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# Excessive Borrowing in Debt Policy of the Russian Federation

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## ABSTRACT

The **subject of the study** is the debt policy of the Russian Federation in 2001–2023, the replenishment and withdrawal of the National Wealth Fund (NWF), the mechanism of the “fiscal rule”. The **purpose** of the study is to discover the real effects of implementation of the fiscal mechanism known as “fiscal rule” as well as evaluation of the real efficiency and potential of the application of the mechanism of NWF as a countercyclical regulation tool. The research used the method of system analysis of the federal budget data, budget balances in the framework of debt policy. The study also used the methodology for calculating excessive borrowings developed by the author for the first time. The **scientific novelty** of the study lies in the fact, which is discovered for the first time, that the increase of the state debt significantly exceeded the real requirement for state borrowings in order to cover the federal budget deficit. Special attention was paid to the budget surplus and the quantitative analysis of the state debt growth in the framework of surplus budgets. The research of a deficit-surplus budget phenomenon, initially described by O. Dmitrieva, is continued in the paper. The cost estimation of the excessive borrowings through the period of 2001–2023 is made. It has been established that the replenishment of the NWF according to the different versions of the “fiscal rule” is the main factor of the excessive borrowings and, consequently, the increasing debt service costs. The share of debt service costs in the federal budget expenses increased from 1.8% in 2009 to 5.33% in 2023. It has been shown that the systemic vices in the section “sources of the budget deficit coverage” creates the opportunity for artificial increase in debt beyond the level of the real requirement for state borrowings, contributing to the state debt growth. In the **conclusion** of the research it is articulated that the NWF does not work and cannot work as a countercyclical regulation tool and an attempt to use it in this capacity leads to an increase in state debt and debt service costs. The **practical significance** of the research lies in the debt police improvement proposals and recommendations for budget classification and have the remarkable practical significance for all countries which have been creating national sovereign funds.

**Keywords:** state debt; the National Wealth Fund; deficit (surplus) of the Federal budget; debt service costs; fiscal rule; expenses; excessive borrowings; sovereign funds

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## INTRODUCTION

The policy of debt policy and the issues concerning the optimal level of government spending are among the most important areas of research in public finance. These questions were thoroughly examined in the works of R. Barro [1, 2], D. Ashauer [3], N. Bose [4], and several other economists [5]. The essence of these studies was that increasing government spending only up to a certain limit and in a specific structure contributes to economic growth. As soon as the growth of government spending encounters the need to raise taxes or borrow (future taxes), such an increase in government spending may serve as a disincentive to economic growth due to the limitation of entrepreneurial activity and demand from households. This thesis has been misinterpreted in Russian budget policy as a ban on the use of tax revenues from the oil and gas sector. Subsequent attempts were made to theoretically substantiate this thesis in the works of A. L. Kudrin [6], A. Knobel [7], and G. Idrisov [8]. Referring to the aforementioned papers, the authors justified the need for artificial constraints on government spending even in cases where their increase is not accompanied by either a rise in the tax burden or an increase in debt. This justification was the basis for the formation of surplus budgets and the limitation on the use of oil and gas revenues for financing budget expenditures. At the same time, it was previously demonstrated in the paper of O.G. Dmitrieva [9] that a surplus budget and the formation of a Stabilization Fund act as an artificial brake on economic growth, and their effect is contrary to that of the Keynesian multiplier [10].

In addition, a theory was developing in parallel that in oil-producing countries, it is necessary to build a system for neutralizing cycles of oil market fluctuations, using the tool of replenishing and utilizing sovereign funds. These theses were substantiated in the works of S. Barnett and R. Ossowski [11, 12]. They were further developed in the works of

E. Gurvich and others [13, 14]. The hypothesis of possible counter-cyclical regulation through the immobilization of oil revenues in sovereign funds formed the basis to separate the budget revenues into oil and gas and non-oil and gas categories. The vulgar development of the concept of limiting government expenditures regardless of the conditions of their financing and the necessity of forming the National Wealth Fund (Stabilization Funds) has practically led to further escalation of borrowings directed towards the National Wealth Fund, which resulted in excessive borrowing, an increase in public debt, and service debt costs.

The paper examines the consequences concerning of the implemented budget policy, introduces the concept of “excessive borrowing”, describes the methodology for calculating the volume of excessive borrowing, the estimation of the artificial debt and the debt service costs are presented in the paper as well.

## BUDGET DEFICIT OR SURPLUS BUDGET, DYNAMICS OF STATE DEBT

The budget of the Russian Federation has been formally and actually surplus for 12 financial years: from 2000 to 2008 inclusive, in 2011, 2018, 2019, and 2021. Four financial years: in 2012–2014 and in 2020, the federal budget was formally in deficit, but in reality, it was in surplus, as a deficit was reported while part of the additional oil and gas revenues was directed to replenish the National Wealth Fund (formerly the Reserve Fund and the Stabilization Fund). And only during 7 financial years in 2009, 2010, 2015–2017, and in 2022–2023 was the federal budget executed with a real deficit (*Table 1*).

