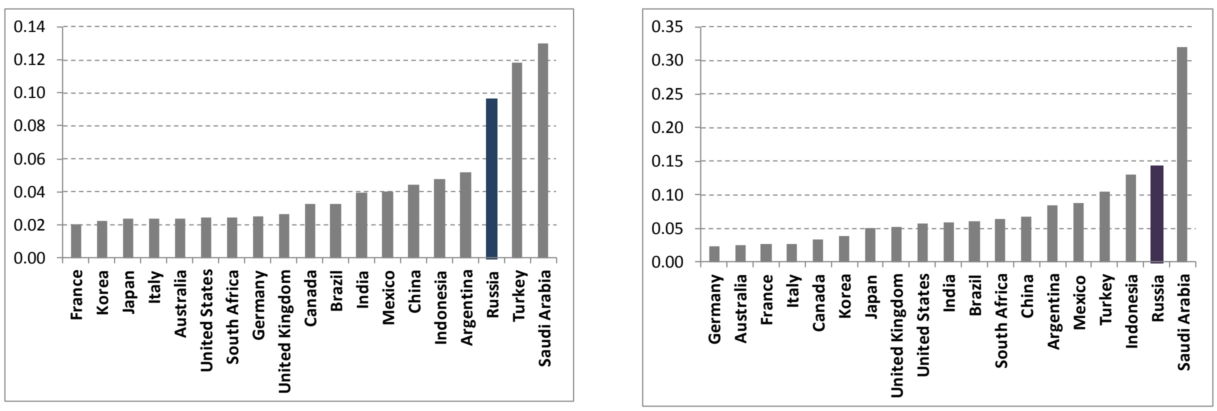
3.1.1 Macroeconomic risks (Basic)

63. The volatility of oil and gas prices and exports are a significant source of fiscal risk. The energy sector accounts for around one-fifth of GDP, two-thirds of exports, and around one-third of general government revenues. Given the volatility of international energy prices, it is not surprising that Russia's nominal GDP growth (Figure 3.1a) and government revenue growth (Figure 3.1b) have been among the most volatile in the G-20 over the past decade. Table 3.2 illustrates the sensitivity of the Russian fiscal balance to changes in oil prices and the Russian rouble to US dollar exchange rate. For example, a permanent US$10 per barrel lower oil price or a 10 percent appreciation of the rouble are estimated to increase the deficit by around 1 percent of GDP in 2015.[8] The government recognizes these risks and has recently introduced a new fiscal framework designed to mitigate their potentially pro-cyclical effect on fiscal policy, discussed further in Chapter II.

Figure 3.1. Indicators of Macro-Fiscal Risk in the G-20, 2002-12

a. Standard Deviation of Nominal GDP Growth

b. Standard Deviation of Government Revenue Growth



Source: IMF, World Economic Outlook database, October 2013

64. However, the government only publishes a basic level of macroeconomic risk analysis to support fiscal policymaking. The Ministry of Economic Development publishes, alongside its central official forecast, an optimistic and pessimistic macroeconomic scenario based on alternative assumptions for key variables such as the oil price, the exchange rate, and global economic developments. However, there is no analysis of the implications of these

[8] Based on the assumption that the exchange rate does not respond to changes in the global oil price. Table 3.2 illustrates the estimated impact of a US$10 fall in the oil price accompanied by a 5 percent depreciation. The reduction in revenues is partially offset and the deficit is estimated to increase by around 0.8 percent of GDP.

alternative economic scenarios for the government finances. The Ministry of Finance's Public Debt Management Report includes a qualitative discussion and some illustrative quantification of the impact of lower global oil prices on government revenues, balance and debt. However, it does not provide a fully quantified set of alternative fiscal outcomes or forecasts.

Table 3.2. Sensitivity of Revenue, Expenditure and Balance, Share of GDP

	2013	2014	2015
Federal balance			
October WEO forecast	**-0.7**	**-0.2**	**-0.6**
Exchange rate scenarios:			
10% appreciation in 2014		*-1.2*	*-1.5*
10% depreciation in 2014		*0.3*	*-0.5*
Oil and gas price scenarios:			
Permanent $10 fall in 2014		*-1.3*	*-1.6*
Permanent $10 increase in 2014		*1.0*	*0.3*
Permanent US$10 fall and 5% depreciation		*-0.9*	*-1.4*
Federal revenues			
October WEO forecast	**19.1**	**18.7**	**18.0**
Exchange rate scenarios:			
10% appreciation in 2014		*17.7*	*17.1*
10% depreciation in 2014		*19.7*	*18.9*
Oil and gas price scenarios:			
Permanent $10 fall in 2014		*17.6*	*17.0*
Permanent $10 increase in 2014		*19.8*	*19.1*
Permanent US$10 fall and 5% depreciation		*18.1*	*17.4*
Federal expenditures			
October WEO forecast	**19.7**	**18.9**	**18.6**
Exchange rate scenarios:			
10% appreciation in 2014		*18.9*	*18.6*
10% depreciation in 2014[1]		*19.5*	*19.5*
Oil and gas price scenarios:			
Permanent $10 fall in 2014		*18.9*	*18.6*
Permanent $10 increase in 2014		*18.9*	*18.8*
Permanent US$10 fall and 5% depreciation		*18.9*	*18.8*

Source: Staff calculations

3.1.2 Specific fiscal risks (Not met)

65. In addition to macroeconomic volatility, the government is exposed to a wide array of fiscal risks arising from sources that are not easily incorporated into macroeconomic analysis. These "specific" (or "discrete") fiscal risks, a selection of which are shown in Table 3.3, include:

- non-macroeconomic factors that may cause revenue to be higher or lower than forecast. An example is uncertainty around the take-up of tax exemptions by households and businesses which, as set out in Chapter I, are worth up to 2 percent of GDP;
- risks related to assets and liabilities, including those not currently reported on a balance sheet. Such risks include refinancing risks and the effect of changes in interest rates, exchange rates and other variables on the values of the government's asset and liability holdings. In Russia the balance sheets of the large state-controlled corporations create a significant additional layer of risks in this area;
- contingent liabilities, where the government may be exposed to future costs but the size and timing is not certain. In some cases, the government's exposure can be quantified, for example, in Russia the government provides state guarantees worth 1.8 percent of GDP in 2012 and guarantees the deposit insurance scheme which had total insured liabilities of 15 percent of GDP; and
- long-term or open-ended risks, which are more difficult to quantify. In Russia these include the costs of decommissioning nuclear facilities or of providing pensions and healthcare to an aging population.

66. The reporting of specific fiscal risks in Russia is currently limited and diffuse. The Ministry of Finance reports on explicit state guarantees and these are included within the ceilings set by the Budget Law for general government debt. However, there is no requirement on ministries and agencies to report contingent liabilities in their accounts, or to provide analysis of the risks around the public corporations which they control. Further, there is no official analysis of long-term risks to the public finances from macroeconomic and demographic trends which extend beyond the next 15 years.

Table 3.3. Russia: Selected Specific Fiscal Risks

Specific Risk	Source	Billion rubles	Percent of GDP
	CURRENT FISCAL RISKS		
Non-deposit liabilities of state-controlled financial institutions	Annual financial statements; Central Bank of Russia	18,000	30
Deposit guarantee scheme	2012 Annual report of the Deposit Insurance Agency	9,400	15
State guarantees	2012 Public Debt Management Report	1,130	1.8
Public private partnerships	Report of the Investment Fund of Russia	1,300	2.1
Nuclear decommissioning costs	Estimate based on reporting in UK and France	940	1.5
Contingent obligations to international organizations	Estimate based on Australia and New Zealand reporting	880	1.4
Natural disasters (total average annual cost of damages)	World Bank, World Development Report 2014	38	0.06
	LONGER-TERM FISCAL RISKS		
Net present value of projected increase in state pension costs	IMF, Fiscal Monitor October 2013, estimate to 2050	6,100,000	98
Net present value of projected increase in state health costs	IMF, Fiscal Monitor October 2013, estimate to 2050	2,400,000	38

Note: Estimates are based on data from 2012 unless stated otherwise.

3.1.3 Comparability of fiscal reports (Basic)

67. Fiscal reports published by different national institutions are not fully comparable. Rosstat compiles national accounts statistics for the general government sector following the System of National Accounts methodology. In principle, the national accounts and the statistical reports produced by the Federal Treasury using GFSM 2001 methodology should produce the same fiscal balance. However, as set out in Chapter I, the results are not consistent, with recent differences of up to 1.8 percent of GDP in recent years, due to different accounting bases, inconsistent sector coverage, and other unidentified reasons. The reliability of data is also weakened by a lack of publicly available metadata explaining the sources and methods used for producing statistics and reconciling different data.

68. Inconsistencies between fiscal reports also arise due to the different accounting treatment of accrued tax and loans. Tax revenue is recorded in accounts and statistics on the basis of assessed obligations rather than accrued revenues, reducing the comparability of budgeted and actual levels of tax collection. In addition, budgets do not make ex ante provision for likely non-payment of the estimated RUB 2.3 trillion (4.0 percent of GDP) in policy loans to corporations and households.

3.2 Risk Management

3.2.1 Allowance for budgetary contingencies (Advanced)

69. Russia's budget includes provision for contingencies with published access criteria and quarterly reporting on utilization. The government's general reserve fund can be set at no more than 3 percent of total budget expenditure (Article 81 in Budget Code). Most of this is allocated to an Emergency Reserve Fund which is used to provide finance to meet the costs associated with natural disasters at both the federal and regional level. A smaller amount is set aside as a general reserve to finance various categories of unplanned government expenditures. In addition, there is a President's Reserve Fund which is limited to 1 percent of total budget expenditure (Article 82 in Budget Code) and can be used for unplanned expenditures initiated by the President.

