

# The Independency of Regional Budgets as a Condition for the Financial Stability of the Constituent Entities of the RF

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## ABSTRACT

Improvement of regional socio-economic policy is one of the tasks of state policy in the RF. Increasing the independence of problem regions is a critical component in developing a set of measures to overcome the backlog in multidirectional world trends (financial instability, digitalization, epidemiological situation, etc.). In this connection, increasing regional budgets' efficiency is an integral part of improving the financial system's existing model. The study aims to find ways out of this situation for the country's problem regions' budgets. The object of the research protrudes the methodology for calculating the effectiveness of the regional budgetary policy. The research subject is reduced to the relations of arising apropos distribution of the fund of monetary funds. The article deals with the income and expenditure parts of the regional budgets of the NCFD. The efficiency indicators of the region's budget are calculated; also, the optimal level of own income for the constituent entity of the RF is revealed. The results obtained can be used to develop programs and concepts for the socio-economic development of regions.

**Keywords:** *Fiscal policy, Budget revenues, Budget expenditures, Regions of the North Caucasus Federal District, Evaluation of efficiency, Improvement.*

## 1. INTRODUCTION

Public policy planning is based on ensuring social and financial stability in the country. The balanced development of the regions of the Russian Federation, which implies an efficient economy of regions, a developed social sphere, as well as a shortening in inequality in the socio-economic development of the country's constituent entities, not least of all depends on the formation of a stable financial system.

The changes that the economy of the state and the world undergoes under the influence of multidirectional global trends in the current time is felt especially acutely. One of the fundamental indicators of the manifestation of relationships between the state and its citizens protrude the budget.

The constituent grouped entities of the RF are according to the socio-economic basis into regions "donors" and "underdeveloped", the latter include the regions of the North Caucasian Federal District (NCFD), which are characterized by a weak economic base and a highly subsidized budget [1].

In the study, we distinguished the problem subjects of the RF since, in our opinion, first of all, the region's ability to cover its expenditure obligations directly affects its economic development.

We do not stage the task of a theoretical overview of research on the budget. In Russia, theoretical issues of studying the budget and budgetary policy are entirely on full volume covered in the works of T.M. Kovalev's, Yu.G. Shvetsov's, A.A. Yalbulganov's. and others [2,3,4]. Among foreign researchers, it is worth mentioning the works of M.O. Pintea, I. Boston's, V. Vashari, and others [5,6,7].

Despite the existing theoretical basis of the research of terminology and methodic for assessing the budgetary policy's effectiveness, the practical component of the budget of problem subjects is of interest.

The formation of budget revenues and expenditures is based on budgetary provision standards. These standards can change up to or down. Expenditures of the regional budget aim to fulfill the functions and tasks of the constituent entity of the RF. Accordingly, the focus of budget expenditures dictates

the conditions for the formation of budgetary policy in the region and the country.

The budget is socially oriented, which is due to the provision and creation of conditions for the population's life. In this connection, most of the budget expenditures are allocated to provide social directions.

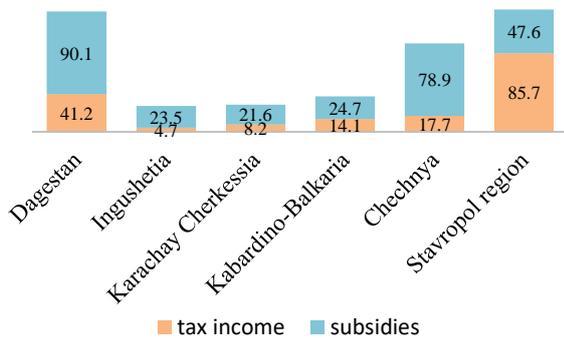
**1.1. Budget revenues and their interpretation**

Donor regions and underdeveloped regions cannot equally distribute finances to the federal budget. In this connection, we can observe a variable volume of income from the subjects of the RF. Donor regions can transfer up to 50% of their revenues to the federal budget, and in problem regions, the budget, for the most part, consists of subsidies from the federal center.

For the main socio-economic indicators, the regions of the NCFD are at the bottom of the rating list of the RF subjects. Based on this, we can judge that the reforms and programs of socio-economic development aimed at the financial recovery of the problem regions of the NCFD today do not give the due result.

Figure 1 shows revenues broken down for own and subsidized funds of the budgets of problem regions of the North Caucasian Federal District in 2019 [8]. According to the diagram, we observe that, except for one constituent entity (Stavropol Territory), the budget of almost all republics of the NCFD more than 60% consists of subsidies from higher budgets.

In the Stavropol Territory, tax revenues in 2019, amounted to 85.7 million rubles, which is more than 60% of the budget funds, while in other regions of the district, this figure does not exceed 40%.



