

Toolkit of budgetary rules in ensuring balance of budgetary policy

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Abstract. This study is due to the execution of the state budget of the Russian Federation with a deficit for several years, the low efficiency of the introduced and used budget rules, due to their obsolescence. The purpose of the study is to identify ways to ensure the balance and stabilization of the state budget, using rules and restrictions at the national and subnational levels. The research was carried out using methods of analyzing scientific papers corresponding to the research topic, finding and processing statistical data, comparing, identifying trends and patterns, and synthesizing research results to form conclusions. Methods of budget rules modernization were formulated as a result of the study with justification of the need for their implementation in the country's budget system. The conclusion was made that a budget rule can contain characteristics of several types at once, which contributes to increasing the flexibility and efficiency of this budget rule application.

Keywords: State budget · Budget balance · Budget policy · Budget rule · Modernization.

1. Introduction

The budget is especially important in the Russian Federation, because 40% of the country's total national income is redistributed through budgets and extra-budgetary funds. The budget amounted to more than \$1.6 trillion in 2020 (Tsviliy-Buklanova et al., 2021). Balanced budget has a number of advantages and disadvantages, so it cannot be categorically stated that it will lead the country's economy to prosperity or decline. Special rules aimed at protecting and optimizing the budget are one of the regulating budget policy methods. However, the application of these rules is not always effective. World experience proves that regulation with budget rules should be carried out with extreme caution, otherwise it may be ineffective or, even worse, only aggravate the situation. At the moment, the situation of the Russian Federation regions is deteriorating every year. Both regional and public debts are growing. The volume of debt increased by 39.9%, which is 5.4 trillion rubles in 2020 (State debt of Russia, 2021).

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2. Materials and Methods

Each country has its own economic laws and conditions of development, so it is impossible to say exactly which state of the budget is the best. Keynes believed that if a country is in crisis, then the most appropriate is a controlled deficit, when an increase in spending by the public procurement affects the unemployment rate and contributes to overcoming the crisis (Budget surplus, 2017).

These measures can be called active; the state is taking specific transformative steps. However, there is still another type of measures: a set of rules and regulatory practices which are the basis for preparation, adoption and execution of the budget. This set is called budget rules (Alesina, 1999). In other words, these are restrictions imposed on the state budget to change its components or indicators related to it (the amount of public debt, the state of the budget, etc.).

According to the work (Skrypnik, 2016), there are 4 types of budget rules:

- 1) The government debt limitation rule sets its maximum possible level.
- 2) The rule on the budget balance (budget balance) affects the budget deficit and surplus, due to the impact on income and expenditure items, cutting some items and increasing the others.
- 3) The rule of limiting budget expenditures (in absolute terms, as a percentage of GDP or growth rates) can be set either for general expenditures or for expenditures of a certain type.
- 4) The rule of income limitation is typical for use in countries exporting raw materials, it means that the tax burden in the country is regulated depending on export earnings.

All of these rules have both pros and cons. However, many factors somehow affecting those rules arise when they are applied in real conditions, that is why it is not possible to be sure in advance in correctness of the chosen regulatory measures. In the next part of the article we will analyze the application of the rules in practice.

3. Results

3.1. International experience in the application of budget rules and their effectiveness

Due to the simplicity of the rule formulation and the clarity of the budget policy results, we should start with Switzerland. In the 1990s, procyclicality was noticed in Switzerland, public debt was accumulating at a rapid pace (it was 33.3% of GDP in 1990, and it was already 55.8% in 1998) (Switzerland external debt, 2020), so it was decided to introduce a budget rule, according to which expenditures were calculated based on cyclically adjusted incomes.