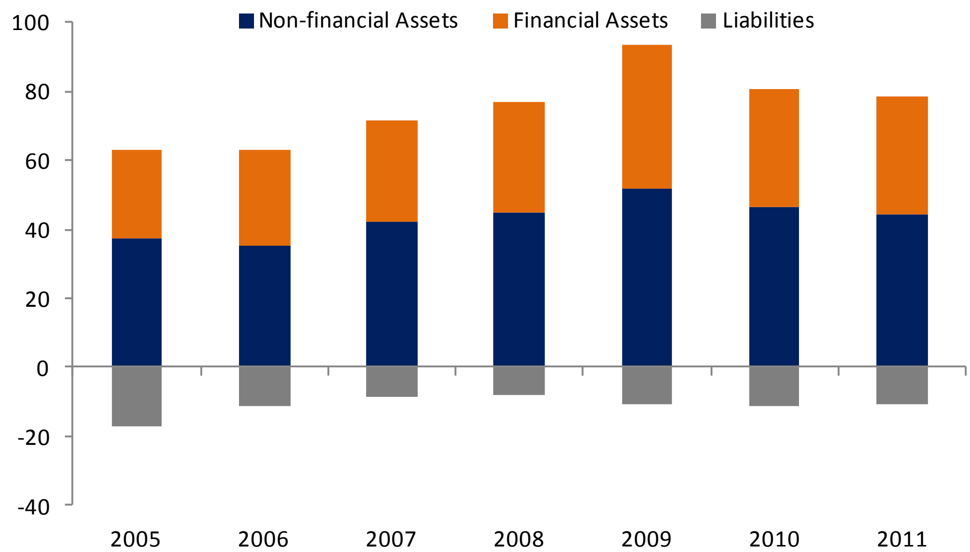
70. The criteria for accessing both these funds are set in regulation and utilization requires the agreement of the Minister of Finance. Expenditures are reported in-year by the Ministry of Finance to Parliament each quarter and are audited annually by the Accounts Chamber. Despite these relatively sizable provisions for contingencies, Chapter II demonstrates that there have been significant increases in expenditure above the initially approved budget in each of the past ten years, with final federal expenditure exceeding that initially approved by Parliament by more than 5 percent on average over the last twelve years.

3.2.2 Asset and liability management (Basic)

71. The government produces an estimate of the general government balance sheet which includes most conventional assets and liabilities. It reports liabilities of around 11 percent of GDP in 2012 and financial and nonfinancial assets of around 80 percent of GDP (Figure 3.2), though as discussed in Chapter I these assets are likely to be significantly undervalued. However, the official balance sheet does not disclose long-term liabilities associated with government-managed pension funds, growing liabilities under PPPs, any of the assets or liabilities of Russia's large public corporations sector, or any sub-soil oil and gas reserves (Table 3.4).

Figure 3.2. Russia: Assets and Liabilities of General Government

(Percent of GDP)



Source: Government Finance Statistics

Table 3.4. Russia: Selected Other Assets and Liabilities Not Reported, 2012

	Billion rubles	Percent of GDP
Assets		
Sub-soil assets (oil and gas reserves)	125,198	200
Public corporations	88,891	142
Public private partnerships	1,252	2
Contractual Liabilities		
Public service pensions	1,878	3
Public corporations	88,891	142
Public private partnerships	1,252	2
Other Liabilities		
State pension rights accrued to 2012	176,529	282

Note: Estimate of PPP liabilities is based on limited information available on total projects funded by the Investment Fund of Russia. The total stock of PPPs, including those funded by sub-national government, is likely to be larger than this. Pension liability estimate uses IMF Fiscal Monitor methodology based on current pension policy. New pension policy proposals are currently being considered by the Duma which if agreed may change the size of liabilities.
Source: Public Debt Management Report 2012; Financial statements; Staff calculations

72. Federal and sub-national borrowing is authorized by law and the Government's debt management strategy is set out in the Ministry of Finance's Public Debt Management Report (PDMR). The budget law for the year ahead and the two-year planning period thereafter sets ceilings on domestic and foreign debts, as well as programs for domestic and foreign borrowings. The PDMR, which is typically released annually, includes analysis of the federal government's domestic and external liabilities, as well as state guarantees and sub-national debt. The PDMR includes some analysis of the risks around the government's liabilities though this is mainly qualitative in nature. The MoF also releases monthly and quarterly data on foreign and domestic debt and guarantees, and information on the debt of regional and municipal governments aggregated by region.

73. However, more limited information is published on the government's financial assets and there is no published analysis of the risks around these holdings. The acquisition and disposal of government financial assets is controlled by the Budget Code and approved through the annual budget process. However, there is limited information available on the stock of financial assets or the risks associated with them. The Federal Agency for State Property Management is in the process of producing an online register of government-owned or controlled enterprises but this is not yet publically available. The Ministry of Finance publishes information on the size and holdings of its wealth funds—the Reserve Fund and National Wealth Fund—but again does not provide any risk analysis around its investment strategy.

3.2.3. Natural resources (Basic)

74. Oil and gas production is an important source of revenue for the Russian government, accounting for around one-third of general government revenues, but also creates significant fiscal risks. Section 3.1 discusses how the volatility of energy prices affects the medium-term fiscal projections. Reliance on a finite natural resource such as oil and gas also raises longer-term sustainability risks. As oil and gas reserves are depleted, Russia will eventually need to find alternative sources of revenue or reduce the level of public expenditure.

75. The government currently publishes little information on the total value of its sub-soil assets and long-term trends in hydrocarbon revenues. The Ministry of Finance regularly publishes outturn data and a medium-term forecast of tax revenue from the oil and gas sector. The Ministry of Natural Resources and Environment released estimates of the volume of recoverable reserves for the first time in 2013 and plans to do this on an annual basis. However, there is currently no official estimate of the fiscal value of these reserves. The Ministry of Economic Development has produced projections of oil and gas revenue under alternative price scenarios, but these only extend to 2020 at present.

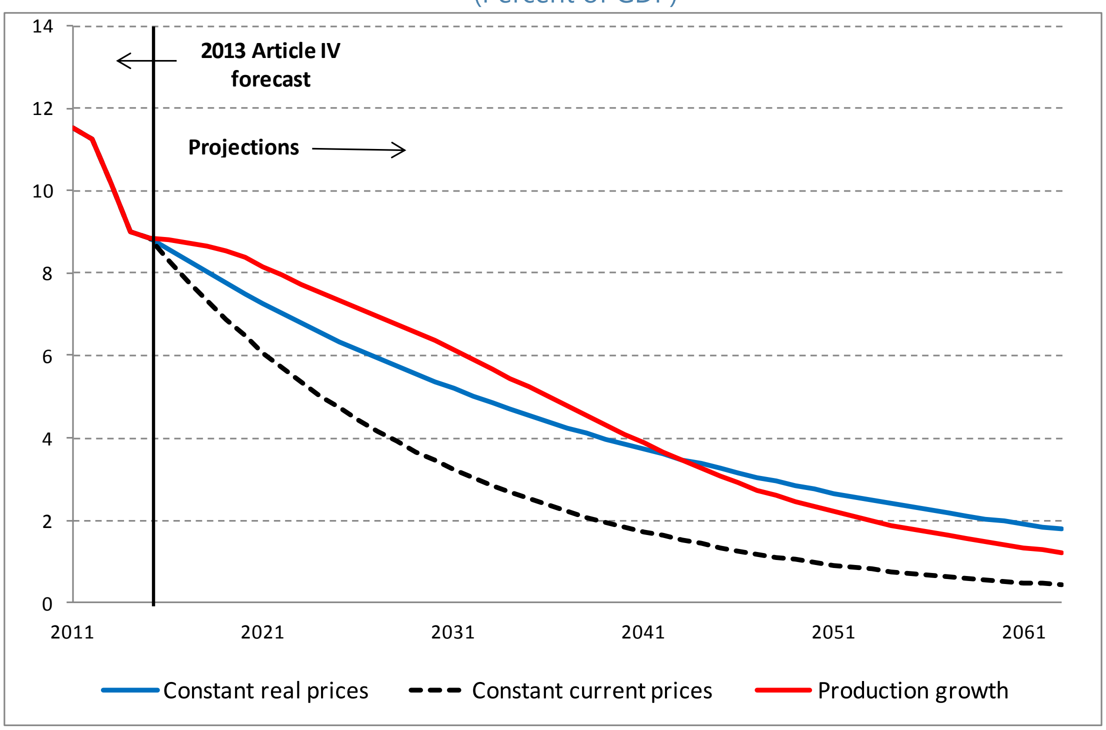
76. Staff calculations estimate the net present value of government revenues from sub-soil oil and gas assets at around 200 percent of GDP. This estimate is based on the mid-point between estimates produced using alternative measures of the volume of Russian oil and gas reserves. Using the government's July 2013 release of data on total explored, estimated and inferred Russian oil and gas reserves, the net present value is estimated at around 230 percent of

GDP. If only the portion of these reserves which are defined as proven are used then the net present value falls to around 170 percent of GDP.

77. Illustrative fifty-year projections suggest that, under a range of price and output scenarios, oil and gas revenues from these reserves are likely to fall steadily as a share of GDP. As shown in Figure 3.3, oil and gas revenues are projected to fall from 9 percent of GDP to around 2 percent of GDP over 50 years under a "constant real price" scenario where oil and gas prices rise in line with overall Russian inflation and annual production remains constant over the projection period. If prices are instead assumed to remain at current levels over the projection period, then revenues fall to around 0.5 percent of GDP by 2063. In the "production growth" scenario, where production is assumed to rise in the medium term, in line with government projections, revenue is higher for the next 10 years before declining more sharply. While such estimates are inherently very uncertain, this type of analysis is particularly important given the demographic trends, discussed in Section 3.3.4 below, which are likely to create additional demand for public sector expenditure on pensions and healthcare over the long-term.