**Figure 1** Budget revenues of the regions of the NCFD in 2019 (mln. rub.).

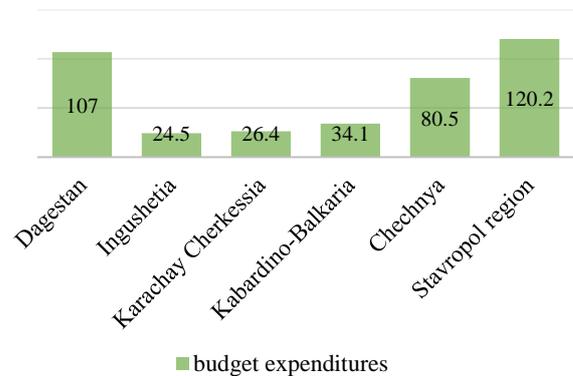
**1.2. Expenditures of budget on the level of the region**

The sanctions imposed on Russia have impacted the country's general economy as a whole and on the

economic development of its subjects. The formation and spending of budgetary funds began to depend on external factors. Due to the difference in the income structure of entities, from the level of subsidies, and other component entities, the regions feel the impact of financial and economic changes to varying degrees.

One should consider that expenditures in the budget are assigned a significant role since it depends on how expediently and rationally the functions of the budget are performed.

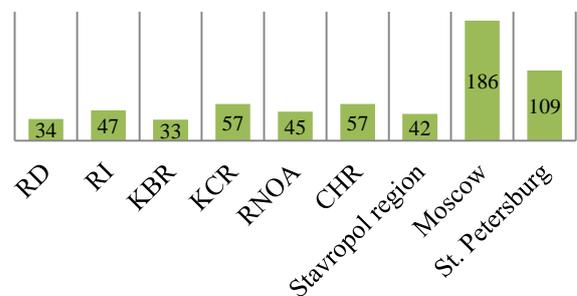
Figure 2 shows the expenditures of the budgets of the subjects of the NCFD in 2018 [8]. Because the budget is socially oriented, health care and education are the main items of budget expenditures in the subjects of the NCFD.



**Figure 2** Expenditures of the budgets of the regions of the NCFD in 2019 (mln. rub.).

If not the key factor in assessing budget expenditures, the fundamental factor protrudes population quantity in the region.

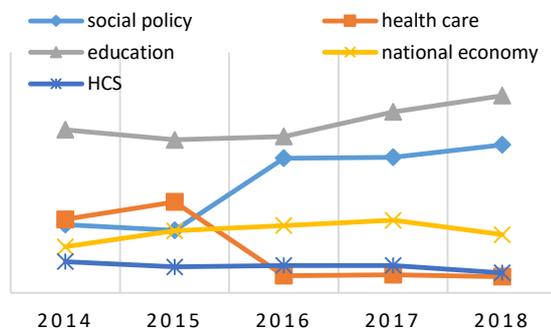
When comparing expenditures per capita for the subjects of the NCFD, we observe an essential difference. Figure 3 shows the provision of budgetary funds for expenditures per capita among the subjects of the NCFD is varying. The highest results are observed in the Chechen Republic (57 thousand rubles per capita), the lowest in the Kabardino-Balkarian Republic (33 thousand rubles) [8].



**Figure 3** Budget expenditures of the constituent entities of the RF per capita (thous. RUB) in 2018.

Compared with developed regions like Moscow and St. Petersburg, where per capita expenses are 186 thousand rubles and 109 thousand rubles accordingly, the difference in expenditure indicators naturally affects the population's living standards.

The Republic of Dagestan, a subject of the NCFD, where the region's budget for more than 70% consists of federal transfers, belongs to the "problem" regions of the RF. The dynamics of budget region expenditures from 2014 to 2018 is presented in Figure 4. Over the four years, we have changes in budget expenditures by significant items. Thus, budget expenditures on health care were reduced from 15 billion rubles in 2014. up to 4 billion rubles in 2018, which is associated with the introduction of financing at national projects, and the social policy expenditures increased from 14 billion rubles to 30 billion rubles.



**Figure 4** Dynamics of budget expenditures of the Republic of Dagestan from 2014 to 2018.

The equable distribution expenditures of the budget in a given period are maintained for other industry sectors.

Despite conducting work in each industry, several problems are needing to be solved. For example, in 2018 more than 40 billion rubles were allocated for education, which is more by 3 billion rubles in the same period in 2017. The bulk of these funds, namely 75%, was directed to providing general education. The remaining funds were distributed to procuring secondary and vocational education. Shortage of preschool institutions in the region and emergency and dilapidated schools necessary to be replaced with new ones are the most acute problems in the given area.

**2. RESEARCH METHODS**

The economic development of the subjects of the NCFD depends on their independence, namely the increase in the level of their own revenue side of the budget. Revealing the level of own income for the region, which will allow the decrease the dependence

from higher rank budgets, sets the task of applying expert assessments and calculating indicators.

