

Transfers from Federal to Regional Budgets in Russia: A Statistical Analysis

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Abstract: A noted Japanese investigator of Soviet and post-Soviet economic affairs presents and analyzes flows of financial transfers from federal to regional budgets in the Russian Federation from 1992 through August 1998. The author attempts to measure such transfers, clarify their definition, as well as examine the available statistical data relating to the distribution of funds to Russia's 89 regions. He also identifies trends and assesses the major characteristics of the flows. Tabular presentations covering grants, subsidies, and budget loans during the period are based on a variety of official statistical sources, appropriately reconciled and conformed to develop a credible time series. *Journal of Economic Literature*, Classification Numbers: H61, H72, O52. 6 tables, 35 references.

At a time when economic ties between Russia's federal government and the country's outlying regions appear to be weakening, an analysis of fiscal relations and financial flows from the center merits closer consideration. Moreover, added insights into financial transfers during the transition from central planning to a market-driven economy in the 1990s may be of use in understanding the mechanics of limited governance reflected in ambiguous statistical data and increasingly inconsistent laws. The purpose of this paper is to analyze transfers from federal to regional budgets in Russia during the period from 1992 to mid-September 1998. While a number of recent Western studies have attempted to measure such transfers,² they apparently have not managed to define and sufficiently clarify the various grants, subsidies, or budget loans. This author will attempt here to measure the transfers, clarify definitions, and also examine the compatibility of available statistical data on distributions to Russian regions in order to identify meaningful trends and characteristics.³

DEFINING FEDERAL TRANSFERS TO REGIONAL BUDGETS

Chapter 16 of the budget code adopted by federal law No. 145 on July 31, 1998 specifies the following three forms of financial support from the federal budget that flows to subjects

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²See World Bank (1996), Craig et al. (1996), Stewart (1997), and Kuboniwa and Gavrilin (1997).

³Studies, such as those by McAuley (1997) and Treisman (1998), analyze the relationship between the size of transfers to regions and the political impact on their economic and social environment. However, they rely on Lavrov's inadequately defined data (1996, p. 3). In a similar analysis, Stewart (1997) seemed to be more cautious in her definition of transfers, most likely using detailed data on regional budgets for 1993-1995 (the source of her data was not cited).

(i.e., administrative regions) of the Russian Federation (*Rossiyskaya gazeta*, August 12, 1998): (1) grants for equalizing the minimum budget guarantee level;⁴ (2) subventions for the financing of specified expenditures; and (3) loans to cover temporary cash shortages relating to implementation of budgets.

In Russia, the terms and meaning of grants (*dotatsii*) and subventions (*subventsii*) are apparently different and clearly distinct. Article 6 of the budget code stipulates that subventions are provided to regions for specific purposes, while grants are given to finance current expenditures without requirements that designate specific use.⁵ Accordingly, the distinction between the first and second forms of financial support to regions is relatively precise and unambiguous.

It appears that grants include the federal Fund for Financial Support of Regions (FFSR), sometimes called *transfert* in Russian, even though the fund is not mentioned in the budget code. Created in 1994, the FFSR has recently played a critical role in many if not all transfers from the center to regional budgets.

If the relevant laws are to survive the setback to economic reform precipitated by the devaluation of the ruble and changes in the government in August and September 1998, it may assume a principal role beyond 1998, as outlined in the conceptual framework (*kontseptsiya*) of reforms involving intergovernmental transfers in the Russian Federation in 1999-2001 (as approved by the government on July 30, 1998 by resolution No. 862 and reported in *Rossiyskaya gazeta* of August 8, 1998).

With regard to budget loans, the third form of financial support, the budget code stipulates the right to borrow in order to supplement cash flows reduced by seasonal variations. Such loans, with or without interest, are extended for periods that are no longer than six months.

Let us now turn to the budget classification approved by federal law No. 115 on August 15, 1996 and amended by federal law No. 31 on March 2, 1998 (as reflected in the transfers to regional budgets shown in Table 1).⁶ At first glance, it appears fairly difficult to reconcile this classification with that of the budget code. Moreover, neither corresponds to the federal budget law nor to Russian budget statistics.