Figure 3.3. Russia: Oil and Gas Revenue under Alternative Long-term Scenarios

(Percent of GDP)



Source: IMF Article IV Staff Report for Russian Federation, 2013. IMF staff estimates

3.2.4 Financial derivatives (Advanced)

78. The government does not use financial derivatives directly. However, the government controls several large banks and energy companies which typically make extensive use of derivatives.

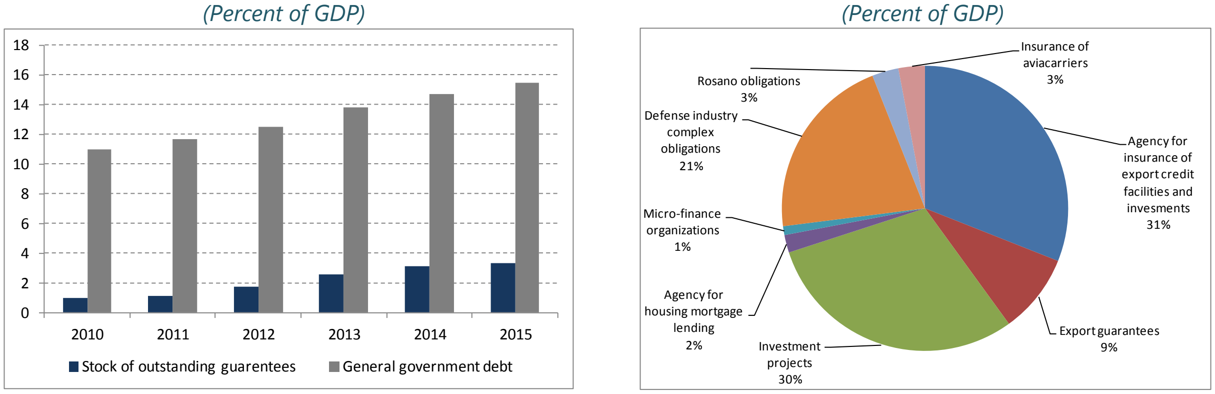
3.2.5 Guarantees (Good)

79. The government reports on the annual flow and outstanding stock of government guarantees in its Public Debt Management Report (PDMR). The 2012 PDMR projected the stock of outstanding guarantees to grow faster than government debt from RUB 472 billion (1.0 percent of GDP) in 2010 to RUB 2.7 trillion in 2013 (3.3 percent of GDP) (Figure 3.4a). The PDMR also provides a sectoral breakdown of the composition of new guarantees. In 2012 the bulk of new guarantees were provided for foreign export and investment credits, defense industry obligations, and domestic investment projects (Figure 3.4b). However, the PMDR only includes a mainly qualitative discussion of the risks from these guarantees and the likelihood they will be called.

Figure 3.4. Russia: State Guarantees

a. Stock of Government Guarantees and Debt (Percent of GDP)

b. Planned Issuance of Government Guarantees, 2012 (Percent of GDP)



Source: Public Debt Management Report, 2012; IMF 2013 Article IV report

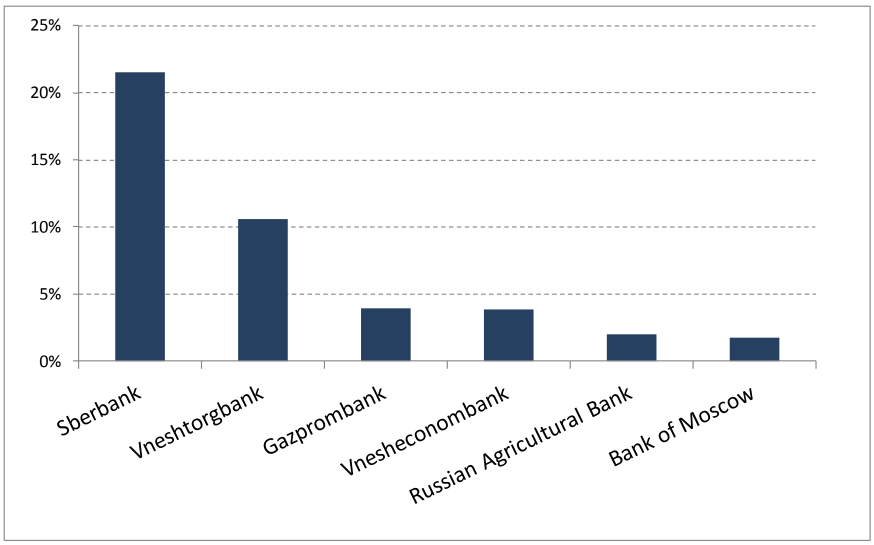
80. There are controls in place on the maximum value of new guarantees that can be issued each year by federal and sub-national government. Under the Budget Code (Article 116) only the Minister of Finance can enter into guarantees on behalf of the government of the Russian Federation. The value of these guarantees is included in the government's estimate of public debt, the total value of which cannot exceed the maximum set by law. However, these controls do not fully limit the fiscal risk to the government from guarantees. There are types of guarantees which fall outside of these controls, such as financial guarantees including the 15 percent of GDP in official deposit insurance discussed in Section 3.2.5, minimum revenue guarantees under PPP contracts as discussed in Section 3.2.6, and guarantees provided by public corporations which are not monitored or controlled by the federal government.

3.2.6 Financial sector exposure (Basic)

81. The government has significant direct exposure to the financial sector through its majority ownership of several of Russia's largest banks. The Central Bank estimated that state-controlled banks accounted for 50.4 percent of total banking assets at the start of 2013, up from around 35 percent in 2000. State-controlled banks accounted for 53.8 percent of loans to nonfinancial corporations in Russia. Figure 3.5 shows the unconsolidated liabilities of the five largest state-controlled banks (of which around one-third is household deposits) which amounted to around 44 percent of GDP in total. Russian banks also have low capital-to-asset ratios by comparison with other G-20 countries (Figure 3.6), suggesting they would be relatively more vulnerable to macroeconomic or financial sector shocks.

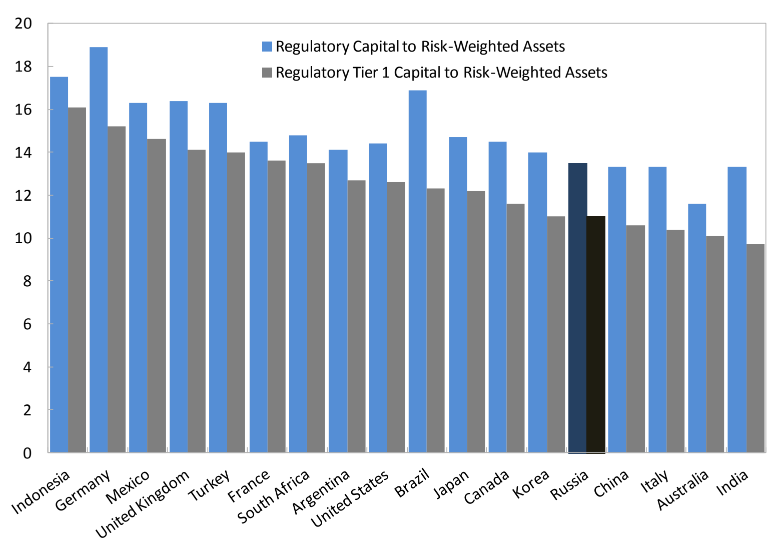
Figure 3.5. Total Liabilities of Russian State-Controlled Banks

(Percent of GDP, 2012)



Source: Annual financial statements; Staff calculations

Figure 3.6. Regulatory Capital Ratios in G-20 Countries, 2012/13



Source: IMF Financial Soundness Indicators, 2012/13

82. The official deposit insurance scheme is financed by contributions from the financial sector but guaranteed by the government. It provides insurance for deposits in eligible banks up to RUB 700,000. At the end of 2012 the Deposit Insurance Agency estimated that its total insurance liability was RUB 9.4 trillion (15 percent of GDP), which represents a contingent liability for the government. The Deposit Insurance Agency provides detailed financial information in its Annual Report, and sets out any funds that it receives from the federal budget.

83. Government exposure to the financial sector is not assessed on a systematic basis. The Central Bank produces a bi-annual Banking Supervision Reports and Financial Stability Assessments which provide comprehensive assessments of banking and financial sector risks, and information on the size and characteristics of the state-controlled sector. However, the risk assessment in these reports focuses on assessing the financial sector as a whole and does not isolate the risks facing state-controlled banks individually or as a group. The Central Bank undertakes bank stress-tests and this year was given the power to mandate capital adequacy increases in line with the Basel III framework. However, the government does not produce any regular analysis of its total fiscal exposure to the financial sector and the risks around this.