The situation in Switzerland is ideally suited to the rule where the state achieves stability by eliminating cyclicity from the balance (Fig. 1). A number of measures were taken to balance the state budget, and a deficit cap equal to 6% of budget expenditures was set. If that cap was reached, then the reduction of the deficit in the next couple of years would be needed. The government has allowed the expenditures cap to be raised due to economic shocks and emergencies to prevent excessive rigidity. The country's public debt has decreased by 7% of GDP, and the budget has stabilized due to implementation of this rule (the debt amounted to 41.1% of GDP in 2010).

There is an experience of combined rules in international practice (Germany, Chile, and Denmark). These rules belong to the category of budget balance rules. The government in Chile linked the maximum costs to copper prices and real GDP. Based on the limitation, the structural surplus, which is the difference between structural revenues and planned expenditures, should not exceed 1% of GDP (Belev and Sokolov, 2020). The volatility of expenditures has decreased, and, accordingly, the budget itself has become more stable due to such limitations. However, from the work (Fiess et al., 2002), it can be concluded that a decrease in volatility is not observed in specific items of expenditure.

Let us consider the economic situation in Canada during the pandemic. Maintaining the public debt-to-GDP ratio at a downward level was the main budget constraint in Canada before it began. The main disadvantage of such a policy is procyclical nature, which can aggravate the situation and reduce

the effectiveness of the policy in case of negative economic events. The country's budget deficit reached \$343 billion, or 16% of GDP due to the coronavirus crisis, in 2020. The ratio of public debt to GDP changed by 18% and became equal to 49.1% of GDP as a result of such indicators (Lévesque, 2020).

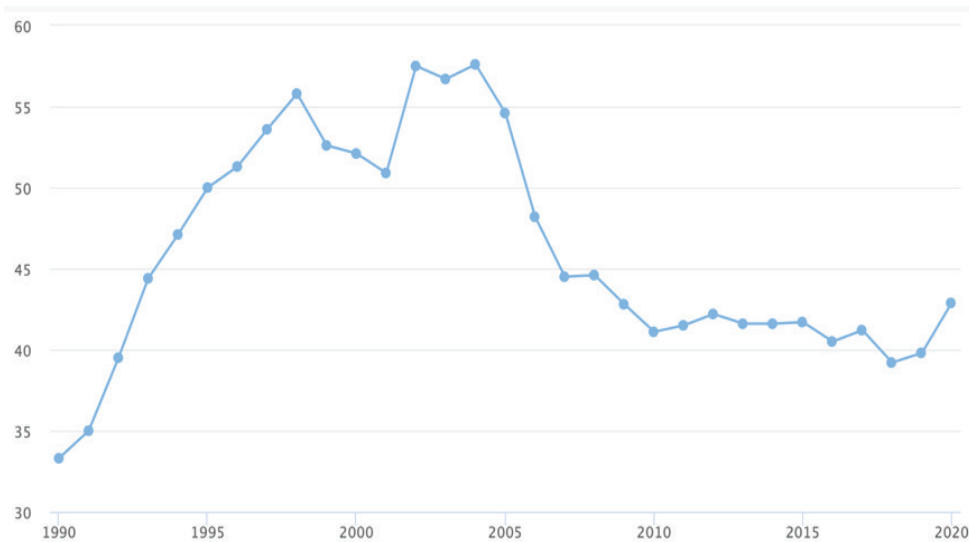


Fig. 1. Dynamics of public debt in Switzerland. *Source:* (Swiss government debt, 2020).

The current situation proves that budget rules should have reservations allowing deviate from the rules temporarily. Such reservations should be clearly defined so as not to aggravate the situation and preserve the possibility of returning to the rules. The provision on reservations should take into account the following: a limited and well-defined set of events at which a reservation takes effect, the official authority that puts it into effect, the time and procedure for returning to the application of the rule, an effective control mechanism and an appropriate communication strategy (Gboui and Medas, 2020).

3.2. Experience and effectiveness of the budget rules application in the Russian Federation.

The first prototypes of the rules appeared in 1991. Their essence was to establish the limit of the budget imbalance and the limit of the public debt, but these rules had no quantitative restrictions (Kudrin and Sokolov, 2017).