Since 1994, the federal budget law began to provide for an item stipulating financial support to budgets "on other levels" (or support for the Federation's subjects and administrative-territorial units) shown in Tables 2 and 3.⁷ It should be noted that related items for the preceding year 1993 were chosen rather arbitrarily due to lack of comprehensive items corresponding to the years that followed 1994. After 1994, the data in Table 2 can be easily reconciled with the budget classification in Table 1, for only two small items found

⁴Minimum budget guarantee (*minimal'naya byudzhnaya obespechennost'*) is defined in Article 6 of the budget code as the minimum allowable amount of state and municipal services (expressed in monetary terms on a per capita basis) provided by the state or local self-government, and financed by corresponding budgets.

⁵This distinction is not new. For example, see federal law No. 4807 of April 15, 1993, stipulating basic rights of subjects of the Russian Federation to form and utilize budget and off-budget funds (*Vedomosti RF*, No. 18, 1993, pp. 1069-1085).

⁶For details pertaining to reforms of Russian budget classification, see World Bank (1996, pp. 147-157). The amendment of 1998 applies to the renamed code 2100. Before the amendment, code 2100 included only two items corresponding to 2101 and 2104 in Table 1. Items included in code 3003 appeared in the appendix table to the 1996 law without the codes.

⁷There are inconsistencies here with regard to the treatment of "State Support to Far Northern Regions for the Delivery of Products." While shown separately in 1994 and 1996-1997 from "Financial Support to Budgets on Other Levels," it was lumped together with total financial support in 1995 and 1998. In Tables 2 and 3, the item was included in financial support to regions in order to make the data comparable; changes in the treatment of state support to Far Northern regions are covered in Leksin and Shvetsov (1998, p. 29).

Table 1. Budget Classification of Transfers from Federal to Regional Budgets

Code	Classification and definition
2100	Development of federal and national relations
2101	Programs and measures for regional development
2102	Programs and measures for the development of national relations
2103	State support for compatriots living outside the Russian Federation
2104	State support for the Far Northern and equivalent regions
2105	State support for local self-government
3003	Financial support to budgets on other levels
	Federal fund for the financial support of subjects of the Russian Federation
	Financing expenditures for the maintenance of facilities in the social sphere and housing, transferred to the jurisdiction of local self-government organizations
	Grants to budgets of closed administrative-territorial formations, in which facilities of the federal ministries of defense and atomic energy are located
	Grants for the maintenance of infrastructure of Leninsk city (Kazakhstan) related to the rental of the space center at Baikonur
	Subventions to Moscow city for its functioning as capital of the Russian Federation
	Grants to the Sochi health resort
3003	Resources transferred for mutual settlements, including compensation for additional expenditures incurred by resolutions of state organizations
3003	Resources transferred to budgets on other levels for the implementation of state programs
3004	Budget loans

Sources: Compiled by author from *Sobraniye*, No. 34, 1996, pp. 8126, 8175-8176; No. 10, 1998, p. 2136.

in Table 2 (assistance for the purchase of textbooks and support for depressed regions) are missing from Table 1.⁸

Another classification used in budget statistics is shown in Table 4, compiled from several different sources. For the three-year period from 1992 through 1994 this author used the annual reports detailing implementation of the budget by the Ministry of Finance. Several items from these reports were calculated, and combined in the column "financial support from the federal budget." Data published in the Central Bank's monthly bulletins were used for the years 1995 and 1996.⁹ Finally, the annual report detailing regional budget implementation by the Ministry of Finance was used for the year 1997.

Attempts to reconcile the data in Tables 2 and 4 create some ambiguities. Clearly subventions listed in Table 4 include only those to Moscow city for its capital functions in Table 2, because there were no other subventions in recent years.¹⁰ With regard to grants listed in Table 4, the majority comprises those to "closed cities" as listed in Table 2; also

⁸"Compensation for Electricity Rates in Far Eastern Regions" is included in "Federal Programs for Regional Development," as indicated in the federal budget laws for 1995 and 1997 (*Sobraniye*, No. 14, 1995, pp. 2200, 2255-2256; No. 9, 1997, p. 1712).

⁹The report by the Ministry of Finance (Ministerstvo finansov, 1996) was available for 1995. However, it was not used because revised data appeared in Goskomstat Rossii (1997, p. 520).

¹⁰This was confirmed by reports from the Ministry of Finance for 1994 and 1997 (Ministerstvo finansov, 1995a, 1995d, 1998); see also the federal law No. 3303 of July 15, 1992 (*Vedomosti RF*, No. 34, 1992, pp. 2572-2578). It is worth noting here that the formal statements by the Government and Central Bank on April 11, 1998, which were to be forwarded to the IMF, indicated that all subventions to Moscow were to be abolished (*Biznes v Rossii*, May 16, 1998, p. 5).