3.2.7 Major and multi-annual contracts (Not met)

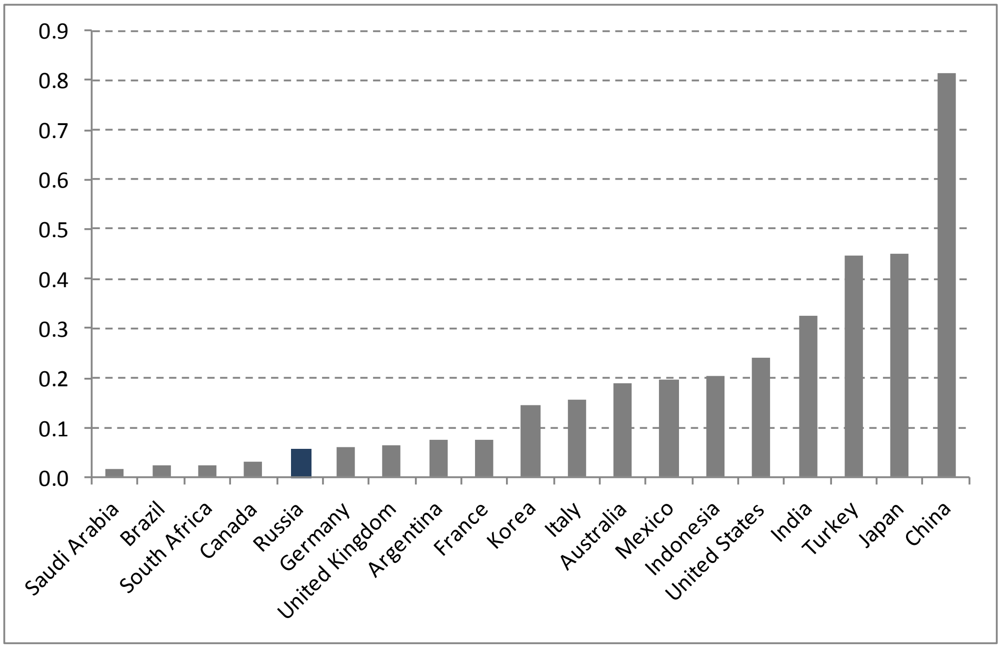
84. The government does not provide a comprehensive report of its obligations under public-private-partnerships (PPP) and other major and multi-annual contracts. The Russian government is actively promoting the use of PPPs in a number of sectors, including transport, housing and utilities. While many projects are operated under regional PPP laws or within a framework provided by a 2005 federal law, a new federal PPP law is expected to be passed by the Duma by the end of this year. The government's Investment Fund of Russia provides funding for major federal PPP projects. By 2012 it had funded projects worth a total of RUB 1.3 trillion (2 percent of GDP). This total does not include many projects funded at sub-national level. The number and value of projects is expected to grow rapidly in upcoming years, underscoring the need to improve reporting and analysis of the government's fiscal exposure.

3.2.8 Environmental risks (Basic)

85. As discussed in Section 3.2.1, the government sets aside an Emergency Reserve of up to 3 percent of the budget as a contingency for use to provide financial assistance following natural disasters. The utilization of this fund is reported during the year but the government does not provide a forward-looking analysis of the potential scale of the risks it faces from environmental and natural disasters. Such analysis could be based on the average cost to the government of past environmental and natural disasters. The average annual cost of damages from natural disasters between 1993 and 2012 was 0.06 percent of GDP in Russia, which is relatively low compared to an average of 0.19 percent of GDP for the G-20 (Figure 3.7). However, in the past two years, Russia has experienced very damaging floods in the south and east of the country. The Emergency Reserve was used to provide assistance of around RUB 8 bn (0.01 percent of GDP) following floods in the south of Russia. The government has recently announced that it will provide RUB 12 bn (0.02 percent of GDP) for the floods currently affecting the east of the country.

Figure 3.7. Average Annual Cost of Natural Disasters in G-20 Countries

(Percent of GDP, 1993-2012)



Source: World Bank, World Development Report 2014

3.3 Fiscal Coordination

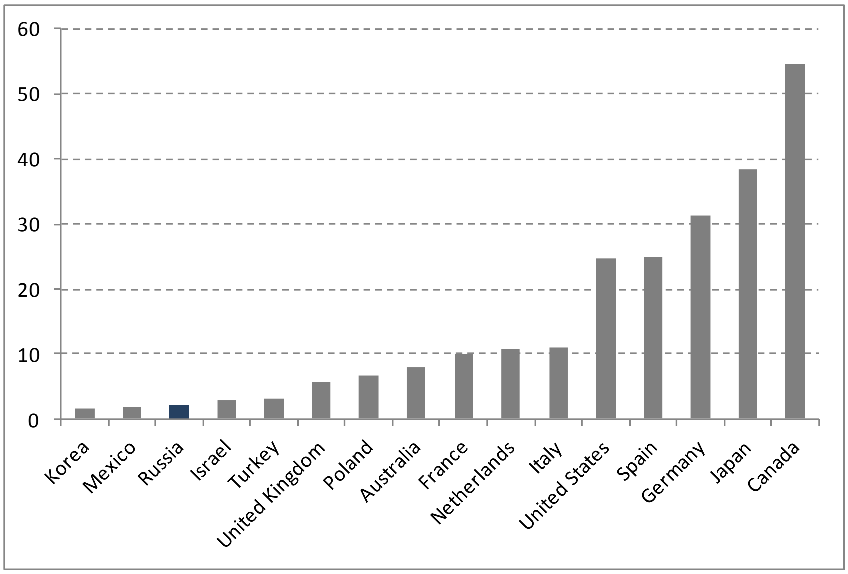
3.3.1 Sub-national governments (Advanced)

86. At an aggregate level, sub-national government borrowing and debt does not appear to be a significant fiscal risk. The Ministry of Finance expects sub-national borrowing to increase in the medium term, but overall debt levels are relatively low at around 2 percent of GDP in 2012 (Figure 3.8). The Ministry of Finance reports that in 2012 intra-government lending accounted for 37 percent of total sub-national debt. The fiscal autonomy of sub-national government is limited as most revenue-raising powers are held at the federal level.

87. The federal government places clear limits on the borrowing and debt of sub-national government. Debt is limited to a ceiling equal to the sub-national government's annual budget revenue net of federal grants. Annual borrowing is limited to 15 percent of revenue net of federal grants for regions and 10 percent for municipalities (Article 91 in Budget Code). In addition, debt servicing costs must not exceed 15 percent of expenditures net of grants. Tougher restrictions are placed on regions and municipalities which rely more heavily on federal grants. For example, if grants have exceeded 60 percent of a region's own revenue in two of the last three years, then the debt ceiling is reduced to 50 percent of revenues, annual borrowing is limited to 10 percent of revenue net of federal grants, and the region is required to take action to raise local revenue and rationalize expenditures. Compliance with these limits is monitored by the Ministry of Finance and any breaches can result in financial sanctions (Article 168 in Budget Code) and the imposition of reforms to internal financial management practices which are evaluated on a rolling basis.

Figure 3.8. Sub-National Liabilities in Selected Countries

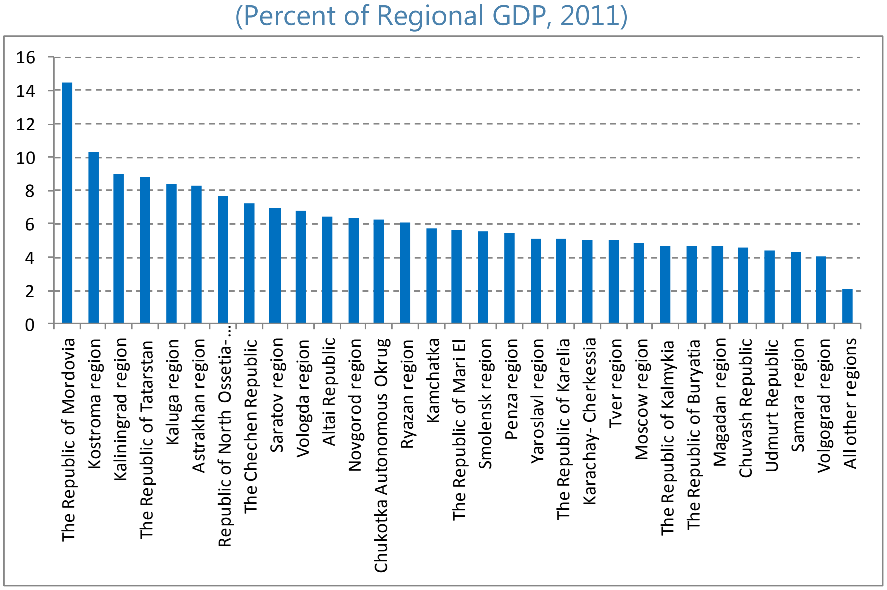
(Percent of GDP, 2010-11)



Source: OECD; Staff calculations

Figure 3.9. Debt of Russian Regional and Municipal Governments

(Percent of Regional GDP, 2011)



Source: World Bank, World Development Report 2014

88. Data on the debt of regions and municipalities are published by the Ministry of Finance on a monthly basis, aggregated by region (Figure 3.9). The Federal Treasury publishes monthly information on budget execution including consolidated receipts and expenditure by sub-national government. Individual regional and municipal governments are required to publish financial information which follows national standards on at least an annual basis. However, as discussed in the next section, limited information is provided on sub-national ownership of public corporations and the risks around these holdings.

3.3.2. Public corporations (Basic)

89. The government currently provides limited financial information or risk analysis on the large and complex public corporation sector. The budget includes information on direct transfers between the government and public corporations, and the Federal Agency for State Property Management is in the process of producing a public register of public corporations. The government also publishes a three-year privatization strategy which provides financial information on the enterprises being prepared for sale or divestiture. However, there is currently no information or analysis of the overall size and composition of the public corporations sector, its financial performance, levels of indirect government support, or the risks that these corporations create for the government.