The dynamics of budget deficit (surplus) should be compared with the dynamics of public debt. In the period under consideration, two phases of government debt dynamics should be highlighted: 2000–2008, when government debt was reduced due to budget surpluses, and the period starting from 2009, when the growth of state debt occurred both

Table 1

**Federal Budget Deficit (-) / surplus (+) in the Russian Federation, Billions Rubles**

Year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Deficit -, Surplus +	150.7	227.6	729.9	1612.9	1994.1	1794.6	1705.1	-2 322.3	-1812.1	442.0	-27.0
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Deficit -, Surplus +	-323.0	-335	-1961	-2956	-1331	2741.0	1975	-4102	524	-3294	-3229

Source: Calculated by the author according to: Conclusion of the Accounts Chamber of the Russian Federation on the report on the execution of the federal budget for 2011. No. ZSP-18/15-10 p. 51; Execution of the federal budget and the budgets of the budgetary system of the Russian Federation in 2011. M: Ministry of Finance of the Russian Federation, 2012. 123 p.; On the execution of the federal budget for the year 2000: Federal Law from 3 April 2002 No. 39; On the execution of the federal budget for the year 2001: Federal Law from 7 June 2003 No. 67; On the execution of the federal budget for the year 2002: Federal Law from 8 May 2004 No. 35; On the execution of the federal budget for the year 2003: Federal Law from 4 April 2005 No. 30; On the execution of the federal budget for 2004: Federal Law from 15 April 2006 No. 52; On the execution of the federal budget for 2005: Federal Law from 9 April 2007 No. 41; On the execution of the federal budget for the year 2006: Federal Law from 3 April 2008 No. 36; On the execution of the federal budget for the year 2007: Federal Law from 3 December 2008, No. 228; On the execution of the federal budget for 2008: Federal Law from 28 December 2009 No. 382; On the execution of the federal budget for the year 2009: Federal Law from 3 October 2010 No. 255; On the execution of the federal budget for the year 2010: Federal Law from 7 October 2011 No. 272; On the execution of the federal budget for 2011: Federal Law from 2 October 2012 No. 151; Operational report of the Accounts Chamber of the Russian Federation "On the progress of the execution of the federal budget for January-December 2012" from 7 February 2013 No. OO-1/15-10, 2013. 130 p.; On the execution of the federal budget for 2013: Federal Law from 4 October 2014 No. 280; On the execution of the federal budget for 2014: Federal Law from 5 October 2015 No. 276; On the execution of the federal budget for 2015: Federal Law from 31 October 2016 No. 377; On the execution of the federal budget for 2016: Federal Law from 16 October 2017 No. 287; On the execution of the federal budget for the year 2017: Federal Law from 11 October 2018 No. 354; On the execution of the federal budget for 2018: Federal Law from 16 October 2019 No. 332; On the execution of the federal budget for 2019: Federal Law from 15 October 2020 No. 314; Operational report of the Accounts Chamber on the execution of the federal budget for January-December 2023 from 15 February 2024. On the execution of the federal budget for the year 2020: Federal Law from 25 October 2021 No. 361; On the execution of the federal budget for 2021: Federal Law from 14 July 2022 No. 249; On the execution of the federal budget for the year 2022: Federal Law from 24 July 2023 No. 329.

during budget surpluses and federal budget deficits (*Table 2*). From 2000 to 2003, the budget surplus was used to pay off external debt, and from 2004, the surplus was directed both towards debt repayment and to replenish the Stabilization Fund. The state external debt decreased from 4 038.1 billion rubles in 2000 to 1 101.6 billion rubles in 2007. At the same time, the early pay off of external debt compared to the original schedule drew criticism, as it diverted funds from investments in the national economy and social expenditures.

In the period from 2018 to 2019, the federal budget had a surplus, however, the increase in state debt during this period amounted to

2 trillion rubles. Even during the years 2000 to 2008, when there were budget surpluses and a reduction in public debt, borrowing was carried out beyond necessary levels. So, in 2005, with a surplus budget, there was no need for loans. Despite the fact that the budget surplus turned out to be 5.8 times larger than planned, or 1 334.8 billion rubles more, the reduction in the volume of net domestic borrowings occurred by only 27 billion rubles. In 2006, against the backdrop of a surplus growth of 1 218.1 billion rubles, there was also an increase in net domestic borrowings. It is precisely this year that fundamentally new trends have emerged in the simultaneous escalation of borrowings amid a surplus

Table 2

**State Debt of the Russian Federation on the 1st of January of the Fiscal Year, Billions Rubles**

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
4595.6	4478.8	4562.2	4190.2	3944.8	3076.8	2435.3	2402.8	2692.0	3233.1	4158.2	5343.2
2003	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
6519.9	7548.3	10299.1	10951.9	11109.8	11559.7	12591.3	13567.4	18940.4	20921.8	22819.7	25595.1

*Source:* Calculated by the author according to: Conclusion of the Accounts Chamber of the Russian Federation on the report on the execution of the federal budget for 2011. No. ZSP-18/15–10 p. 51; Execution of the federal budget and the budgets of the budgetary system of the Russian Federation in 2011. M: Ministry of Finance of the Russian Federation, 2012. 123 p.; On the execution of the federal budget for the year 2000: Federal Law from 3 April 2002 No. 39; On the execution of the federal budget for the year 2001: Federal Law from 7 June 2003 No. 67; On the execution of the federal budget for the year 2002: Federal Law from 8 May 2004 No. 35; On the execution of the federal budget for the year 2003: Federal Law from 4 April 2005 No. 30; On the execution of the federal budget for 2004: Federal Law from 15 April 2006 No. 52; On the execution of the federal budget for 2005: Federal Law from 9 April 2007 No. 41; On the execution of the federal budget for the year 2006: Federal Law from 3 April 2008 No. 36; On the execution of the federal budget for the year 2007: Federal Law from 3 December 2008, No. 228; On the execution of the federal budget for 2008: Federal Law from 28 December 2009 No. 382; On the execution of the federal budget for the year 2009: Federal Law from 3 October 2010 No. 255; On the execution of the federal budget for the year 2010: Federal Law from 7 October 2011 No. 272; On the execution of the federal budget for 2011: Federal Law from 2 October 2012 No. 151; Operational report of the Accounts Chamber of the Russian Federation "On the progress of the execution of the federal budget for January-December 2012" from 7 February 2013 No. 00-1/15–10, 2013. 130 p.; On the execution of the federal budget for 2013: Federal Law from 4 October 2014 No. 280; On the execution of the federal budget for 2014: Federal Law from 5 October 2015 No. 276; On the execution of the federal budget for 2015: Federal Law from 31 October 2016 No. 377; On the execution of the federal budget for 2016: Federal Law from 16 October 2017 No. 287; On the execution of the federal budget for the year 2017: Federal Law from 11 October 2018 No. 354; On the execution of the federal budget for 2018: Federal Law from 16 October 2019 No. 332; On the execution of the federal budget for 2019: Federal Law from 15 October 2020 No. 314; Operational report of the Accounts Chamber on the execution of the federal budget for January-December 2023 from 15 February 2024. On the execution of the federal budget for the year 2020: Federal Law from 25 October 2021 No. 361; On the execution of the federal budget for 2021: Federal Law from 14 July 2022 No. 249; On the execution of the federal budget for the year 2022: Federal Law from 24 July 2023 No. 329.