Table 2. Planned Financial Support Earmarked for Regional Budgets, 1993-1998^a (in millions of new rubles)

Type of support	1993	1994	1995	1996	1997	1998
Total expenditures of the federal budget	18,725.1	194,495.3	248,344.3	435,750.0	529,765.2	499,945.2
Federal support for regions	1,576.7	26,967.0	28,499.5	57,625.1	66,971.8	51,703.8
Federal fund for financial support of regions	—	11,866.0	14,858.1	39,337.0	52,929.4	39,183.8
Expenditures for social facilities and housing transferred to regions	—	5,275.5	4,320.0	6,805.3	880.0	—
Grants to "closed cities"	—	583.2	1,043.2	1,932.3	2,735.0	2,586.1
Grants to Leninsk city for rental of Baikonur space center	—	—	161.0	719.9	582.2	413.9
Subventions to Moscow city for its capital functions	70.0	2,774.7	1,999.2	2,660.0	2,400.0	1,000.0
Grants to Sochi health resort	—	—	43.6	195.2	355.2	140.0
Additional financial assistance for the purchase of federal textbooks	—	—	—	500.0	—	—
Support for depressed regions	—	—	—	—	—	1,500.0
Grants to regions	825.5	—	—	—	—	—
Federal programs for regional development	415.1	—	844.2	2,475.4	2,290.0	2,300.0
Compensation for electricity rates in the Far Eastern regions	—	—	850.0	—	1,300.0	1,200.0
State support to the Far Northern regions for delivery of products	266.0	6,467.0	4,380.2	3,000.0	3,500.0	2,640.0
Other	—	—	—	—	—	740.0

^aFigures stipulated in the federal budget law.

Sources: Compiled by author from *Vedomosti RF*, No. 22, 1993, pp. 1302-1326; *Sobraniye RF*, No. 10, 1994, pp. 1525-1553; No. 14, 1995, pp. 2189-2256; No. 1, 1996, pp. 193-228; No. 9, 1997, pp. 1695-1817; No. 13, 1998, pp. 2708-2821; No. 1, 1996, pp. 193-226; No. 9, 1997, pp. 1698-1817; No. 13, 1998, pp. 2706-2821.

included are grants to the city of Sochi.¹¹ It is equally clear that transfers in Table 4 correspond to the FFSR in Table 2, even though there are significant differences in size of corresponding figures and an as yet unexplained item labeled "FFSR offset against VAT" in Table 4 (to be discussed below).

Major difficulties in reconciling the data in Tables 2 and 4 are reflected in "mutual settlements," which are not reported in Russia's budgetary law. They represent the net balance of various transfers between the federal and regional budgets, covering federal outlays redirected to regions required to carry them out. Similarly, they cover compensation for

¹¹According to *Ministerstvo finansov* (1998), out of total grants of 3,457 million rubles in 1997, 80 percent seem to have been accounted for by grants to closed cities (2,747 million rubles versus 2,735 million in the federal budget law shown in Table 2). There were only two regions in which no closed cities were located, but which received grants in 1997—namely Krasnodar Oblast (348 million rubles) and the Republic of Dagestan (100 million rubles); apparently, grants to Krasnodar Oblast were given to Sochi city. Interestingly, the report of the Ministry of Finance presented the budget for Leninsk city together with the budgets of other closed cities located in the Russian Federation. Grants to Leninsk city were reported to amount to 262 million rubles (versus 582 million rubles in the budget law). Thus, at least for the year 1997, grants in Table 4 include those earmarked for Leninsk city, which is located in Kazakhstan. It is also of note that the statement by the Government and Central Bank forwarded to the IMF indicated that all grants to Sochi were to be abolished.