90. There are over 30,000 public corporations, which fall into three broad categories based on their legal form and financial reporting requirements:

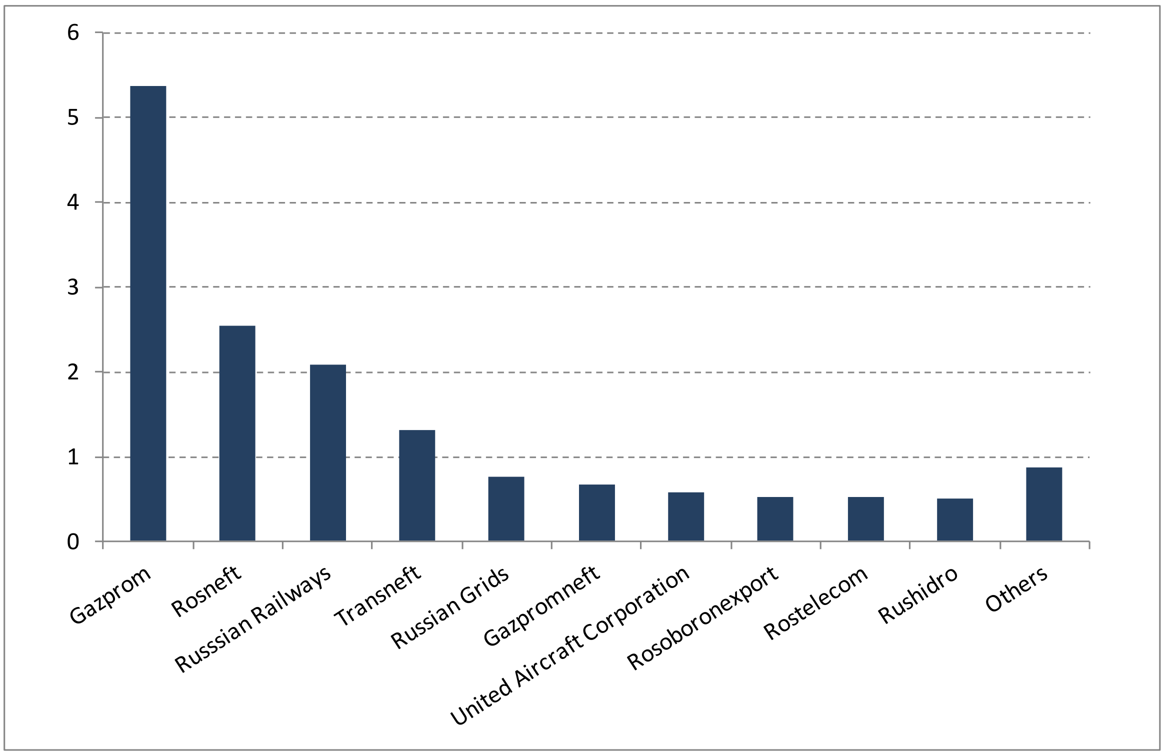
- the government has holdings in over 8,000 joint-stock companies. Open joint stock companies are required to publish audited financial statements, which make it possible to estimate the contingent liability that they represent for the government. Figure 3.5 above shows that the total unconsolidated liabilities of the six largest state-controlled joint-stock financial corporations are around 45 percent of GDP. The 18 largest state-controlled nonfinancial joint-stock corporations have total liabilities of around 17 percent of GDP (Figure 3.10);

- there are also over 22,000 unitary or Treasury enterprises which are special organizational forms for commercial entities wholly owned by the government and receive transfers of state property to be used in carrying out their functions. They are not explicitly required to publicly disclose financial information. Such enterprises may receive subsidies from the budget which in 2012 totaled RUB 27.8 bn or 0.2 percent of expenditure. These enterprises operate at all levels of government including large federal network enterprises such as Russian Post and Russian Television and Radio Networks, and large regional and municipal transport enterprises such as Moscow Metro, as well as more commercially-oriented enterprises in areas of construction and manufacturing. Many of these enterprises are closely linked to line ministries and agencies and operate on the border of the government sector; and

- around 300 government corporations have been established under specific pieces of legislation under which the government transfers assets to these entities but is not responsible for their financial obligations. They are legally defined as non-profit organizations but their activities involve the implementation of government policies. These state corporations, which include the Deposit Insurance Agency, Vneshekonombank, Russian Roads, and Olympstroi are not required to publish financial statements though several have started to do so.

Figure 3.10. Liabilities of 18 Largest Public Nonfinancial Joint-Stock Companies, 2012

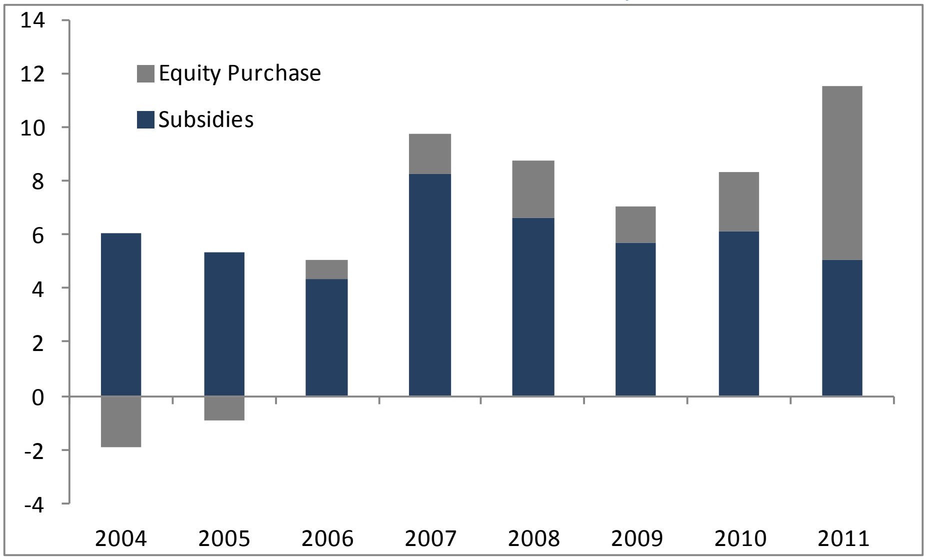
(Percent of GDP)



Source: Staff estimates based on annual reports of the 18 largest public nonfinancial joint-stock companies.

91. The size of the public corporation sector and the lack of transparency around its financial performance create significant fiscal risks for the government. Variations in public corporations' revenue and expenditure compared to budget plans can be a source of volatility in fiscal outcomes. Changes in the value of public corporations' assets and liabilities also create fiscal risks given the explicit or implicit obligation for the government to provide financial support for public enterprises that face financial difficulties. Figure 3.11 shows that subsidies to public corporations and equity purchases in public and private corporations has grown as a share of general government expenditure in recent years, in particular due to the latter.

Figure 3.11. Equity Purchases and Subsidies
(Percent of General Government Expenditure)



Source: IMF Government Finance Statistics

3.3.3 Quasi-fiscal activity (Not met)

92. The government does not publish any information on the quasi-fiscal activity of public corporations. This quasi-fiscal activity has typically taken three forms: (i) charging lower than market prices for goods and services; (ii) the provision of non-commercial services that would otherwise be provided by the state; and (iii) the toleration of arrears by consumers or firms. Such activities reduce the profits of public corporations and therefore the tax and/or dividend they pay to the government and hide the true extent of government activity in the economy.

93. The supply of energy to domestic consumers and former Soviet Union (FSU) countries by Gazprom at below the long-run marginal cost price of production has been a significant source of quasi-fiscal activity, however the size of this subsidy is likely to have fallen sharply in recent years as the government has increased regulated prices of oil, gas, and energy. The subsidy to FSU countries has been estimated to be worth US$75 billion between 1992 and 2008. In 2011, the pre-tax domestic subsidies for gas and electricity were estimated by the International Energy Agency at 0.99 percent of GDP and 1.09 percent of GDP, respectively. Since then domestic gas prices have been increased by 15 percent in 2013, closing the gap with marginal costs. However, Gazprom still receives a lower price from domestic consumers and several FSU countries than for exports outside the FSU. The difference between the value of domestically-sold gas valued at export parity prices and actual revenue from domestic sales has been estimated in 2012 at around RUB 1.7 trillion (2.5 percent of GDP).

94. Some limited information on the provision of non-commercial services by public corporations can be found in the financial statements of joint-stock companies. Common types of activities include construction and refurbishment of public sport and culture facilities as well as sponsoring various public events. For example, a number of public corporations were engaged in supporting the construction of facilities for the Sochi 2014 Winter Olympics Games. In addition, public corporations are often involved in construction of local infrastructure. While the nature of these activities is sometimes disclosed in their financial statements their costs is seldom quantified and disclosed. However, based on the limited information provided in the financial statements of the largest public joint-stock companies, the cost of this type of social activity is estimated to be at least RUB 39 billion (0.1 percent of GDP) in 2012. As the numbers of public corporations run into the thousands, the actual total is likely to be significantly higher than this.

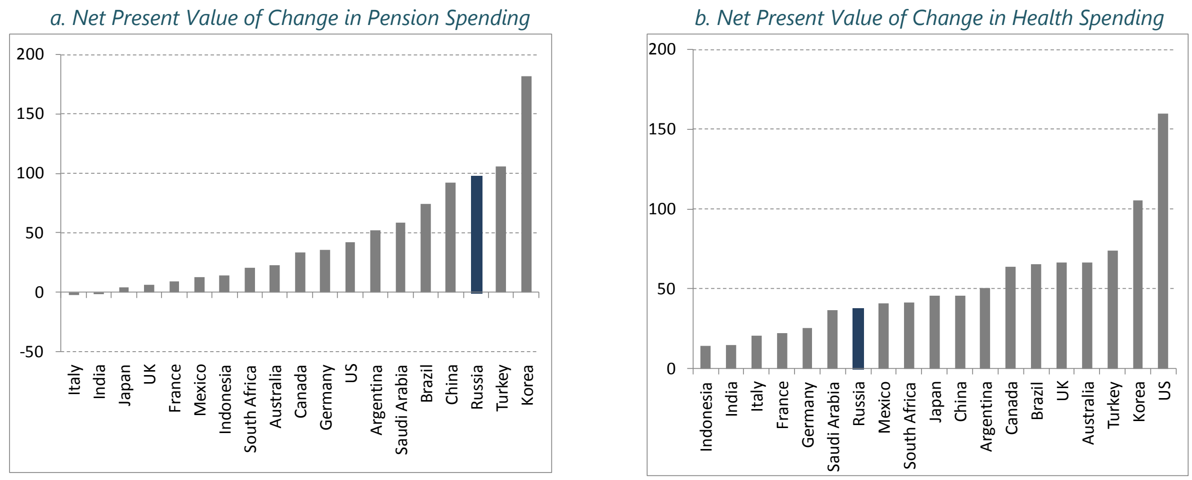
3.3.4 Health and social security (Basic)

95. The government provides a basic level of information on its three federal extra-budgetary health and social security funds—the Pension Fund, the Social Insurance Fund, and the Federal Mandatory Health Insurance Fund. The current financial position of the funds and forecasts for the subsequent three years are presented annually alongside the budget. However, there are no longer-term projections or a published strategy to deal with possible future spending pressures.