budget, where there is both an increase in the Stabilization Fund and a rise in net domestic borrowings. In 2006, the growth of net domestic borrowings was 1.81 times. In 2007, this trend continued. With a surplus budget, and therefore in the absence of the need for borrowing, net domestic borrowings increased by 20.2%. The phenomenon of rising public debt in the context of a budget surplus was first studied in the paper of O. G. Dmitrieva [15].

In the crisis year of 2008, the budget was executed with a surplus of 1.705 trillion rubles, while a nearly balanced budget had been planned. The increase in expenses over

the year amounted to approximately 1 000.6 billion rubles. It is evident that the use of the resources that went into forming the budget surplus could have significantly prevented the severe economic downturn that occurred in 2009. Finally, in 2011, additional revenues amounted to 2 523.1 billion rubles. At the same time, the additional increase in expenses amounted to 267 billion rubles. At the same time, there was a paradoxical situation where, during the transition from a deficit budget to a surplus budget, the volume of borrowings remained virtually unchanged throughout its execution. Thus, a unique situation arises where the state debt is growing despite a

budget surplus and the lack of economic need for loans. So, from 2009 to 2013, the growth of the national debt amounted to 3 trillion 830.6 billion rubles, which completely nullified all efforts to reduce the national debt pyramid that were made in 2001–2007. The withdrawal of funds from the economy in favor of the myth of the necessity for early debt pay off was nullified by the same myth that, despite the objective lack of need for loans, it is essential to take them in order to ensure the country's presence in the debt market.

In the future, this myth transformed into the assertion that one should take loans while they are available, and if the situation changes in the future, there will be no revenues, and loans will become more expensive, then there will be a source in the National Wealth Fund. Thus, Finance Minister A. G. Siluanov stated: "If we do not replenish the National Wealth Fund, which is used, as we mentioned, primarily for the economy now (it goes towards the formation of infrastructure projects, modernization, and technical sovereignty), if we do not do this, then we will not have sources for all these areas of using the National Wealth Funds. This is the first one. The second point is that we are putting ourselves at risk: what if there are no such oil and gas revenues? The market situation will change; if there are no revenues from oil and gas, we will take resources from the National Wealth Fund" (cited from: Transcript of the meeting of the State Duma of the Federal Assembly of the Russian Federation from 15.11.2023. URL: <http://transcript.duma.gov.ru/node/6244/> (accessed on 23.05.2024)).

### FORMATION OF THE NATIONAL WEALTH FUND

The main factor causing a significant deviation in the dynamics of public debt from the needs to cover the budget deficit is the formation of the National Wealth Fund (formerly — Stabilization Fund, Reserve Fund).

The formation of the Stabilization Fund began in 2004. By 2008, it reached 3 849.1

billion rubles and was divided into the Reserve Fund and the National Wealth Fund. Such rapid growth of the Stabilization Fund is explained both by the mandatory transfer of funds to the Reserve Fund when the price of oil exceeds a certain threshold — \$27 per barrel (later referred to as the "budget rule") — and by the fact that the remaining budget funds at the end of the year were directed to the Reserve Fund. These balances represented a significant amount, as the peculiarity of the budget policy was the underestimation of federal budget revenues at the time of their initial approval.

The budget rule, or the division of oil and gas revenues into basic and additional categories, as well as the restrictions on their use for budget expenditures, has been constantly changing; the established limitations have systematically not been met, adjusted, and suspended.

The use of the budget rule for regulating monetary policy in oil-producing countries was based on a misinterpreted policy of counter-cyclical crisis regulation [16, 17]. The essence of this regulation is to ensure that oil and gas revenues during favorable economic conditions are not used for budget expenditures, but rather directed into so-called sovereign funds. In the case of crises and shocks, the funds from these reserves can supposedly be used to stabilize the economic situation. This concept lacked precise economic evidence of its feasibility, and research on sovereign funds by both Russian and foreign scholars was limited to describing the formation of sovereign funds in various countries and the rules for their replenishment and withdrawal [18–20].

