

## Russian budget 2021: social focus remains

Elevated budget spending in January and rumoured plans of a social spending package this year worth an additional 0.5% of GDP, support our take that this year's budget fulfillment may be softer than initially guided by the government. However, that does not contradict the general course for consolidation, in our view



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According to preliminary estimates, January's federal budget was fulfilled with a RUB185bn deficit vs. our [expectations](#) of a small surplus of RUB50-100bn. At the same time, Reuters has recently [reported](#) on the rumoured intention to boost this year's social spending plan by 0.5% GDP, or RUB500-600bn. We have the following observations and takeaways:

- Budget revenues remained strong in January, in line with expectations, with non-fuel revenues up 7% year-on-year, including a 39% YoY increase in local VAT, partially due to the scheduled tightening in tax collection regulations. Other consumption-related tax items were up 15-30% YoY. Fuel revenues improved from -34% YoY in December 2020 to -20%

YoY in January 2021 thanks to the higher Urals price and easing in OPEC+ restrictions.

- Budget expenditures were higher than expected, posting a 3% YoY increase from a high base (January 2020 spending was up 45% YoY, FY20 increase was 25% YoY). This increase challenges the current official plan to make a 6% YoY cut in nominal federal spending this year.
- Normally, January is a month of restrained spending, accounting for 4-6% of the annual spending. January 2021 spending accounts for 7.6% of the annual spending plan, up from 7.1% seen in January 2020. The key drivers of the spending increase are transfers to the state Pension Fund (Jan-21 spending was 7.2% of the official FY21 plan vs. 6.0% of FY20 spending seen in Jan-20) and transfers to other social benefits (18.1% vs. 8.8%, respectively). Meanwhile, the intensity of non-social spending, including internal security, industrial support, education, and healthcare, declined.
- An increase in the social spending plan is, in our view, possible for this year, and in line with our [expectations](#). The move would appear logical given the [weakness in income and consumer sentiment](#) seen in 2020, and the nationwide street activity at the beginning of 2021, which may have economic roots in addition to political triggers. As a reminder, the mass protests in 2011/12 were followed by a significant increase in public sector salaries.
- At the same time, at this point it remains unclear whether the 0.5% of GDP social spending package, which is rumoured to be announced by the president at his upcoming address, will result in immediate revisions to the overall public spending plan for this year, as there are options for a re-distribution of spending. Remember, the 1% of GDP spending backlog that was accumulated over the previous years is comprised of non-social spending and could be re-allocated.
- In any case, even if the actual spending this year exceeds the initial draft, we doubt that it will challenge the general course for consolidation. First, the 2020 budget breakeven Urals price of US\$74/bbl (US\$83/bbl net of one-off proceeds) is high and requires adjustment. Second, direct support to household income (through state salaries, other social payments and public sector salaries) already account for a rather high 22% of GDP and 58% of consolidated budget expenditures, according to our estimates, while the main source of income weakness last year was in the private sector. Finally a closer [look](#) at the perception of social injustice – which appears to be Russians' biggest [concern](#) reported by pollsters – suggests that it needs to be addressed primarily through better institutions (access to healthcare, education, rule of law, etc.) rather than through monetary handouts.

January's budget fulfillment and the rumoured increase in the social spending plan for this year support our expectations of a 1.8-2.0% of GDP deficit this year amid an average Urals price of US\$54-55/bbl. The government is likely to attempt to address the downbeat consumer mood with fiscal tools, but the room for generosity will be limited by the already high breakeven Urals price of US\$74-83/bbl and by the structural origins of the weak income trend.

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