96. The Pension Fund of Russia (PFR), which operates the pay-as-you-go pillar of the state pension system, is the most significant of these funds with expenditure of around 9 percent of GDP. This operates alongside a funded pillar where currently a 6 percent payroll tax is compulsorily invested in a funded pension operated by Vneshekonombank, unless individuals chose to opt out and invest in a private sector fund. The government has recently announced a set of reforms that will move the funded pillar on to a voluntary basis. From 2015, unless individuals explicitly chose to opt into a funded pension, their payroll tax contribution will instead be paid into the PFR's pay-as-you-go system. The government will also temporarily divert contributions made to private sector funds from 2014 into the PFR, while these funds are audited ahead of potentially giving them a government guarantee. By reducing the funded component of state pensions these reforms may increase government expenditure on pensions in the long-term. Granting a government guarantee to the private pension funds will also increase the government's long-term contingent liabilities.

97. Rising pension and healthcare costs are a significant long-term risk to the sustainability of Russia's public finances. The IMF estimates that, on the basis of current policy, the net present value of increased pension costs in Russia to 2050 is 97.6 percent of GDP, which is one of the highest in the G-20 (Figure 3.12a). This represents the cost of the expected increase in pension spending as a share of GDP from its current level, which is driven largely by expected increases in life expectancy, relatively early retirement ages for women and men, and continued low fertility rates. The net present value of the increase in healthcare costs is estimated at 37 percent of GDP, which is below the G-20 average, but still represents a significant risk to the public finances (Figure 3.12b).

Figure 3.12. NPV of Change in Age-related Spending in G-20 Countries
(Percent of GDP, 2013-2050)



Source: IMF Fiscal Monitor, October 2013

3.4 Conclusions

98. In summary, while fiscal risk analysis and management practices generally meet basic requirements, there is scope for improvement in a number of important areas. Table 3.5 summarizes the quality of fiscal risk analysis and management practices relative to the standards set by the July 2013 draft of the Fiscal Transparency Code as well as the relative importance of each risk. This highlights a number of areas in which fiscal risk reporting and management should be improved, including:

- the analysis of macroeconomic risks to the government's fiscal forecasts, which would improve understanding and allow for better risk planning;
- the consistency of fiscal reporting in budgets, statistics, and accounts;
- the disclosure and management of specific fiscal risks arising from the government's assets and liabilities, contingent liabilities, long-term contracts, financial sector exposures, and the risks from public corporations;
- the analysis of the risks from longer-term expenditure and revenue pressures, including demographic trends and the long-term outlook for oil and gas revenues; and
- the reporting of and oversight of state-controlled enterprises, where very limited financial information is currently provided, including on the extent of their quasi-fiscal activity and the risks these enterprises may present for the government's finances.

Chapter IV includes as series of recommendations for how disclosure and management of these fiscal risks can be strengthened. These include general improvements to the coverage, quality and consistency of fiscal reporting practices, as well as through publication of specific additional analysis and documents aimed at enhancing the awareness and management of these risks.

Table 3.5. Russia: Summary Assessment of Fiscal Risk Analysis and Management*

PRINCIPLE		ASSESSMENT	IMPORTANCE**	REC
1.1	Macroeconomic Risks	**Basic:** Budget documentation includes discussion of the sensitivity of fiscal forecasts to major macroeconomic assumptions.	**High:** US$10 change in oil price leads to 1% change in balance.	7
1.2	Specific Fiscal Risks	**Not Met:** No disclosure of specific fiscal risks other than guarantees.	**High**: Specific risks of at least 50% of GDP are not reported.	7
1.3	Comparability of Fiscal Data	**Basic:** At least one fiscal report is prepared on the same basis as budgets.	**Medium:** Recent differences of up to 1.8% of GDP between estimates of the balance.	3
2.1	Allowance for Budgetary Contingencies	**Advanced:** The budget includes a provision for contingencies with transparent access criteria, and regular in-year reporting on utilization.	**Medium:** Final expenditure exceeded initial plan by 5% of the budget on average in past 12 years.	
2.2	Asset and Liability Management	**Basic:** Borrowing is authorized by law and the risks around the government's debt holdings are analyzed and disclosed. Financial asset disposal and acquisitions are authorized by law.	**High:** Unreported public sector liabilities of around 130% of GDP.	2, 7
2.3	Natural Resources	**Basic:** An estimate of the volume of natural resource assets is published, as well as the value of the previous year's sales and fiscal revenues.	**High:** Oil and gas revenues account for one-third of total general government revenue.	2,7,8
2.4	Financial Derivatives	**Advanced:** Government does not use financial derivatives.	**Low:** Government does not use financial derivatives.	
2.5	Guarantees	**Good:** Government guarantees, the sectors, and the gross exposure created by them are published at least annually. The maximum value of new guarantees is authorized by law.	**Medium:** Stock of guarantees expected to reach 3.3% of GDP by 2015.	7
2.6	Financial Sector Exposure	**Basic:** Explicit government support to the financial sector, such as deposit insurance, is quantified and disclosed annually.	**High:** State-controlled banks account for more than 50% of total financial sector assets.	2,7,9
2.7	Major and Multi-Annual Contracts	**Not met:** No regular reporting of rights, obligations, and exposures under major and multi-annual contracts.	**Medium:** Total estimated value of PPP contracts is 2% of GDP and likely to grow.	7
2.8	Environmental Risks	**Basic:** The budget identifies and discussed the main fiscal risks from natural disasters in qualitative terms.	**Low:** Average annual cost of natural disasters is 0.06% of GDP.	7
3.1	Sub-National Governments	**Advanced:** The fiscal condition of sub-national governments is published quarterly, and there is a limit on their liabilities and borrowing.	**Low:** Sub-national debt is relatively low at 2% of GDP.	
3.2	Public Corporations	**Basic:** Direct transfers between the government and public corporations are disclosed on an annual basis.	**High:** State-controlled corporations have liabilities of at least 95% of GDP.	1,2,9
3.3	Quasi-fiscal activity	**Not met:** No disclosure of quasi-fiscal activity by public or private corporations.	**Medium:** Some significant quasi-fiscal activity remains	9
3.4	Health and Social Security	**Basic:** The current financial position of social security and health funds and the projected position for the next three years are disclosed annually.	**High:** Net present value of rise in pension and health expenditure by 2050 is 135 % of GDP.	8

* See Glossary and Legend on page 4 for color coding

**All figures refer to 2012 unless otherwise indicated

IV. RECOMMENDATIONS

99. The above findings suggest that reforms in nine areas would substantially enhance the information base for fiscal decision-making and bring Russia's fiscal transparency practices into line with evolving international standards. They are to:

1. clarify the boundary between general government, public sector, and private sector and expand the institutional coverage of fiscal reports to encompass the public sector;
2. expand the coverage of balance sheets to include subsoil assets and pension and public-private partnership liabilities;
3. enhance the consistency between budgets, statistics, and accounts in their treatment of non-cash flows and valuation of fixed assets;
4. improve disclosure and management of the revenue foregone from tax expenditures;
5. improve the coverage and detail of the annual budget;
6. increase the transparency and scrutiny of macroeconomic and fiscal forecasts;
7. improve the disclosure and analysis of fiscal risks;
8. regularly publish long-term fiscal projections covering at least 30 years; and
9. enhance the fiscal oversight of government-controlled enterprises.

The rationale for these recommendations and key steps involved in their implementation are set out below. The specific actions required to implement these reforms over the next five years have been reflect in a Fiscal Transparency Action Plan developed in consultation with the Russian authorities which has been appended to this report.

1. Clarify Institutional Boundaries and Expand Institutional Coverage

100. Issue: The definition of general government used in fiscal statistics in Russia does not follow international standards. There are also over 30,000 government-owned or controlled enterprises (including state unitary enterprises, government corporations, and joint stock companies) with aggregate liabilities of at least 85 percent of GDP which are not captured in any summary fiscal report.

101. *Recommendation 1: Clarify the boundary between general government, public sector, and private sector and expand the institutional coverage of fiscal reports by:*

a. **adopting internationally accepted criteria for determining the classification of institutional units to the general government, public corporations, and private sector.** This would help to establish a clear boundary between government, public, and private sectors and ensure that economic substance prevails over legal form in the classification of institutional units between the different sectors;

b. **consolidating those institutional units judged by Rosstat to be primarily non-market into general government in statistics.** This would provide a comprehensive overview of all tax-funded activities of the government and ensure the international comparability of Russia's fiscal data; and

c. **preparing fiscal statistics for the aggregate public corporations sector and the consolidated public sector.** This would provide a regular and comprehensive overview of scale and extent of government-directed financial activity in the economy.

2. Expand Balance Sheet Coverage

102. Issue: Russia's government balance sheet currently includes most conventional financial assets of RUB 21.4 trillion (34.2 percent of GDP), liabilities of RUB 7.0 trillion (11.1 percent of GDP) as well as nonfinancial assets of RUB 27.2 trillion (43.4 percent of GDP) for 2012. However, long-term liabilities of around 280 percent of GDP associated with government pension obligations are not included in the government's balance sheet. Also not included are small but rapidly growing liabilities under PPPs. On the asset side, official balance sheets do not include the government's single most important category of assets, the estimated 200 percent of GDP in future revenues from oil and gas reserves.