In Russian economic policy, the theoretical foundation for using the stabilization fund to regulate the oil cycle has been repeatedly put forward by E. Gurvich [13, 14]. However, the attempt to artificially restrain economic development through the formation of a sustainable budget surplus and capital outflow, as an action contrary to deficit financing of



Table 3

**Replenishment (+), Withdrawal (–) of the National Wealth Fund (Stabilization Fund, Reserve Fund),  
Billions Rubles**

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
+541	+812	+1 188	+1 205	+4 004	–3 275	–1 135	+1 100	+723	+1 084
2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
+3 573	–465.9	–3 577	–1 539	+287	+3 726	+5 780	+19.6	–3 131	+1 530

*Source:* Calculated by the author according to: Conclusion of the Accounts Chamber of the Russian Federation on the report on the execution of the federal budget for 2011. No. ZSP-18/15–10 p. 51; Execution of the federal budget and the budgets of the budgetary system of the Russian Federation in 2011. M: Ministry of Finance of the Russian Federation, 2012. 123 p.; On the execution of the federal budget for the year 2000: Federal Law from 3 April 2002 No. 39; On the execution of the federal budget for the year 2001: Federal Law from 7 June 2003 No. 67; On the execution of the federal budget for the year 2002: Federal Law from 8 May 2004 No. 35; On the execution of the federal budget for the year 2003: Federal Law from 4 April 2005 No. 30; On the execution of the federal budget for 2004: Federal Law from 15 April 2006 No. 52; On the execution of the federal budget for 2005: Federal Law from 9 April 2007 No. 41; On the execution of the federal budget for the year 2006: Federal Law from 3 April 2008 No. 36; On the execution of the federal budget for the year 2007: Federal Law from 3 December 2008, No. 228; On the execution of the federal budget for 2008: Federal Law from 28 December 2009 No. 382; On the execution of the federal budget for the year 2009: Federal Law from 3 October 2010 No. 255; On the execution of the federal budget for the year 2010: Federal Law from 7 October 2011 No. 272; On the execution of the federal budget for 2011: Federal Law from 2 October 2012 No. 151; Operational report of the Accounts Chamber of the Russian Federation “On the progress of the execution of the federal budget for January–December 2012” from 7 February 2013 No. 00-1/15–10, 2013. 130 p.; On the execution of the federal budget for 2013: Federal Law from 4 October 2014 No. 280; On the execution of the federal budget for 2014: Federal Law from 5 October 2015 No. 276; On the execution of the federal budget for 2015: Federal Law from 31 October 2016 No. 377; On the execution of the federal budget for 2016: Federal Law from 16 October 2017 No. 287; On the execution of the federal budget for the year 2017: Federal Law from 11 October 2018 No. 354; On the execution of the federal budget for 2018: Federal Law from 16 October 2019 No. 332; On the execution of the federal budget for 2019: Federal Law from 15 October 2020 No. 314; Operational report of the Accounts Chamber on the execution of the federal budget for January–December 2023 from 15 February 2024. On the execution of the federal budget for the year 2020: Federal Law from 25 October 2021 No. 361; On the execution of the federal budget for 2021: Federal Law from 14 July 2022 No. 249; On the execution of the federal budget for the year 2022: Federal Law from 24 July 2023 No. 329.

the economy in the form of the Keynesian multiplier, actually acts as a brake on economic growth, but as a tool for smoothing oil risks — it does not work and cannot work.

The base price for oil was initially set at \$27 per barrel, in 2008 it was \$45–50 per barrel, during the crisis the budget rule was suspended, and then from 2012 it was set at \$91 per barrel, while target benchmarks for growth rates and volume as a percentage of GDP for the Reserve Fund and the National Wealth Fund were in place. The changes that came into effect in 2013 did not allow the use of Reserve Fund resources to replace borrowings in the budget execution process.

In 2015, the budget rule was once again suspended; however, the absurd restrictions on the use of the National Wealth Fund’s resources to replace borrowings were repeated in subsequent versions of the so-called budget rule. In 2017, a new restriction was proposed on the use of oil and gas revenues — \$40 per barrel. In 2022, the budget rule was once again suspended. In 2023, a new budget rule was designed with a limit on the use of oil and gas revenues in absolute terms. This budget rule has been adjusted several times over the year, and in fact, the withdrawal and replenishment of the National Wealth Fund has developed arbitrarily. Throughout

Table 4

**Characteristics of the Federal Budgets (2000–2023 Years), Billions Rubles**

2000–2008	2009–2010	2011	2012–2014	2015–2017	2018–2019	2020	2021	2022–2023
Surplus	Deficit	Surplus	Deficit-surplus	Deficit	Surplus	Deficit-surplus	Surplus	Deficit

Source: Calculated by the author according to the Table 1–3.

the year, there were both contributions to and withdrawals from the National Wealth Fund. In 2024, the definition of the budget rule has once again returned to the basic price of oil, which is set at \$60 per barrel. The constant change in approaches to defining the boundaries of using oil and gas revenues, along with adjustments throughout the year depending on the prevailing global situation, serves as indirect evidence of the artificiality of this principle, which main task is the imposed restriction on the use of the country's produced GDP.

In the dynamics of the National Wealth Fund in the framework of actual sources of its replenishment, the following options can be identified:

*Option 1.* The National Wealth Fund with a surplus budget (2004–2008), while the state debt does not increase (Table 3).

*Option 2.* The National Wealth Fund is replenished during budget surpluses (in 2011, 2018, 2019, and 2021), while the state debt increases.

*Option 3.* The National Wealth Fund is replenished during a budget deficit, and the state debt increases; loans serve both as a source for covering the deficit and as a source for replenishing the National Wealth Fund (2012–2014, 2020, 2023).

*Option 4.* The National Wealth Fund is shrinking in the face of a budget deficit, with its resources being used as a source to cover the deficit.

In the third scenario, when a budget deficit occurs while simultaneously replenishing the National Wealth Fund, borrowings are made to cover the budget deficit, and sometimes also to replenish the National Wealth Fund. If the

amount of funds allocated to replenish the National Wealth Fund exceeds the size of the budget deficit, it should be characterized as a deficit-surplus budget (Table 4).

If in 2011 the situation of a deficit-surplus budget arose during its execution, starting from 2012, the simultaneous implementation of borrowings and replenishment of the National Wealth Fund (Reserve Fund) is planned already at the budget approval stage.