Table 3. Planned Financial Support Earmarked for Regional Budgets, 1993-1998^a
(in percent of total expenditure)

Type of support	1993	1994	1995	1996	1997	1998
Total expenditure of the federal budget	100.0	100.0	100.0	100.0	100.0	100.0
Financial support for regions	8.4	13.9	11.5	13.2	12.6	10.3
Federal fund for financial support of regions	—	6.1	6.0	9.0	10.0	7.8
Expenditures for social facilities and housing transferred to regions	—	2.7	1.7	1.6	0.2	—
Grants to "closed cities"	—	0.3	0.4	0.4	0.5	0.5
Grants to Leninsk city for rental of Baikonur space center	—	—	0.1	0.2	0.1	0.1
Subventions to Moscow city for its capital functions	0.4	1.4	0.8	0.6	0.5	0.2
Grants to city Sochi health resort	—	—	0.0	0.0	0.1	0.0
Additional financial assistance for purchase of federal textbooks	—	—	—	0.1	—	—
Support for depressed regions	—	—	—	—	—	0.3
Grants to regions	4.4	—	—	—	—	—
Federal programs for regional development	2.2	—	0.3	0.6	0.4	0.5
Compensation for electricity rates in the Far Eastern regions	—	—	0.3	—	0.2	0.2
State support to the Far Northern regions for delivery of products	1.4	3.3	1.8	0.7	0.7	0.5
Other	—	—	—	—	—	0.1

^aCalculated from Table 2.

decisions of the central government that prompted either losses incurred by regional budgets (for example, due to changes in tax rates) or increases in regional expenditures (due to increases in pensions, minimum wages, and other grants to the population) (see Bogacheva, 1995, p. 39; Arai and Belov, 1996, pp. 153-154; World Bank, 1996, pp. 19, 21; Stewart, 1997, pp. 7-8). Accordingly, mutual settlements in Table 4 appear to include federal programs for regional development expenditures for social facilities and housing transferred to regions, as well as financing of goods to be delivered to Far Northern regions as presented in Table 2. This interpretation, however, seems to contradict the budget classification presented in Table 1. Specifically, programs for regional development (2101) and state support for Far Northern regions (2104) in Table 1 are separated from mutual settlements (3003).

Similarly, "short-term loans" in Table 4 have no corresponding entries in Table 2. These loans correspond to the third form of financial support from the federal to regional budgets stipulated in the budget code. Most likely, such short-term loans are included in the broader category of budget loans, stipulated in the aforementioned federal laws.

To sum up, there are five categories of transfers from federal to regional budgets—namely the FFSR (transfers in Table 4), grants (mostly to closed cities), subventions (exclusively to Moscow), "mutual settlements," and short-term loans. The nature of transfers included in "mutual settlements" is not clear at all.

None of the transfers discussed above include subsidies given to specific industries by corresponding ministries, even though most are designated for regions. Typical examples are those to the coal mining industry and agriculture, as well as compensation for natural disasters.¹²

¹²Transfers through various off-budget funds not taken into account are noted in Stewart (1997, pp. 8-9).

