# Russia: 9M20 budget fulfillment hints at moderation in economic recovery in 4Q20

The 9M20 fulfillment of the Russian federal budget is in line with expectations, with the deficit headed towards 4.5% of GDP in 2020 or slightly smaller. Yet the September tax collection points at a likely negative surprise on retail trade in the near term, while stabilisation of state spending may cause caution on the producer side

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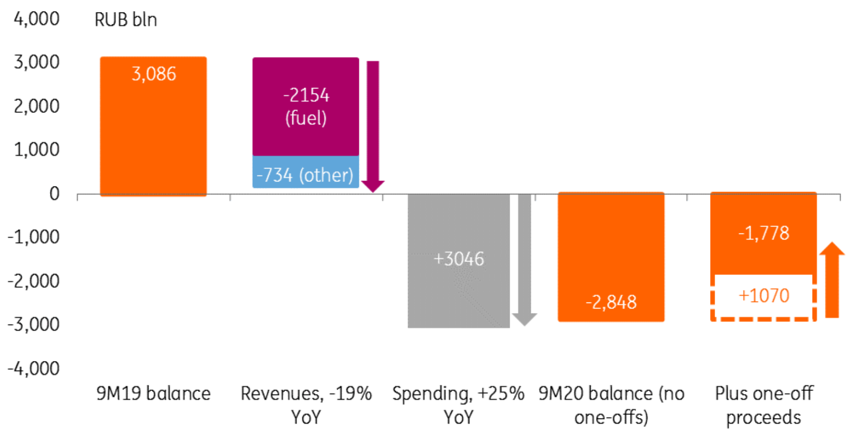
The Russian federal budget was reported at RUB1.8 trillion for 9M20, which is in line with our expectations (there was no market consensus as we were one of two contributors to the poll). We have the following observations and takeaways.

- Unsurprisingly, the primary reason for the widening deficit is the drop of overall revenues by 19% year-on-year combined with a 25% YoY increase in spending. The headline balance is distorted by RUB1.1 trillion one-off proceeds from the Bank of Russia (as per the handover of a 50% equity stake in Sberbank). Net of this transaction, the 9M20 federal budget deficit would have been RUB2.9 trillion, a material deterioration from the RUB3.1 trillion surplus seen in 9M19 (Figure 1).
- The revenue trend seems to have stabilised (Figure 2) by the end of 3Q20. The drop in fuel

revenues is now limited by the stabilisation in fuel prices. However, that stabilisation came at the cost of reduced physical volumes of output, which limits the upside to industrial output, exports, and fuel revenues themselves. The non-fuel revenue drop seems to have leveled at -8% YoY (net of one-off proceeds), however, that is a result of two counterbalancing trends. On the one hand, non-fuel revenue is somewhat supported by improved profit tax collection in 3Q20 (+20% YoY in September vs. -14% YoY in 8M20), which may be a result of reduced capex activity by the corporate sector. On the other hand, the local VAT collection collapsed 29% YoY in September after just a 1% YoY drop in 8M20. While partially this may reflect a crisis-driven increase in tax evasion in the SME sector, such a large drop suggests that the general recovery in consumption of goods and services (officially reported or otherwise) may be running out of steam.

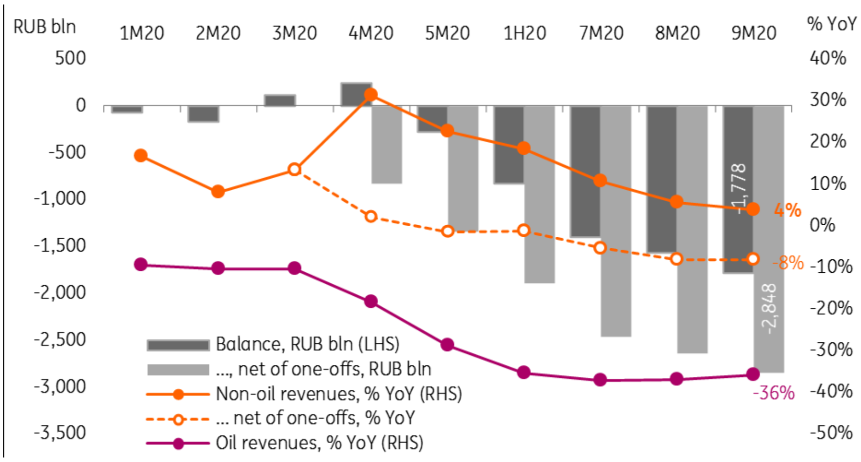
- State spending growth has largely stabilised at the 25% YoY level in the last three months, reflecting the main bulk of the 4% GDP fiscal stimulus (including 2.5% GDP, or RUB3.0 trillion of extra spending) announced earlier. The breakdown of the stimulus (Figure 3) is socially-focused, with 64% of the spending growth attributable to healthcare, direct social benefits and transfers to the regional budgets (which are also responsible for healthcare and social spending). The state support to the industrial sectors is on the modest side so far. We also think that given the pace of the budget spending, it is unlikely that the government will be able to reduce the RUB1.1 trillion spending backlog accumulated from the previous years. Combined with the postponement of National Projects (state spending focused on hard infrastructure) deadlines from 2024 to 2030, we take it as factor that could potentially restrain the mood in the state-driven industries.

## Figure 1: Widening in deficit driven by higher spending, somewhat masked by one-off proceeds



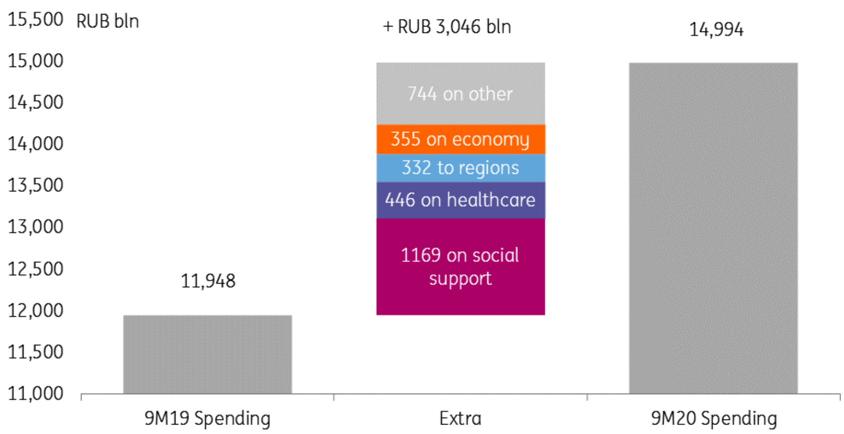

Source: Finance Ministry, media, ING

## Figure 2: Revenue drop seems to be stabilising




Source: Finance Ministry, media, ING

## Figure 3: Almost two-thirds of federal spending increase is directed to healthcare, social support and other regional spending




Source: Finance Ministry, ING

The headline fulfillment of the federal budget for 9M20 is in line with our expectations, but the underlying numbers on revenues and expenditures are hinting at potential negative surprises on household and corporate activity in the near term. This puts our above-consensus GDP expectations for 2020 under more risk. At the same time it confirms the scope for further key rate cuts in the medium term if market conditions allow it, though for the 23 October Bank of Russia meeting we consider an unchanged 4.25% rate to be the base case.

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