103. *Recommendation 2: Expand the coverage of balance sheets by*:

a. **valuing and recognizing obligations from funded pensions schemes managed by the government.** This would provide a clearer picture of the impact of pension systems reforms on the government's overall net worth;

b. **valuing and disclosing off-balance sheet government pension liabilities from the pay-as you-go scheme.** This would raise awareness of the growing obligations associated with future unfunded social security benefits payments;

c. **valuing and recognizing government liabilities under public-private partnership arrangements.** This would help to ensure that PPP arrangements are entered into because they provide better value for money compared with conventional procurement, rather than accounting advantages; and

d. **valuing and recognizing subsoil assets, including future government revenue from commercially-exploitable oil and gas reserves.** This will strengthen the assessment of the overall net worth of the Russian public sector.

3. Enhance Consistency between Budgets, Statistics, and Accounts

104. Issue: Budget, statistics and financial accounts do not provide a consistent picture of the key fiscal aggregates. Accrued tax revenue is recorded on the basis of assessed obligations and does not reflect amounts that are unlikely to be collected. Consequently, accrued tax revenue does not reflect future cash inflows and thus revenue is overestimated. In addition, the government does not make ex ante provision in budgets for likely non-payment on its RUB 2.3 trillion (4.0 percent of GDP) stock of policy loans to corporations and households. As a result, government expenditure is underestimated as they do not include the unrecoverable funds originally granted as a loan. By contrast, government budgets provision for nearly the full amount of its RUB 115 billion (0.2 percent of GDP) in guarantees issued each year which tends to overstate forecast liabilities as only 5 percent of the total value guarantees have been called over the past 2 years. Finally, fixed assets are recorded in accounts at book value but valued in the SNA 2003 based national accounts statistics using a proxy for market prices, leading to an at least ten-fold difference in valuations.

105. ***Recommendation 3: Enhance the consistency between budgets, statistics, and accounts by:***

a. **including in budgets and accounts provisions for taxes unlikely to be collected and reflecting them in statistics.** This would ensure comparability between budgeted and actual levels of tax collection;

b. **including in budgets and balance sheets provision for non-repayment of loans.** This would reduce incentives for policy lending as a means of transferring value to non-government entities;

c. **making budgetary provisions only for guarantees that are more than 50 percent likely to be called and charging a market-related guarantee fee.** This would ensure that budgets make appropriate allowance for the riskier guarantees, reduce the implicit subsidy to the beneficiaries, and generate a revenue stream to pay for guarantees that are ultimately called; and

d. **moving toward greater market valuation of nonfinancial assets in accounts.** This would ensure that accounts reflect the true value of government fixed assets and highlight those with the highest recoverable value.

4. Improve Disclosure and Management of Tax Expenditures

106. **Issue:** The government foregoes a significant amount of revenue through various tax allowances, rebates, credits, and concessions. Depending upon the estimation methodology employed, the total revenue loss from tax expenditures is estimated at between 1.2 percent and 2.1 percent of GDP.

107. ***Recommendation 4: Improve reporting and management of tax expenditures by:***

a. **estimating the revenue loss from tax expenditures.** This would help to illustrate the overall cost of this hidden subsidy to corporations and households;

b. **presenting the revenue loss from tax expenditures alongside associated expenditure in budget documentation.** This would serve to illustrate the full extent of government support to a given policy objective and encourage debate about the most efficient means of delivering such support; and

c. **improving the scrutiny and management of tax expenditures.** This could include periodically reviewing tax expenditures alongside associated spending program with the aim of progressively reducing tax expenditures with high deadweight costs or translating them into more transparent and better-targeted expenditure programs where possible.

5. Improve the Coverage and Detail of the Annual Budget

108. Issue: While the annual budget provides a relatively comprehensive overview of government revenues and expenditures, a growing proportion of budgeted expenditure is classified as secret and therefore presented at only a highly aggregated level. In addition, there is growing pressure for extra-budgetary expenditure via such vehicles as the National Wealth Fund (NWF) and Russia Direct Investment Fund (RDIF).

109. *Recommendation 5: Improve the transparency of the annual budget by:*

a. **reviewing the proportion of the budget classified as secret to ensure that it covers only those expenditures associated with national security.** This would ensure the transparency and international comparability of Russia's expenditure figures; and

b. **presenting any infrastructure investments from the NWF and RDIF alongside the annual budget.** This would ensure that all investments paid for out of public funds are presented to and approved by the legislature.

6. Increase the Transparency and Scrutiny of Official Forecasts

110. Issue: While Russia's official macroeconomic forecasts have been relatively accurate and unbiased, fiscal forecasts over the last five years have tended to underestimate the future expenditure level by 13 percent over the three-year forecast horizon. The establishment of an oil price-based fiscal rule puts a premium on improving credible revenue and expenditure forecasts. While the government widely consults outside experts on its official macroeconomic forecasts, their advice is not published and there is no obligation on the government to respond to it. Also, while the government publishes a range of official macroeconomic and fiscal planning documents in the late spring, early summer, there is no single comprehensive strategy document presented to Parliament setting the macroeconomic and fiscal framework for the preparation up the upcoming budget.

111. *Recommendation 6: Increase the transparency and scrutiny of official macroeconomic and fiscal forecasts by:*

a. **publishing a comprehensive Fiscal Strategy Report in late spring/early summer setting out macroeconomic and fiscal developments to date, the official macroeconomic and fiscal forecast for the medium-term, and the framework for preparation of the upcoming budget.** This would provide a focal point for scrutiny of the government's macroeconomic and fiscal forecasts and policies before they are used to prepare the annual budget;

b. **publishing in this document and the annual budget a comprehensive reconciliation of the changes to the government's fiscal forecast separately identifying the effects of changes in (i) macroeconomic variables; (ii) sector-specific parameters; (iii) policy**

measures; (iv) classification changes; and (v) other factors. This would provide greater transparency about the fiscal and economic impact of discretionary policy decisions and improve understanding of the drivers of fiscal forecast errors; and

c. **formalizing independent evaluation of the official macroeconomic and fiscal forecasts by seeking published input from independent experts to which the government must respond when it presents the annual budget.** This would help to safeguard the credibility of macro-economic and fiscal forecasts and improve the quality of macroeconomic and fiscal debate in the run-up to the presentation of the annual budget.

7. Improve Disclosure and Analysis of Fiscal Risks

112. Issue: Fiscal prospects are highly sensitive to alternative macroeconomic assumptions. For example, a US$10 per barrel fall in the price of oil would lead to an increase in the government deficit of approximately 1 percent of GDP. While the government publishes three alternative macroeconomic forecasts as part of the formulation of the annual budget, the fiscal implications of these scenarios are not presented. The government also faces large contingent liabilities and other fiscal risks including state guarantees which are forecast to rise to RUB 2.7 trillion (3.3 percent of GDP), non-deposit liabilities of government-controlled financial institutions of RUB 18 trillion (30 percent of GDP), exposure to the deposit insurance scheme of RUB 94 trillion (15 percent of GDP), and long-term nuclear decommissioning costs estimated RUB 940 billion (1.5 percent of GDP). While some of these risks are discussed in various official publications, there is no comprehensive summary of the specific fiscal risks facing the government and its strategy for managing them.

113. *Recommendation 7: Improve fiscal risk analysis and disclosure by:*

a. **including in budget documentation (i) analysis of the sensitivity of the government's fiscal forecast to different macroeconomic assumptions, (ii) alternative macro-fiscal scenarios, and, ultimately, (iii) probabilistic analysis of the range of potential forecast outcomes.** This would help to illustrate the robustness of the fiscal setting to a range of plausible macroeconomic shocks and underscore the importance of contingency planning in fiscal policymaking; and

b. **publishing a comprehensive statement of fiscal risks setting out the government's largest contingent liabilities, estimates of their magnitude and likelihood, and the government's strategy for managing them.** Doing so would raise awareness of the scale and sources of discrete risks to the public finances and improve incentives for risk mitigation, provision, and management.

8. Publish Long-term Fiscal Projections

114. Issue: The government has published long-term economic projections covering the period 2014-2030 and plans to publish a Long-term Fiscal Strategy covering the same period in 2014. However, the 16 year time horizon is too short to demonstrate the intergenerational fairness or long-term sustainability of the government's fiscal policy settings. Furthermore, the Long-term Fiscal Strategy will not include alterative demographic and policy scenarios which would allow it to explore long-term fiscal pressures such as the 100 percent of GDP in additional pension costs and 37 percent of GDP in additional healthcare costs expected (on a net present value basis) over the period to 2050.

115. ***Recommendation 8: Publish long-term fiscal projections for the next 30-50 years using a range of macroeconomic, oil market, and demographic assumptions.*** This would illustrate the long-term sustainability and intergeneration fairness of the government's current policies. By using a range of assumptions regarding output growth, oil output and prices, and fertility, employment, retirement, and mortality rates, the projections would also illustrate the sensitivity of the government's fiscal prospects to alternative futures and highlight policies that can materially improve long-term sustainability.

9. Enhance the Financial Oversight of Public Enterprises

116. **Issue:** Russia has over 30,000 public corporations with gross liabilities of at least RUB 53 trillion (85 percent of GDP). While all of these corporations prepare financial statements, less than 2,000 are required to publish them. There is no aggregate reporting on the financial position and performance of the sector. While quasi-fiscal subsidies associated with the sale of energy at below market prices by Gazprom and Rosneft have been substantially reduced in recent years, Russia's largest public corporations continue to engage in quasi-fiscal activity which is not always transparently presented in their accounts.

