# FORMATION OF THE REGION BUDGETARY SYSTEM IN CONDITIONS OF THE ECONOMIC CRISIS

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The global financial and economic crisis has particularly significant implications for the Russian financial system, as accompanied by, in particular, the fall in prices for energy and raw materials, the export of which provides the main source of revenues of the federal budget. Not accidentally the economic crisis touched in the first place of the fuel and energy and commodity sector and related industries primary processing (mainly ferrous and nonferrous metallurgy). Accordingly, the strongest effects of the economic crisis began in the regions of the placement and operation of such industries.

This happened yet in the summer of 2008. Then, almost all regions of the country faced with similar problems, except in the most depressed in which the crisis has not stopped since the 90ies, and the revenue side of the budgets was formed largely through federal grants. In the remaining regions, the nominal revenues of the budget in the IV quarter of 2008 were in line with or even lower than those of 2007. In the short term, other threats to the socio-economic development of the Russian regions and municipalities will arise, as together with the revision of revenues downwards there is a clear tendency to maximize expenditure's savings of budgets of all levels [1].

Moreover, the negative effects of the crisis are manifested in the reduction of profitability, declining real incomes of the population as a result of the decline in employment and high inflation; payments crisis and the use of surrogates in the repayment are also possible. All of this leads, as shown by international experience and national practice, to a significant acceleration of inflation and the multiplicity of prices. The deepening of the crisis leads to an increase of spatial differentiation of socio-economic development and the expansion of depressive habitats, as well as the emergence of new [1].

In general, the modern financial and economic crisis, coupled with the all-Russian systemic crisis that started in the 80 years of the twentieth century, imposes significant imprints on the functioning of the entire budget system of the country, its regions and municipalities, causing first need to optimize budget expenditures. This, in particular, directed the federal government's anti-crisis measures, the regional anti-crisis measures of the Government of the Russian Federation, the anti-crisis proposals and own initiatives of subjects of the Russian Federation.

In the summer of 2008 the Russian government started to develop some anti-crisis measures; in a systematic way they have been reduced to a published on March 20, 2009 «The Program of Anti-Crisis Measures of the Government of the Russian Federation for 2009». In Section 8 of the «Anti-Crisis Program» the Russian government has defined the requirements for the implementation of these measures in the subjects of the Russian Federation, to the leadership of which were given two tasks crisis. [2]

*First*: Maintenance of regional fiscal-budget system balance for fulfillment of obligations to citizens, payment of wages to public sector employees, payment of immediate expenses.

*Second:* Promotion of employment, preservation and creation of jobs.

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It was assumed that the first solution would be provided as giving support to budgets of subjects of Russian Federation from the federal budget as the holding of a «responsible (!) policy» at the regional level, including:

- the optimization of budget expenses and restructuring of the budget network;
- the review of the parameters of the budget, including refusing from «non-binding» capital investments;
- the preventing the growth of accounts receivable on the priority commitments;
- the refusal to replenish the revenue base of the subject of the Russian Federation due to lower revenue base of local budgets.

In this case, the Government of the Russian Federation determines that support of regional budgets will be carried out at lower levels of co-financing of expenditure obligations of subjects of the Russian Federation (which are subsidized), and that this will be offset by the simultaneous increase in the volume of the remaining subsidies and their concentration on three or four of the most important tasks for the regions.

The decision of the second task set by the Government of the Russian Federation to the regional authorities implied the implementation of programs to promote employment and social support measures for the unemployed through grants from the federal budget in order to [2]:

- provide advanced professional training in the event of a threat of mass layoffs;
- organize public works, temporary employment, placement of unemployed job seekers (including graduates of educational institutions), as well as employees in the event of a threat of mass layoffs;
- provide targeted support to citizens, including the organization of their moving to another area to fill jobs, including established in the framework of the federal target programs and investment projects;
- promote the development of small businesses and self-unemployed. Section 8 of the Program also notes that additional support will be provided to the subjects of the Russian Federation, which have the most urgent crisis on the regional labor market.

Among the specific measures in the areas of tax and budget policy, aimed at overcoming the consequences of the financial and economic crisis and implemented within the framework of the anti-crisis policy of the Government of the country can be noticed, in particular, a decrease of 4 percentage points of corporate income tax, an increase of the property deduction for personal income tax for the citizens of the acquisition of housing, lower tax rates on small businesses, etc. This is especially important because the effects of the crisis were reflected primarily on the state of regional and local budgets, causing reduction in revenues from corporate income tax and the increase in unemployment has led to a reduction in revenue from the personal income tax, which is the main component of the revenues of the regional and local budgets.

Subjects of the Russian Federation were not passive witnesses of the crisis. In all regions and major cities own anti-crisis measures have started to develop at the same time with the federal center, the validity and the targeting of these measures (their objects are municipalities, industrial and agricultural enterprises, social organizations, governments, etc.) were exceptionally high. In Russia there is no region, hoping only to decisions of the Centre, as there is no one in the leadership of the subject of the Russian Federation who would bind the latest crisis only with the global and would not consider it a major cause of failures in the economic, fiscal and social policies of all previous years. It is not surprising, therefore, that the subjects of the Russian Federation propose to mitigate the effects of the latest crisis, often develop or simply repeat what has been a long time ago (and more often without results) recommended by them to the Centre to ensure better functioning of the self-sufficiency of regions, municipalities and enterprises – the best «safety cushion» in critical situations [2].