Table 3. Actual Revenues of Regional Budgets, 1992-1997

Source	1992	1993	1994	1995	1996	1997
In millions of new rubles						
Total revenue of regional budgets	2,672.3	30,129.4	115,674.5	241,000.0	322,900.0	414,925.8
Profit tax	920.9	11,350.7	31,829.7	76,100.0	64,200.0	69,040.5
Personal income tax	431.3	4,394.5	17,440.4	33,300.0	51,500.0	73,370.3
VAT	498.2	4,008.2	10,231.9	23,900.0	42,100.0	53,815.8
Other tax and non-tax revenues	493.1	4,748.5	27,383.1	67,600.0	111,500.0	153,795.2
Financial support from the federal budget	315.0	5,423.8	26,899.2	29,200.0	46,300.0	49,980.1
Subventions	142.5	1,124.2	2,621.6	2,000.0	2,700.0	2,400.0
Grants	—	—	585.1	900.0	2,100.0	3,457.2
Grants to "closed cities"	—	—	585.1	—	—	—
Transfers	—	—	5,675.6	19,400.0	23,300.0	32,947.5
FFSR	—	—	2,252.2	14,300.0	15,200.0	23,164.9
FFSR offsets against VAT	—	—	3,423.5	5,100.0	8,100.0	9,782.5
Mutual settlements	155.2	4,222.8	17,914.0	6,900.0	18,200.0	11,175.4
Short-term loans	17.3	76.8	103.0	—	—	—
Other revenues	13.9	203.6	1,890.1	10,900.0	7,300.0	14,923.8
GDP	19,006.0	171,510.0	610,745.0	1,585,026.0	2,200,225.0	2,602,271.0
In percent of total revenue						
Total revenue of regional budgets	100.0	100.0	100.0	100.0	100.0	100.0
Profit tax	34.5	37.7	27.5	31.6	19.9	16.6
Personal income tax	16.1	14.6	15.1	13.8	15.9	17.7
VAT	18.6	13.3	8.8	9.9	13.0	13.0
Other tax and non-tax revenues	18.5	15.8	23.7	28.0	34.5	37.1
Financial support from the federal budget	11.8	18.0	23.3	12.1	14.3	12.0
Subventions	5.3	3.7	2.3	0.8	0.8	0.6
Grants	—	—	0.5	0.4	0.7	0.8
Grants to "closed cities"	—	—	0.5	—	—	—
Transfers	—	—	4.9	8.0	7.2	7.9
FFSR	—	—	1.9	5.9	4.7	5.6
FFSR offset against VAT	—	—	3.0	2.1	2.5	2.4
Mutual settlements	5.8	14.0	15.5	2.9	5.6	2.7
Short-term loans	0.6	0.3	0.1	—	—	—
Other revenues	0.5	0.7	1.6	4.5	2.3	3.6
In percent of GDP						
GDP	100.0	100.0	100.0	100.0	100.0	100.0
Total revenue of regional budgets	14.1	17.6	18.9	15.2	14.7	15.9
Profit tax	4.8	6.6	5.2	4.8	2.9	2.7
Personal income tax	2.3	2.6	2.9	2.1	2.3	2.8
VAT	2.6	2.3	1.7	1.5	1.9	2.1
Other tax and non-tax revenues	2.6	2.8	4.5	4.3	5.1	5.9
Financial support from the federal budget	1.7	3.2	4.4	1.8	2.1	1.9
Subventions	0.7	0.7	0.4	0.1	0.1	0.1
Grants	—	—	0.1	0.1	0.1	0.1
Grants to "closed cities"	—	—	0.1	—	—	—
Transfers	—	—	0.9	1.2	1.1	1.3
FFSR	—	—	0.4	0.9	0.7	0.9
FFSR offset against VAT	—	—	0.6	0.3	0.4	0.4
Mutual settlements	0.8	2.5	2.9	0.4	0.8	0.4
Short-term loans	0.1	0.0	0.0	—	—	—
Other revenues	0.1	0.1	0.3	0.7	0.3	0.6

Sources: Compiled by author from Ministerstvo finansov 1993, 1994, 1995a, 1995b, 1998; Goskomstat Rossii, 1997, p. 520; Goskomstat Rossii, 1998, pp. 144-145; and *Tekushchiye*, 1997, No. 3, p. 20.

CHANGES IN TRANSFERS TO REGIONS

The changes in transfers to regions presented in Tables 2 and 4 can be summarized as follows. First, Table 4 shows that financial support from the federal budget peaked in 1993 and 1994 in relation to the total regional budget revenues and in relation to GDP. This was due to the large volume of mutual settlements during the course of these years. As noted above, the nature and categories of flows included in mutual settlements are not clarified (see Bogacheva, 1995, pp. 38-39; Kirkow, 1996, p. 289; Lavrov, 1995a, pp. 22-23; 1995b, p. 99; World Bank, 1996, p. 21; Stewart, 1997, p. 12).

Second, if mutual settlements are to be disregarded (i.e., by focusing on subventions, grants, and transfers in Table 4) it is evident that the level of financial support in relation to total regional revenue and to GDP has been almost unchanged since 1994 (from 8 to 10 percent of total regional revenue and from 1.3 to 1.5 percent of GDP).¹³

Third, the FFSR has accounted (together with the FFSR offset against VAT) for the bulk of financial support to regions since 1995.¹⁴ Initially, the fund was created from federal budget revenues generated by the value-added tax (VAT), by allocating 22 percent of such revenues in 1994, and 27 percent in 1995 (*Sobraniye*, No. 10, 1994, p. 1541; No. 14, 1995, p. 2203).¹⁵ Since 1996, the FFSR has been funded by 15 percent of the total federal budget revenues (14 percent in 1998) with the exception of import duties, which were not incorporated in the total (*ibid.*, No. 1, 1996, p. 205; No. 9, 1997, p. 1713; No. 13, 1998, p. 2723).¹⁶ This text explains the reason for the increase of the share of the planned FFSR in federal budget expenditures since 1996, as shown in Table 3.