117. ***Recommendation 9: Facilitate the financial oversight of public enterprises by:***

a. **requiring all the public corporation to publish financial statements and have them audited.** This would improve the transparency, accountability, and governance of these enterprises;

b. **requiring all public corporations to present their financial statements in a format which facilitates consolidation of the public sector.** This will clarify their financial relationship with government and allow for the preparation of whole of government accounts and public sector fiscal statistics;

c. **requiring public corporations to disclose and quantify in their financial statements the cost of any provision of goods or services at below market prices, public service undertakings, or other quasi-fiscal activity.** This would improve understanding of the full extent and cost of fiscal activity in the economy; and

d. **publishing an annual report on the fiscal performance, prospects, and risks of the public corporations sector.** This would improve the surveillance of the sector and inform the development and implementation of the strategy.

Appendix I. Russia: Fiscal Transparency Action Plan

Action	2014	2015	2016	2017	2018	2019
1. Clarify Institutional Boundaries and Expand Institutional Coverage						
a. Adopt internationally accepted criteria for classifying entities to the general government and public sector	Adopt GFSM2013 criteria for classification of units to the general government	Adopt GFSM2013 criteria for classification of units to the public corporations sector				
b. Consolidate entities judged by Rosstat to be primarily non-market into general government statistics		Apply market test to all Federal corporations to identify additional general government entities	Apply control test to identify all public corporations	Consolidate all additional non-market Federal units into general government accounts and statistics	Apply market test to all sub-national corporations to identify additional general government units	Consolidate all additional non-market sub-national corporations into general government accounts and statistics
c. Prepare fiscal statistics for the public corporations sector and consolidated public sector			Publish aggregate statistics for public corporations sector	Publish statistics for the consolidated Federal government and its 100 largest corporations	Public statistics for the consolidated Federal government and all its corporation	Publish statistics for the consolidated public sector including both Federal and sub-national public corporations

Action	2014	2015	2016	2017	2018	2019
2. Expand Balance Sheet Coverage						
a. Valuing and recognizing accrued liabilities from funded public pension schemes		Value assets and accrued liabilities from funded pensions	Disclose assets and liabilities from funded pensions in notes to balance sheet	Recognize assets and liabilities from funded pensions in balance sheets		
b. Valuing and disclosing government liabilities from public PAYGO pensions		Value liabilities from public PAYGO pensions	Disclose liabilities from public PAYGO pensions in notes to balance sheet	Recognize liabilities from public PAYGO pensions in balance sheet		
c. Valuing and recognizing government liabilities under PPPs		Publish aggregate value of PPP contracts	Publish aggregate value and flow of government payments under PPP contracts	Estimate and publish NPV of government payments and other obligations under PPP contracts	Recognize government obligations under PPPs in central government balance sheet	Recognize government obligations under PPPs in general government balance sheet
d. Valuing and recognizing subsoil assets		Publish survey of volume of oil and gas reserves	Publish estimated value of oil and gas reserves	Recognize value of oil and gas assets in balance sheet	Publish survey of other sub-soil assets	Recognize value of other sub-soil assets in balance sheet

Action	2014	2015	2016	2017	2018	2019
3. Enhance Consistency Between Budgets, Statistics, and Accounts						
a. Include provisions for taxes unlikely to be collected in budgets and accounts		Estimate value of taxes unlikely to be collected	Disclosure value of taxes unlikely to be collected in notes to the accounts	Include provisions for taxes unlikely to be collected in accounts		
b. Include provisions for nonrepayment of loans in budgets and accounts		Estimate value of loans unlikely to be recovered	Disclosure value of loans unlikely to be recovered in notes to the accounts	Include provisions for loans unlikely to be recovered in accounts		
c. Provision for guarantees likely to be called and charge market-based guarantee fee		Charge market-based fee for government guarantees	Estimate likelihood of different classes of guarantees being called	Disclosure value of guarantees likely to be called in budgets and accounts	Provision in budgets and accounts for guarantees likely to be called	
d. Move to more market valuation of non-financial assets	Update categories of assets for which market valuations are required	Apply market valuation to expanded asset range in statistics	Apply market valuation to expanded range of assets in accounts for central government	Apply market valuation to expanded range of assets in accounts for regional government	Apply market valuation to expanded range of assets in accounts for municipal government	

Action	2014	2015	2016	2017	2018	2019
4. Improve Disclosure and Management of Tax Expenditures						
Improve the reporting and management of tax expenditures	Estimate the revenue loss from tax expenditures	Publish report on revenue loss from tax expenditures by tax and type of relief	Present revenue loss from tax expenditures alongside associated expenditures in budget documentation	Review tax expenditure alongside associated spending to identify areas of high deadweight cost	Progressively reduce tax expenditures with high deadweight costs or translate them into expenditure programs	
5. Improve the Coverage and Detail of the Annual Budget						
a. Review the proportion of the budget classified as secret	Establish a panel comprising government, Duma, and Accounts Chamber representatives to review secret expenditure categories	Review the expenditure items classed as secret in the budget	Declassify the expenditure of non-security-related expenditures	Periodically review secret expenditure categories		
b. Present any infrastructure investments from the NWF and RDIF alongside the budget	Present any direct infrastructure from NWF and RDIF alongside the budget	Clarify in NWF and RDIF procedures for approval of direct infrastructure investments	Channel future NWF and RDIF investments through the budget			

Action	2014	2015	2016	2017	2018	2019
6. Increase Transparency and Scrutiny of Official Forecasts						
a. Publish a comprehensive Fiscal Strategy each spring to provide a framework for budget preparation	Publish Fiscal Strategy integrating macro forecasts, fiscal projections, and President's priorities	Introduce spring budget orientation in Parliament based on Fiscal Strategy for preparation of 2016 Budget	Use Fiscal Strategy to set overall expenditure ceiling for preparation of 2017 Budget	Use Fiscal Strategy to set overall and program ceilings for preparation of 2018 budget		
b. Provide a more comprehensive reconciliation of changes to key fiscal aggregates between successive fiscal forecasts	Publish a reconciliation of forecast changes separately identifying (i) macroeconomic and (ii) other factors	Publish a reconciliation of forecast changes separately identifying (i) macroeconomic (ii) policy, and (iii) other changes	Publish a reconciliation of forecast changes separately identifying (i) macroeconomic (ii) policy, (iii) classification, and (iv) other changes	Publish a reconciliation of forecast changes separately identifying (i) macroeconomic (ii) policy, (iii) classification, and (iv) other changes	Publish a reconciliation of forecast changes separately identifying (i) macroeconomic (ii) policy, (iii) classification; (iv) sector-specific parameter, and (v) other changes	
c. Seek published input from independent experts on the official macro and fiscal forecasts	Identify independent experts panel to review macroeconomic and fiscal forecast	Publish expert' panel's assessment of official macroeconomic forecast	Publish expert panel's assessment of official macroeconomic and fiscal forecasts	Expand expert panel's remit to include assessment of government compliance with fiscal rule	Expand panel's remit to include review of fiscal risk statement and long-term projections	

Action	2014	2015	2016	2017	2018	2019
7. Improve Disclosure and Analysis of Fiscal Risks						
a. Improve analysis and disclosure of macroeconomic risks	Publish analysis of sensitivity of fiscal forecasts to different macroeconomic assumptions	Publish alternative fiscal scenarios based on alternative macroeconomic scenarios	Publish probabilistic analysis of range of forecast fiscal outcomes based on past forecast errors			
b. Publish a comprehensive fiscal risk statement	Prepare qualitative fiscal risk statement for internal management purposes	Prepare quantified fiscal risk statement with value of exposures to quantifiable risks	Publish fiscal risk statement with value of exposure to quantifiable risks	Publish fiscal risk statement with value of exposure and likelihood of quantifiable risks	Publish fiscal risk statement with value of exposure to, likelihood of, and strategy for managing quantifiable risks	
8. Publish Long-term Fiscal Projections						
Publish long-term fiscal projections for the next 30-50 years based on a range of underlying assumptions	Publish fiscal projections to 2030 based on a range of macroeconomic and oil market assumptions	Publish 30-50 year fiscal projections based on a range of macroeconomic and oil market assumptions	Publish 30-50 year fiscal projections based on a range of macroeconomic, oil market, and demographic and policy assumptions			

Action	2014	2015	2016	2017	2018	2019
9. Enhance the Financial Oversight of Public Enterprises						
a. Require all public corporations to publish audited financial statement		Require all public corporations with liabilities above a threshold to publish financial statements	Require all public corporations with liabilities above a threshold to publish financial statements	Require all public corporations to publish financial statements and audit those with liabilities above a threshold	Require all public corporations to publish financial statements and have them audited	
b. Require all public corporations to present their financial statements in a format which facilitates public sector consolidation			Require 100 largest public corporations to identify all transactions and cross-holding with government	Require 100 largest public corporations to identify all transactions and cross-holding with government and other public corporations	Require all public corporations to identify all transactions and cross-holding with government	Require all public corporations to identify all transactions and cross-holding with government and other public corporations
c. Require public corporations to disclose and quantify all quasi-fiscal activity		Require joint stock companies to quantify all public service undertakings in financial statements	Require joint stock companies to quantify all public service undertakings, and provision of goods/services at below-market prices in financial statements	Require all public corporations to disclose all quasi fiscal activity in financial statements	Require all public corporations to disclose and quantify all quasi fiscal activity in financial statements	

Action	2014	2015	2016	2017	2018	2019
d. Publish annual report on the public corporations sector	Publish survey of numbers and activities of public corporations by economic sector	Publish overview of aggregate financial position of public corporations sector	Publish overview of aggregate financial position and prospects of public corporations sector	Publish overview of aggregate financial position, prospects, and risks of public corporations sector	Publish overview of consolidated financial position, prospects, and risks of public corporations sector	