Using the methodology proposed by O.I. Tishutina, indicators were selected with their subsequent breakdown into appropriate groups. According to the given methodology, the actual values of budget indicators are calculated. Besides, the indicators are calculated according to the consolidated and regional budget. Given assessment is based on the scoring method, which will avoid the multidirectional of the results obtained:

- Resilient territory - 15-20 points;
- The evolving territory - 8-14 points;
- Subsidized region 0-7 points;
- A region with a crisis situation <0 points.

The methodology implies the calculation of the following indicators: the level of the budget deficit, the index budgetary coverage, the level of business activity, of the regional organs of authorities, the level of budget revenues per capita, the level of tax revenues in the sum of payments received, the degree of budgetary provision of the population per one person. The calculation of these indicators will allow you to determine the state of the region's budget and an assessment of the state of the budget in a certain period [9].

The sources of information were the annual statistical collections "Regions of Russia. Socio-economic indicators", the official data, posted on the websites of ministries and departments of the RF.

**3. RESULTS**

The assessment and calculation of indicators using this method were carried out by two regions of the NCFD (the Republic of Dagestan and the Stavropol Territory). Table 1 shows the obtained indicators for 2017 for the Republic of Dagestan, which revealed a critical budget level [10].

For the Republic of Dagestan, the calculation of efficiency budget indicators showed a total of 3 points in 2017. As we can see, the indicators for 2017 slightly improved than in 2011. For example, the level of budget revenues per capita from 23 983 thousand rubles in 2011 increased to 35,091 thousand rubles in 2017, and the indicators of the export dependence of the budget decreased to 0.93. The final scores presented in Table 2 for the last seven years, i.e., over this period of time, the region that was subsidized, requiring significant participation of the federal center in the formation of the budget, and remained.

**Table 1.** Indicators of budget sustainability of the Republic of Dagestan in 2017

Indicators	The value of indicators calculated according to the budget	
	consolidated	regional
Absolute budget sustainability		
Budgetary autonomy level %	≥80	≥70
The extent of dependence budget %	≤20	≤30
The extent of sustainability budget %	<30	<30
Normal budget sustainability		
Budgetary autonomy level %	≥70	≥60
The extent of dependence budget %	≤30	≤40
The extent of sustainability budget %	30-60	30-60
Unsustainable budget		
Budgetary autonomy level %	≥70	≥60
The extent of dependence budget %	≤30	≤40
The extent of sustainability budget %	60-100	60-100
Critical situation		
Budgetary autonomy level %	30%≤40	24%≤40
The extent of dependence budget %	75%≥60	76%≥60
The extent of sustainability budget %	229%>100	309%>100

According to the calculations of the presented methodology, the budget region's assessment revealed its critical state, which requires taking measures to get out about the current situation. In comparing the calculation of given indicators for the Stavropol Territory, the level budgetary autonomy was - 70%, he extent dependence of budget - 30%, the extent of budget stability - 46%. The obtained indicators are in the field of "normal budget stability" [10].

#### 4. CONCLUSIONS

Assessment of the NCFD regions budget's revenues and expenditures allowed to conclude:

- high dependence of the budget on higher budgets,

which is dictated by a smaller share of tax revenues, in connection with which almost all the republics of the North Caucasus Federal District, except for the Stavropol Territory, are characterized by a weak economy and a highly subsidized budget;

- in the expenditures of the budget of the regions of the NCFD prevail items of social characters, which proves its social orientation.

The economic development of the regions is based on its tax potential. How much the region can provide itself with its own tax revenues from it will depend on the budget's sustainability. Using the example of the Republic of Dagestan, we calculated the optimal level

**Table 2.** Indicators for assessing efficiency of budget for the region Republic of Dagestan

Indicators	2017	Rank	2011	Rank
Budget deficit level	2%	0	3%	0
Tax revenue level	93%	0	94%	0
Budgetary coverage index	1.03	0	0.9	-1
Level of budget revenues	35 091	+2	23 983	+2
The extent of budgetary security	33 934	+2	25 617	+2
Export dependence index of the budget	0.93	-1	1	1
totals	-	3	-	4

of tax revenues for the transition to the level of a non-problematic region.

Some problems that need to be addressed prevent the economy of the NCFD from developing, namely:

- high level of the shadow sector;
- unemployment;
- high level of corruption, etc.

Proceed from the previous, the level of socio-economic development of subjects depends on tax revenues to the budget. To get out of the critical state, the budget of the Republic of Dagestan needs to increase its own revenues in this case to the level of its own revenues, the Stavropol Territory (75 billion rubles), which implies an increase in tax revenues by more than two times than in 2018, namely from 36 billion rubles up to 72 billion rubles in a year.

Calculation of the required level of tax revenues for the country's regions, and for problem regions, in priority order, is one of the directions for perfecting the chronically formed subsidy dependence state of the budget.

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