It should be noted, however, that all anti-crisis measures taken by the federal center, regions and municipalities are only trying to smooth out the peaks of potential social unrest and protests, without changing anything in the nature of the Russian economic system. The worst that could threaten to Russia – reinstatement in the same shape of the economy, that was powerless in the transition to a market more than twenty years ago and unable to overcome neither post-Soviet crisis nor the latest phase of its strengthening by global crisis. But the country, its regions, cities and villages need above all a market economy, able to produce globally competitive products, primarily for its wide domestic consumption on the basis of intra- and inter-regional co-operation and to involve high employment. To stimulate the creation of this basically new (and not innovation interpreted technocratically) economy should be a top priority of the state policy, but its implementation require different conceptual approaches to the organization of life in the country, we need other legal grounds, a different format of federal relations and other administrative and resource potential of the bodies of state power of subjects of the Russian Federation and local self-government [2].

One important aspect of anti-crisis measures of the Government of the Russian Federation is to promote the development of small businesses, largely determines the conditions for sustainable development of municipalities.

This sector of the economy, including on January 1, 2009 more than 4.5 million subjects, is characterized by a maximum adaptation to a crisis situation and can respond quickly to changes in consumer demand. In addition, given the ongoing staff reduction of large and medium-sized enterprises, the active involvement of the population in the small business and self-employed has a great social importance, promoting the growth of employment. Over the last 2 years a number of legislative measures aimed at the development of small and medium-sized businesses, creating new jobs were carried out. Among them – the establishment of the right for region to reduce the tax rate from 15 to 5%, if the object of taxation is income minus expenses, for certain categories of taxpayers, and since 2010 – an increase in the threshold for the application of the simplified tax system («simplified taxation») from 30 million rubles of annual revenues up to 60 million rubles. These solutions may initially lead to a reduction in revenues in the budgets the regions, which can be compensated only by the development of small and medium-sized businesses. To solve this problem it is important to increase the interest of the local authorities. It is the «simplified tax» – which the tax on the expansion of the base of which may actually affect local self-government bodies, increasing not only financial support, but also promptly addressing issues of renting premises, land, etc., thus creating conditions for the development of small entrepreneurship [3].

In a crisis, especially acute is the problem of filling the regional and local budgets. For this, in May 2009 the Government of the Russian Federation approved the «Rules for the Distribution of Grants to Budgets of Subjects of the Russian Federation to Support the Measures to Balance the Budgets of Subjects of the Russian Federation for 2009». Using this methodology, the selection of subjects of the Russian Federation to provide grants is based on indicators of the balance of the consolidated budgets of the Russian Federation subject on which the balance of local budgets depends. In this case, subjects of the Russian Federation have the right to receive grants, in which the performance of the consolidated budgets forms lack of revenues for financing expenditure commitments. Regions, which have the level of actual fiscal capacity 10% higher than the Russian average, are excluded from the distribution. As a condition of these grants is the lack of overdue debt on socially significant expenditure responsibilities of subjects of the Russian Federation [4].

Due to the reduction of local revenues in 2008 their high dependence on intergovernmental transfers from the budgets of other levels survived, the volume of which (including subventions) amounted to 1412,7 billion rubles or 58,6% of revenues of local budgets. The share of tax revenues in the local budget revenues amounted to 29,9%, the share of nontax revenues – 11,5% [4]. In connection with this, the mechanism of targeted financial assistance to regional and local budgets in times of crisis is introduced. This problem was solved when making changes to the federal budget in 2009, which contains new terms and parameters of the economy of the country. Making these changes will allow solving such problems as:

- unconditional implementation of all social obligations assumed by the State, and national projects;
- review of all investment projects on the basis of their efficiency and urgency, as well as determining the feasibility of using them as «locomotives» of economic stabilization.

Similar principles would be appropriate to use also in amendment of regional and local governments when they need to optimize them in connection with the financial crisis.

One of the factors stabilizing of the economy of municipalities may be the objects of their infrastructure. In accordance with the Federal Law of 28.04.2009 № 76-FZ «On Amending the Federal Law On the Federal Budget for 2009 and the planning period of 2010 and 2011» it is expected to provide an additional 300 billion rubles, including 150 billion rubles – in the form of grants for the balance of regional and local budgets, and 150 billion rubles – in the form of loans (including up to three years). For municipalities, it is very important that out of 150 billion rubles of loans – 25 billion rubles is allocated for targeted use – for road construction [4].

Instability of the financial situation at the municipal level during the crisis creates additional difficulties to municipalities to establish economic base – the basis for the formation of their budgets. Meanwhile, this problem can be solved today in the framework of the territorial dimension of regional programs of socio-economic development. This aspect implies a regional policy aimed at creating a single, well-functioning economic area by maximizing the competitive advantage of all types of municipalities eliminate the negative trends and crises in some areas of the region. In this regard, at the regional level during the crisis an objective picture of the available resources and social and economic potential of all municipalities should be presented, their common problems should be identified, goals should be set (long-term, medium-term and short-term), a set of policy measures aimed at achievement of the objectives of anti-crisis should be developed [4].

In conclusion, we note that in a more complex financial situation is especially relevant, in our view, the proposal [5] on the consolidation of municipalities, as the deal with the crisis in a weak financial base not everyone can do. The crisis has vividly demonstrated that the existence of a large number of rather small settlements without its resource and financial base, and living only through financial assistance from the upper level, is not conducive to solving the problem of strengthening the local self-government. Such settlements (mainly rural) essentially has not their own tax base, revenue is less than the amount of the cost of maintaining municipal officials. Obviously, association of several similar settlements with the appropriate concentration of financial resources will facilitate the solution of these problems fulfilling by their office (area cleaning, provision of utilities, maintenance of local roads, etc.). At the same time, for the subjects of the Russian Federation the task of providing financial assistance to municipalities also will be simplified, as an opportunity to focus resources on priority areas of corresponding entities, facilitate the monitoring of the use of allocated resources and a number of other benefits.

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