Initially, loans are planned for their subsequent placement in the National Wealth Fund (Reserve Fund) and for losses due to interest rate differences. In the process of budget execution, the National Wealth Fund (Reserve Fund) is being replenished to a greater extent than planned, expenses are not increasing or are increasing only slightly, and loans are not being reduced due to additional revenues. In 2012, net domestic borrowings were planned at 1 208.8 billion rubles, while simultaneously replenishing the Reserve Fund by 512.3 billion rubles. During the execution of the 2012 budget, revenues increased by 1 064.8 billion rubles, while expenditures rose by only 215.2 billion rubles. At the same time, the deficit was reduced by 26 billion rubles, while borrowings amounted to 700.2 billion rubles, rather than the expected 833.8 billion rubles. The difference went towards an extraordinary replenishment of the Reserve Fund. As a result of replenishing the Reserve Fund by 1.8 trillion rubles (Table 4), a budget deficit was formed, and the increase in debt amounted to 1 trillion rubles. Thus, the law formalizes and prescribes an economically absurd borrowing policy in the context of a surplus budget. However, the most absurd year appears to be 2020, the “pandemic” year, when,

Table 5

**State Debt Increase, Federal Budget Deficit (–) / Surplus (+), Replenishment (+), Withdrawal (–) of the National Wealth Fund, Amount of the Excessive Borrowings in 2001–2023 Years, Billions Rubles**

Indicator	2001–2007	2008	2009	2010	2011	2012	2013	2014	2015
State debt increase	–2193	289	541	925	1185	1177	1028	2751	655
Federal budget deficit (–) / surplus (+)	6501	1705	–2322	–1812	442	–39	–323	–335	–1961
Replenishment (withdrawal) of the National Wealth Fund (stabilization fund)	2618	2771	–2013	–1129	135	970	1184	3573	–466
Excessive borrowing		289	231	242	1185	1177	1028	2751	

  

Indicator	2016	2017	2018	2019	2020	2021	2022	2023
State debt increase	155	450	1031	976	5373	1981	1898	2776
Federal budget deficit (–) / surplus (+)	–2956	–1331	2741	1974	–4102	524	–3294	–3230
Replenishment (withdrawal) of the National Wealth Fund (stabilization fund)	–3577	–1539	287	3726	5780	20	–3331	1530
Excessive borrowing	155	450	1032	976	5373	1981	1898	1076

Source: Calculated by the author according to the Table 1–3.

despite a budget deficit of 4 trillion rubles, the replenishment of the National Wealth Fund amounted to 5.78 trillion rubles (Table 1, 3), while the increase in state debt was 5.3 trillion rubles (Table 2).

### EXCESSIVE BORROWING

Excessive borrowing in this paper is defined as financial operations that lead to an increase in public debt, carried out beyond the amounts necessary to cover the budget deficit. Excessive borrowings are identified and assessed during the analysis of the relationship between the size of the budget deficit (surplus), the growth of public debt, and the replenishment of the National Wealth Fund in each financial year. The assessment of excessive borrowings is carried out as follows.

1. In the context of a budget surplus, any increase in public debt is regarded as an amount of excessive borrowing. In 2008, the budget surplus amounted to

1 705 billion rubles, while the replenishment of the National Wealth Fund and the Reserve Fund totaled 2 771 billion rubles, and the increase in debt was 289 billion rubles. The volume of excessive borrowings is estimated at 289 billion rubles. In the context of a surplus budget, the entire increase in debt, that is, the volume of net borrowings that could not serve as a source for covering a deficit due to its absence as such, is regarded as excessive borrowings. A similar calculation of excess borrowings in the context of surplus budgets has been carried out for the years 2011, 2018, 2019, and 2021 (Table 5).

2. The volume of excess borrowings in the context of a deficit-surplus budget, provided that the size of the deficit is less than the amount of replenishment of the National Wealth Fund, is defined as the entire increase in debt for the financial year in question. Thus, excessive borrowings were identified in 2012–2014 and 2020, that is, during the periods



Table 6

**Surplus (+), Replenishment (+), Withdrawal (–) of the National Wealth Fund, Amount of the Excessive Borrowings in 2001–2023 Years, Cumulative Total, Billions Rubles**

Indicator	2001–2023
Increase of the State Debt for the period	21 000
Federal budget deficit (–) / surplus (+) (accumulated sum)	–7 537
Replenishment (+), withdrawal (–) of the National Wealth Fund (Stabilization Fund, Reserve Fund)	10 542
Excessive borrowing	19 845.1

Source: Calculated by the author according to the Table 5.

Table 7

**Increase of the State Debt, Federal Budget Deficit (–), Surplus (+), Replenishment (+), Withdrawal (–) of the National Wealth Fund, Amount of the Excessive Borrowings (2024–2026 Years), Billions Rubles**

Indicator	2024	2025	2026	Total for 2024–2026
Increase of the State Debt for the period	6 907.3	3 373	4 212	14 493
Federal budget deficit (–) / surplus (+)	–2 120.7	–830	–1 536	–4 486.9
Replenishment (+), withdrawal (–) of the National Wealth Fund	–986	1 812	1 869	2 695.7
Excessive borrowing	5 773.6	2 543	2 676	10 992.4

Source: Calculated by the author according to “On the Federal Budget for 2024 and the Planning Period of 2025 and 2026: Federal Law from 27 November 2023 No. 540”, “On Amendments to the Federal Law “On the Federal Budget for 2024 and the Planning Period of 2025 and 2026”: Federal Law from 12 July 2024 No. 175”.

when the execution of federal budgets were characterized as deficit-surplus budgets.