According to the work (Skrypnik, 2016), economic growth and stability depend a lot on the government's efficiency. The author defines the relationship between the types of rules and the government's efficiency in his work, then he highlights the strengths and weaknesses of certain rules.

Talking about the Russian Federation, the efficiency of our government is estimated at around 0.03 according to data for 2020, which is an average (the current value is higher than the average for a ten-year period). In comparison, in the USA the efficiency reached 1.3 in 2020 (the lowest figure in 10 years, on average, the efficiency was around 1.5) (Fig. 2).

The debt limitation rule, which will avoid accelerating the accumulation of public debt in the current situation, should be used in accordance with such values in order to achieve high economic growth in the Russian Federation. The budget balance rule is the most appropriate for the stability of the budget system. HSE experts in their work (Akindinova et al., 2021) suggest the following methods of the rules modernization: to increase the efficiency of federal budget expenditures and change their structure. Strengthening the progressiveness of personal income tax and rationalization of government spending may allow finding additional resources to increase investment and income in the future. Control of public debt affecting fiscal sustainability is mandatory in this case.

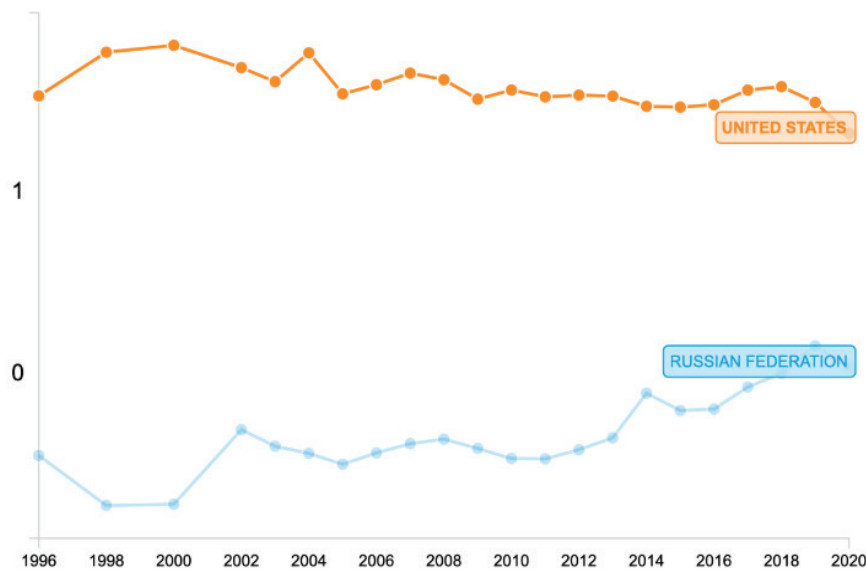


Fig. 2. Dynamics of the efficiency indicator for the US and Russian governments. *Source:* Research by the authors.

3.3. Modernization of subnational budget rules in the Russian Federation

In the Russian Federation, the budget system consists of the federal budget and the budgets of state extra-budgetary funds, the budgets of the Russian Federation entities and the budgets of territorial state extra-budgetary funds, as well as local budgets. VAT, corporate income tax, excise taxes, customs duties, income from the use of state property are the main channels of funds to the federal budget. Regional and municipal debt amounted to 2883 billion rubles or 2.7% of GDP at the end of 2020 (and the increase was 15% or 390 billion rubles for 2020) (Alekseev, 2021).

The expenditures of the consolidated budgets of the Russian Federation entities have grown significantly recently and continue to increase. They increased by 15% in 2020 alone, amounting to 1358925 million rubles, compared with 285234 million rubles in 2008 (Fig. 3).