However, the share of actual transfers in relation to total regional revenues and to GDP has not increased since 1996, as indicated in Table 4. The difference between planned and actual transfers has not been small. In 1994, the FFSR plan was implemented by 48 percent, in 1995 by 131 percent, in 1996 by 59 percent, and in 1997 by 62 percent. Thus, only in 1995 was the plan "over-filled," due to an increase in VAT revenues precipitated by inflation (see Igudin, 1996, p. 10). The failure to attain the FFSR plan targets, especially after 1996, could be explained by the pervasive deficit in tax revenues during the period.

With regard to the transfer labeled "FFSR offset against VAT" in Table 4, it should be noted that prior to the commencement of the FFSR fund in 1994, the VAT retention rates were different in most regions, accounting for major differences in intergovernmental transfers. For example, in 1993 the VAT retention rate was to be set at the level of 20 percent—i.e., 20 percent of VAT receipts was to be set aside for the regional budgets and 80 percent for the federal.¹⁷ However, the prescribed retention rate was applied to only 24 out of 89 regions, while in the other 65 regions the rates ranged from 22 to 50 percent, with the 50 percent rate applied to as many as 57 regions (*Vedomosti RF*, No. 22, 1993, pp. 1303-1305).¹⁸ In

¹³A similar trend is apparent in Ulyukayev's table (1998, p. 11).

¹⁴Its introduction was mandated by presidential decree No. 2268 of December 22, 1994 entitled "On formation of the budget of the Russian Federation and relations with budgets of the Federation's subjects in 1994" (*Sobraniye aktov prezidenta*, No. 52, 1993, pp. 5720-5722). See Khodorovich (1995, p. 17).

¹⁵VAT revenues from imported goods and those from precious metals and gemstones were not included.

¹⁶With regard to 1996, the federal personal income tax revenues also were excluded, because 10 percent of such tax revenues were earmarked for the funding of social facilities and housing in regions (*Sobraniye*, No. 14, 1995, p. 2206; No. 1, 1996, p. 208).

¹⁷VAT revenues from imported goods and revenues from precious metals and gemstones were excluded in 1993 as well as since 1994.

¹⁸The reader may recall that in the Soviet era retention rates relating to turnover and some other taxes were differentiated by Soviet republics and by regions inside Russia. See, for example, the 1990 budget law for the USSR (*Vedomosti SSSR*, No. 21, 1989, p. 532) and the 1990 budget law for the Russian Federation (*Vedomosti RSFSR*, No. 49, 1989, pp. 1016-1020).

fact, the FFSR was introduced to replace this fluctuating mechanism, setting a uniform VAT retention rate for all regions at the level of 25 percent. However, because FFSR initially was formed from federal VAT receipts, the regions were allowed to offset payments of VAT revenues they owed to the federal budget by corresponding FFSR transfers from that budget.

In order to accommodate such offsets, the Ministry of Finance proceeded to approve differentiated retention rates for each region (Boyko and Lavrov, 1995, pp. 170-171; Khodorovich, 1995, p. 18; Lavrov, 1995b, pp. 96-97; Stewart, 1997, p. 10). Prior to this innovation in the setting of differentiated rates, all had to be approved by the federal budget law. Since 1994 the setting of differentiated rates has been the subject of negotiations between the regions and the Ministry of Finance, although the practice was discontinued during the second quarter of 1995 when the offset mechanism was suspended because it had not been stipulated by law (Petrov, 1995, p. 4; Igudin, 1996, p. 10; Leksin and Shvetsov, 1998, p. 29). But again, beginning in 1996, the mechanism was reinstated with the understanding that the federal budget law must stipulate each year.¹⁹

As shown in Table 4, FFSR offsets against VAT amounted to 60 percent of all transfers in 1994. It decreased to 26 percent in 1995 due to the suspension during the second quarter of 1995. In 1996, its share in the transfers again increased to 35 percent, but declined to 30 percent in 1997. It should be noted that prior to 1994, VAT revenues shown in Table 4 included revenues generated by VAT retention rates, which should have been treated as transfers (Stewart, 1997, pp. 10-13).²⁰ If this observation is to be taken into account, the sum of subventions, grants, and transfers might not have increased in 1994 as much as is evidenced in Table 4.