3. In the context of a budget deficit, the volume of excessive borrowings is determined when the amount of withdrawal of the National Wealth Fund exceeds the size of the budget deficit, while there is also an increase in public debt. In this case, the volume of excess borrowings is considered equal to the volume of net borrowings, that is, the volume of debt increase. Such a situation occurred in 2016, 2017, and in 2022. Excessive borrowing occurs in the context of budget deficits, when, in order to cover the budget deficit through borrowing, there is also a simultaneous

replenishment of the National Wealth Fund (the situation in 2023), or when borrowing is carried out in an amount exceeding the needs to cover the budget deficit, taking into account the use of National Wealth Fund resources (the situations in 2009 and 2010). In both cases, the volume of excessive borrowings is calculated using the formula:

$$EB = SD + RNWF - |BD|,$$

where EB — the size of excessive borrowings; RNWF — replenishment (withdrawal) of the National Welfare Fund; BD — budget deficit; SD — state debt increase.

Table 8

**Federal Budget Flows in the Section “Budget Deficit Coverage”**

Receipts	Expenditures	Balance of receipts/expenditures
+ Budget revenues	– Budget expenditures	Deficit (surplus)
+ Deficit	– Surplus	
<b>Sources of deficit coverage</b>		
+ Loans	– Loan repayment	Increase (decrease) of debt
+ Repayment of loans	– Provision of loans	
+ Expenditure of the National Wealth Fund	– Replenishment of the National Wealth Fund	Reduction (increase) of the National Wealth Fund
+ Changes in budget fund balances, others	– Changes in budget fund balances, among others	Reduction (increase) of balances

Source: Compiled by the author on the basis of the current version of the Budget Code of the Russian Federation and regulatory legal acts of the Ministry of Finance governing the issues of budget classification.

The volume of excess borrowing is calculated as the difference between the total increase in debt and the replenishment (withdrawal) of the National Wealth Fund and the scalar size of the budget deficit.

Until this study, there had been no attempts to analyze the net result regarding the budget deficit (surplus), the replenishment of the National Wealth Fund (Reserve Fund and Stabilization Fund), and the increase in public debt. At the same time, such an analysis will allow for the assessment of the effectiveness of debt policy over a long period. For the entire period under consideration, that is, starting from 2000, the net result (deficit, surplus) amounts to a cumulative deficit of 7.8 trillion rubles (Table 6). Accordingly, in the absence of such a source for covering the budget deficit as the National Wealth Fund (Stabilization Fund, Reserve Fund), the nominal volume of net borrowings to cover budget deficits during the specified period should not exceed 7.8 trillion rubles in nominal terms. At the same time, the increase in public debt during the specified period amounted to 21 trillion rubles. The volume of excess borrowings for the specified period is calculated as the sum of excess borrowings determined for each financial year (Table 6).

The total volume of excess borrowings, as the sum of the estimates of excess borrowings for each year, amounts to 19.8 trillion rubles, which is slightly less than the increase in public debt during the same period. However, such a volume of excessive borrowing indicates that there was no necessity for the increase in public debt during the specified period. The policy of artificial accumulation of public debt and excessive borrowing, judging by the benchmarks set by the adopted law “On the Federal Budget for 2024 and the planned period of 2025 and 2026”, will continue in the future (Table 7).

A systematic error in estimating budget revenues, the artificial inflation of the budget deficit (understating the surplus) during budget approval leads to excessive borrowing and an increase in public debt, whether in surplus budgets, deficit-surplus budgets, or deficit budgets. Moreover, the imperfect structure of the budget classification in the section “Sources of covering the budget deficit” allows for the artificial increase of public debt in the lack of a need for borrowing as a source of covering the deficit.

The budget classification stipulates that loans should be reflected in the budget as sources of deficit coverage with a positive sign,

Table 9

## State Debt Service Costs, Income from Investing NWF Funds (Stabilization Fund, Reserve Fund), Billions Rubles

Indicator	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total 2005– 2023
Debt service costs	208.33	172.76	143.09	153.34	176.16	195.03	262.74	320.00	360.30	415.60	518.70	621.3	709.20	806.00	730.8	784.2	1084.2	1330.6	1725.3	10717.67
Income from investing the NWF funds		22.99	151.9	268.5	99.33	71.05	87.33	32.52	39.41	81.80	5.43	87.90	50.84	70.52	95.18	345.34	257.29	52.34	358.35	2178.02
The ratio of debt service costs from investing the NWF funds		7.5	0.9	0.6	1.8	2.7	3.0	9.8	9.1	5.1	95.5	7.1	13.9	11.4	7.7	2.3	4.2	25.4	4.8	4.9