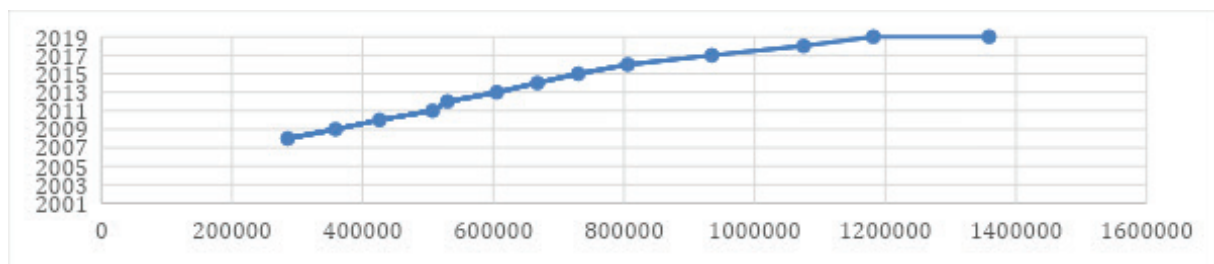


Fig. 3. Changes in expenditures of the Russian Federation subjects consolidated budgets (million rubles). *Source:* (Brief information ..., 2020).

Table 1. Revenue structure of the Russian Federation subjects consolidated budgets. *Source:* (Valentey et al., 2021).

Budget items	Million rubles
Gratuitous receipts	3776.0
Other income	847.3
Corporate income tax	2927.0
Personal income tax	4253.1

Budget items	Million rubles
Excises	770.0
Total income taxes	565.9
Property taxes	1300.1
State duty	40.7
Mineral extraction tax	70.5
Income from the use of state property	350.6
Income, total	14901.2

But even these gratuitous receipts are not able to seriously help subjects whose debt is still not decreasing, and the standard of living of people in the regions is falling. The question arises about the effectiveness of the use of funds by regions. The structure of cash receipts distribution between the levels of the budget system needs to be revised due to the above reasons.

The current budget rules are not able to slow down this growth, respectively, the introduction of new ones is necessary. It is possible to refer to the international experience of applying limitations at the regional level. According to the work (Kudrin and Deryugin, 2018), there are no requirements regarding the parameters of regional budgets in most countries, this is the responsibility of regional governing bodies, but it does not mean that there is a budget deficit at the regional level in countries with a federal structure. According to the authors (Kudrin and Deryugin, 2018) the improvement of the budget subnational rules should be carried out in accordance with the following requirements: long-term action, which has not been observed before, maintaining the flexibility and independence of the rules, as well as transparency, clarity and consistency.

4. Discussion

Economic growth and a balanced state budget largely depend on the government efficiency. According to the work (Skrypnik, 2016), the most appropriate type of budget rules for the Russian Federation is the debt limitation rule. The author's ideas are correct, but two conditions must be met for the effective application of this rule. Firstly, for less volatility, it is necessary to use the structural balance of the budget (cleared of cyclicality), and secondly, it is necessary to modify the rule or use reservations in a timely manner in times of crises and economic shocks, and in calm times strictly follow the limitations. The efficiency of the Russian Federation government should not decrease for the application of such a policy; in addition, its stable growth is necessary in the future.

There are many other options for optimizing budget rules that complicate or, conversely, simplify the structure of existing rules. The main thing in the current situation in the Russian Federation is make those options more flexible during modernization. It will lead to procyclicality and decrease of volatility, which in turn will make the budget more balanced.

5. Conclusion

In the presented study, the peculiarities of each state budget form, as well as various levels of the budget system, were identified. The most suitable methods of regulation have been selected for them. Special attention was paid to the budget rules and their variety in accordance with the work (Skrypnik, 2016).

Restructuring the distribution of income between the levels of the budget system can help to improve the balance of budgets. An increase in the amount of funds in regional budgets will bring the economy of the subjects in order, reduce their debt, as well as increase the amount of funds for the needs of citizens, while political competition in government bodies will lead to an interest in effective budget policy and budget balancing.

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