DISTRIBUTION OF FFSR AMONG REGIONS

Let us now focus on the distribution of FFSR among regions, rather than on the distribution of total financial support to regions.²¹ Transfers from the FFSR are divided into two parts. The first is provided to regions "in need of support" and the second to regions "in need of considerable support." Regions "in need of support" are defined as those with per capita budget revenues below the country's average, whereas those "in need of considerable support" are the ones lacking revenues to cover current expenditures (calculated after transfers to regions in need of support).²² Although numerous changes have taken place from year to year, the same scheme still appears to be employed at the time of this writing.²³

¹⁹See, for example, Article 29 of the 1996 federal budget law and government decree No. 611 of May 17, 1996 (*Sobraniye RF*, No. 1, 1996, p. 208; No. 21, 1996, p. 5354).

²⁰In 1994, the Ministry of Finance did not distinguish VAT revenues by differentiated retention rates from VAT revenues (Ministerstvo finansov, 1995b). In compiling Table 4, VAT revenues by differentiated rates (shown as part of VAT revenues in that report) were subtracted from VAT revenues, and added to the transfers. Because Ministerstvo finansov (1996, 1998) clearly showed that VAT revenue by differentiated rates was included in the 1995 and 1997 transfers from the federal budget, it is assumed that this type of revenue has been correctly classified since 1995.

²¹The data were derived from Lavrov (1996, p. 3) for 1995, and Ministerstvo finansov (1998) for 1997. It should be noted that Lavrov's data are ambiguous.

²²The method of calculation for the years 1994-1995 was detailed in Stewart (1997, pp. 38-39), World Bank (1996, p. 139), and Boyko and Lavrov (1995, pp. 163-165). The method applied for 1996 is detailed in Ministerstvo finansov (1995c).

²³For example, since 1996 the base year for calculating a region's expenditure has been changed from the year 1993 to 1991 (Petrov, 1995, p. 4; Igudin, 1996, p. 12), and a new reclassification of regions into three categories has been used since 1997 (Ptitsyn, 1996, pp. 10-12; Leksin and Shvetsov, 1998, p. 29). In addition, a change in the publication of each region's share in the FFSR has taken place since 1997. Federal budget laws for the years 1994, 1995, and 1996 identify the shares of the regions in need of support as well as of shares of those in need of considerable support for each individual region, unlike for 1997 and 1998, when only one uniform share in the FFSR was in use for all (Leksin and Shvetsov, 1998, p. 29). *MFK Renaissance Research* (March 1998, p. 21) indicates that the same method of calculation was used for 1997.

Table 5 shows the distribution of planned as well as actual (implemented) FFSR from 1994 to 1998. Eight resource-endowed and/or industrial regions—namely, Moscow city, Lipetsk Oblast, Samara Oblast, the Bashkir Republic, Sverdlovsk Oblast, Khanty-Mansiysk AO, Yamalo-Nenets AO, and Krasnoyarsk Krai—have not received such transfers.²⁴ In turn, among the largest recipients of the FFSR are Kemerovo Oblast (one of the major coal mining regions), Altay Krai, Dagestan Republic, Sakha Republic, Krasnodar Krai, and Rostov Oblast.

Shares of several regions in Western Siberia—such as Kemerovo, Novosibirsk, and Omsk oblasts—have recently decreased. On the other hand, the shares of several regions in the Far East—namely of Sakha, Primorskiy Krai, and Khabarovsk and Amur oblasts—have increased.

Looking at actual figures it can be seen that Tatarstan, another resource-endowed region in addition to those noted above, also failed to receive financial transfers from the FFSR. The major recipients were Kemerovo Oblast, Altay Krai, the Dagestan Republic, Krasnodar Krai, Rostov Oblast, and Stavropol' Krai. The share of the North Caucasus economic region (18.3 percent on average for 1994 and 1996-1997) was the highest among 11 economic regions; East Siberia with 17.9 percent was second.²⁵

Table 6 highlights the large difference in the role of the FFSR in regional budgets. In Ingushetia and the Aga-Buryat AO, the average share of the FFSR exceeded 50 percent, whereas in Altay Krai, the Ust'-Orda Buryat AO, the Tuva Republic, and the Koryak AO it exceeded 40 percent. The share was generally high in the North Caucasus, East Siberia, Far East, and Volga-Vyatka regions.

CONCLUDING COMMENTS

In summarizing the findings of this paper, one needs to call attention to the ambiguity in some of the definitions of transfers from federal to regional budgets. Specifically, the mutual settlements category remains to be clarified, and caution is in order in analyzing the size of any transfer to a region when such a transfer is poorly defined.