Source: Calculated by the author according to: Conclusion of the Accounts Chamber of the Russian Federation on the report on the execution of the federal budget for 2011. No. ZSP-18/15–10 p. 51; Execution of the federal budget and the budgets of the budgetary system of the Russian Federation in 2011. M: Ministry of Finance of the Russian Federation, 2012. 123 p.; On the execution of the federal budget for the year 2000: Federal Law from 3 April 2002 No. 39; On the execution of the federal budget for the year 2001: Federal Law from 7 June 2003 No. 67; On the execution of the federal budget for the year 2002: Federal Law from 8 May 2004 No. 35; On the execution of the federal budget for the year 2003: Federal Law from 4 April 2005 No. 30; On the execution of the federal budget for 2004: Federal Law from 15 April 2006 No. 52; On the execution of the federal budget for 2005: Federal Law from 9 April 2007 No. 41; On the execution of the federal budget for the year 2006: Federal Law from 3 April 2008 No. 36; On the execution of the federal budget for the year 2007: Federal Law from 3 December 2008, No. 228; On the execution of the federal budget for 2008: Federal Law from 28 December 2009 No. 382; On the execution of the federal budget for the year 2009: Federal Law from 3 October 2010 No. 255; On the execution of the federal budget for the year 2010: Federal Law from 7 October 2011 No. 272; On the execution of the federal budget for 2011: Federal Law from 2 October 2012 No. 151; Operational report of the Accounts Chamber of the Russian Federation "On the progress of the execution of the federal budget for January–December 2012" from 7 February 2013 No. 00-1/15–10, 2013. 130 p.; On the execution of the federal budget for 2013: Federal Law from 4 October 2014 No. 280; On the execution of the federal budget for 2014: Federal Law from 5 October 2015 No. 276; On the execution of the federal budget for 2015: Federal Law from 31 October 2016 No. 377; On the execution of the federal budget for 2016: Federal Law from 16 October 2017 No. 287; On the execution of the federal budget for the year 2017: Federal Law from 11 October 2018 No. 354; On the execution of the federal budget for 2018: Federal Law from 16 October 2019 No. 332; On the execution of the federal budget for 2019: Federal Law from 15 October 2020 No. 314; Operational report of the Accounts Chamber on the execution of the federal budget for January–December 2023 from 15 February 2024. On the execution of the federal budget for the year 2020: Federal Law from 25 October 2021 No. 361; On the execution of the federal budget for 2021: Federal Law from 14 July 2022 No. 249; On the execution of the federal budget for the year 2022: Federal Law from 24 July 2023 No. 329.

Table 10

**Share of State Debt Service Costs, Education Expenditures  
in Federal Budget, %**

Indicator	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
The share of debt service costs	2.0	1.8	1.9	2.4	2.5	2.70	2.80	3.32	3.78	4.32	4.82	4.01	3.44	4.38	4.28	5.33
The share of education expenditures	4.79	4.33	4.38	5.06	4.68	5.04	4.34	3.91	3.64	3.75	4.30	4.54	4.19	4.30		4.34

*Source:* Calculated by the author according to: Conclusion of the Accounts Chamber of the Russian Federation on the report on the execution of the federal budget for 2011. No. ZSP-18/15–10 p. 51; Execution of the federal budget and the budgets of the budgetary system of the Russian Federation in 2011. M: Ministry of Finance of the Russian Federation, 2012. 123 p.; On the execution of the federal budget for the year 2000: Federal Law from 3 April 2002 No. 39; On the execution of the federal budget for the year 2001: Federal Law from 7 June 2003 No. 67; On the execution of the federal budget for the year 2002: Federal Law from 8 May 2004 No. 35; On the execution of the federal budget for the year 2003: Federal Law from 4 April 2005 No. 30; On the execution of the federal budget for 2004: Federal Law from 15 April 2006 No. 52; On the execution of the federal budget for 2005: Federal Law from 9 April 2007 No. 41; On the execution of the federal budget for the year 2006: Federal Law from 3 April 2008 No. 36; On the execution of the federal budget for the year 2007: Federal Law from 3 December 2008, No. 228; On the execution of the federal budget for 2008: Federal Law from 28 December 2009 No. 382; On the execution of the federal budget for the year 2009: Federal Law from 3 October 2010 No. 255; On the execution of the federal budget for the year 2010: Federal Law from 7 October 2011 No. 272; On the execution of the federal budget for 2011: Federal Law from 2 October 2012 No. 151; Operational report of the Accounts Chamber of the Russian Federation “On the progress of the execution of the federal budget for January-December 2012” from 7 February 2013 No. 00-1/15–10, 2013. 130 p.; On the execution of the federal budget for 2013: Federal Law from 4 October 2014 No. 280; On the execution of the federal budget for 2014: Federal Law from 5 October 2015 No. 276; On the execution of the federal budget for 2015: Federal Law from 31 October 2016 No. 377; On the execution of the federal budget for 2016: Federal Law from 16 October 2017 No. 287; On the execution of the federal budget for the year 2017: Federal Law from 11 October 2018 No. 354; On the execution of the federal budget for 2018: Federal Law from 16 October 2019 No. 332; On the execution of the federal budget for 2019: Federal Law from 15 October 2020 No. 314; Operational report of the Accounts Chamber on the execution of the federal budget for January-December 2023 from 15 February 2024. On the execution of the federal budget for the year 2020: Federal Law from 25 October 2021 No. 361; On the execution of the federal budget for 2021: Federal Law from 14 July 2022 No. 249; On the execution of the federal budget for the year 2022: Federal Law from 24 July 2023 No. 329.

while loan repayments should be indicated with a negative sign. The remaining funds of the current year with a negative balance (as repayment), and the remaining funds of the previous year with a positive balance as a source to cover the deficit.

Thus, if we assume that borrowings will continue to increase and that the funds from loans will form the remaining budget resources, the result will be a balanced or even surplus budget alongside the growth of state debt pyramid (*Table 8*). Moreover, the carryover balances from the previous year create a budget deficit, which is covered by these same balances. However, very often the formal deficit

that arises from the balances of the previous financial year is perceived as an actual deficit, which provides grounds for new borrowings.

Thus, taking into account the aforementioned factors and a more thorough analysis of the dynamics of budget fund balances at the transition through the beginning (end) of the financial year, the assessment of excessive borrowings and the artificial increase of public debt may be even higher.

#### GROWTH IN DEBT SERVICE EXPENSES

The policy of excessive borrowing and artificial accumulation of public debt leads to

constant losses from the difference between the income generated by the investment of the National Wealth Fund's assets and the service debt costs. If in 2007–2008 the income from the investment of the Stabilization Fund's assets (the National Wealth Fund and the Russian Federation) exceeded the debt service costs, starting from 2009, the income from the investment of the Reserve Fund and the National Wealth Fund's assets has significantly decreased, with a growing trend in the difference. If in 2009 the service debt costs exceeded the income from the investment of the Reserve Fund and the National Wealth Fund by 1.77 times, by 2013 it was almost 10 times (*Table 9*).

The policy of surplus budgets while simultaneously increasing debt, in addition to the traditional negative consequences of surplus budgets (slowing economic growth, excessive tax pressure, encouraging external private borrowing), is exacerbated by a sharp rise in debt service costs and the growth of the debt itself. Given such a disparity between the service debt costs and the income from the investment of funds in the Reserve Fund and the National Wealth Fund, the policy of increasing debt while simultaneously replenishing the Reserve Fund and the National Wealth Fund appears absurd.

Overall, the share of debt service expenditures increased from 1.8% in 2008 to 5.33% in 2023. The creation of artificial debt diverts budget funds to debt servicing at the expense of other budget expenditures.

In this regard, it is interesting to analyze the dynamics of the ratio of debt servicing expenses to education expenses in the federal budget. If in 2008 the share of debt service expenses was 2.3 times less than the share of education expenses, by 2023 the share of debt service expenses has exceeded education expenses by 1.25 times (*Table 10*). Thus, excessive borrowing leads to excessive expenditures in the federal budget for debt service.

The total debt service expenses, starting from 2005 when the Stabilization Fund was

established, amounted to 10 117 trillion rubles. At the same time, the income from the investing of the National Wealth Fund (the Stabilization Fund and the Reserve Fund) during the same period amounted to 2 178 trillion rubles. Thus, the excess of debt service expenses over the income from the investing of the National Wealth Fund's assets during the specified period amounted to 8 539 trillion rubles in constant prices. Excessive borrowing and the formation of the National Wealth Fund result in excessive debt service costs and the diversion of budget funds from traditional budget expenditure items. So, the total expenditures on education from the federal budget from 2005 to 2023 amounted to 11 trillion rubles,<sup>1</sup> that education spending could have been doubled during the same period with a different debt policy. This example shows how artificial debt accumulation hinders economic growth, in this case technological development, as federal spending on education is more than 50% of expenditures on higher education.

## CONCLUSION

The policy of surplus budgets amid escalating borrowings and replenishing the National Wealth Fund, the formation of deficit-surplus budgets, as well as excessive borrowings during deficit budgets have all the negative consequences of both surplus and deficit budgets.

Excessive borrowing leads to an increase in the debt service costs, while the formation of the National Wealth Fund, given that the

<sup>1</sup> Calculated based on: Operational report of the Accounts Chamber on the execution of the federal budget for January–December 2023 from 15 February 2024. URL: <https://ach.gov.ru/upload/iblock/5ee/zyor1q3va23b4o2y4irx01fq1gc9b56a.pdf> (accessed on 23.05.2024); On the execution of the federal budget for 2020: Federal Law from 25.10.2021 No. 361. URL: <http://pravo.gov.ru/proxy/ips/?docbody=&firstDoc=1&lastDoc=1&nd=602510648> (accessed on 23.05.2024); On the execution of the federal budget for 2021: Federal Law from 14.07.2022 No. 249. URL: <http://pravo.gov.ru/proxy/ips/?docbody=&firstDoc=1&lastDoc=1&nd=603176529> (accessed on 23.05.2024); On the execution of the federal budget for 2022: Federal Law from 24.07.2023 No. 329. URL: <http://publication.pravo.gov.ru/document/0001202307240093> (accessed on 23.05.2024).



budget deficit is covered by borrowing, results in a constant growth of the gap between the debt service expenses and the income from the investing of the National Wealth Fund's assets. All of this leads to the actual siphoning of budget funds into the financial and banking sector and underfunding of the social sphere.

The formation of the National Wealth Fund and the investment of these funds over many years as part of the Central Bank's gold and foreign exchange reserves in foreign assets meant an organized capital outflow with all the traditional negative consequences of capital flight, compounded by the expropriation of the Russian Federation's assets in convertible currencies of unfriendly countries in 2023–2024.

Before the sanctions of 2014, such a policy encouraged external borrowing. Moreover, there was an incentive to speculate with credit resources due to the difference in interest rates between the domestic and foreign markets. As a result, there was a rapid increase in external private debt. So, from 2005 to 2009, the external public debt decreased by \$73.4 billion, while the external private debt increased by \$343.4 billion.

The formation of the National Wealth Fund immobilizes a portion of the produced GDP, which serves as an artificial brake on economic growth. The creation of anti-growth incentives that collectively act on the economy like a Keynesian multiplier in reverse, while

also reinforcing raw material dependence, as they prevent the use of available resources for economic diversification. For the first time, the consequences of the formation of the Stabilization Fund (National Wealth Fund, Reserve Fund) were studied by O.G. Dmitrieva [9].

In surplus budgets and deficit-surplus budgets, there are excessive tax withdrawals, which serve as a traditional disincentive for expanding production and developing entrepreneurship.

Unjustified borrowings stimulate the growth of demand for money, creating unnecessary competition for economic entities in the credit resource market. The withdrawal of liquidity through borrowing is accompanied by a simultaneous saturation of bank liquidity through budget resources and the funds of the National Wealth Fund. Thus, excessive operations and intermediaries in the financial sector are stimulated, leading to an increase in the cost of credit and limiting the volume of investments, both public and private.

Moreover, the imperfect structure of the budget classification in the section "Sources of Budget Deficit Coverage" creates the possibility of uncontrolled spending of funds outside the "budget balance" in the sources of deficit coverage. This makes the flow of financial resources opaque and complicates the analysis of the effectiveness of state financial policy.

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