The total amount of transfers received by the regions (excluding mutual settlements) has remained at almost the same level since 1994 in relation to GDP, despite reforms in the transfer system since that time. This author is not prepared to argue whether this amount is large or small, because it depends on the general tax system. If tax revenue retention rates for regions are to be increased, it might not matter if the amount of transfers (for equalizing purposes) becomes smaller.²⁶

Finally, shares in the FFSR vary greatly from one region to another. However, the share of each, or the share of the FFSR in a typical region's budget, has not fluctuated too much.

Future research focused on the structure of regional budget revenues and expenditures may explain the large discrepancy in receipts from the federal Fund for Financial Support of

²⁴As mentioned in the preceding note 23, two sets of shares for each region were published in the federal budget law covering the period from 1994 to 1996. For 1995-1996, the law stipulated a fund ratio involving one for regions in need of support and another for ones needing considerable support. For the year 1994, however, the ratio was not written into the law. The planned figures for 1994 calculated in Table 5 are based on a ratio of 62 percent versus 38 reported in Boyko and Lavrov (1995, p. 171). Still a different ratio (76.5 percent versus 23.5) was reported by the World Bank (1996, p. 20). Finally, it is also assumed that the share of Omsk Oblast in the funds for regions in need of support in 1994 was erroneous (the correct figure is 1.4911 percent, instead of 11.4911).

²⁵It should be noted that Ministerstvo finansov (1995d, 1998) did not provide data for Chechnya as shown in Table 5.

²⁶There are widespread arguments that the size of transfers has been too small; for example, see Stewart (1997, p. 37).

Table 5. Regional Distribution of the FFSR, 1994-1998¹

Region	Planned figures						Actual figures			
	1994 ^a	1995	1996	1997	1998	Average	1994	1996	1997	Average
Karelian Republic	0.2	2.0	1.1	0.8	0.7	1.0	0.2	1.1	0.9	0.7
Komi Republic	—	0.8	0.2	0.4	—	0.3	—	0.3	0.3	0.2
Arkhangel'sk Oblast	1.0	0.9	0.6	1.0	1.1	0.9	1.2	0.8	0.7	0.9
Nenets AO	0.3	0.2	0.3	0.2	0.2	0.2	0.2	0.3	0.3	0.2
Vologda Oblast	—	0.6	0.2	0.3	0.2	0.3	—	0.3	—	0.1
Murmansk Oblast	—	0.3	—	0.8	0.9	0.4	—	0.1	0.6	0.2
St. Petersburg city	—	—	0.9	0.7	—	0.3	—	0.7	0.5	0.4
Leningrad Oblast	0.8	0.2	0.5	0.5	0.5	0.5	0.4	0.4	0.5	0.4
Novgorod Oblast	0.5	0.7	1.2	1.0	0.9	0.9	0.2	1.2	1.1	0.9
Pskov Oblast	1.1	0.9	1.5	1.1	1.0	1.1	1.5	1.7	1.1	1.4
Bryansk Oblast	1.8	1.6	1.1	0.8	1.0	1.2	2.4	1.4	0.7	1.5
Vladimir Oblast	0.7	0.5	1.3	1.0	0.9	0.9	1.0	1.4	1.2	1.2
Ivanovo Oblast	1.3	1.0	2.2	1.6	1.5	1.5	0.7	1.8	2.0	1.5
Kaluga Oblast	1.1	1.0	0.7	1.1	1.0	1.0	1.5	0.9	1.2	1.2
Kostroma Oblast	0.5	1.9	1.1	1.6	1.4	1.3	0.7	1.4	1.4	1.2
Moscow city	—	—	—	—	—	—	—	—	—	—
Moscow Oblast	—	3.7	—	3.1	—	1.4	—	1.4	2.3	1.2
Orel Oblast	0.6	1.2	1.3	1.1	1.3	1.1	0.3	1.2	1.6	1.0
Ryazan' Oblast	—	0.1	0.5	0.9	0.8	0.5	—	0.6	0.7	0.5
Smolensk Oblast	0.6	0.5	0.8	0.6	0.7	0.6	0.8	0.8	0.7	0.8
Tver' Oblast	1.2	1.2	0.9	0.8	0.8	1.0	1.7	1.0	1.0	1.2
Tula Oblast	1.2	0.8	0.8	0.6	0.9	0.9	1.5	1.0	0.6	1.0
Yaroslavl' Oblast	—	—	0.1	0.5	0.4	0.2	—	0.0	0.5	0.2
Mari-El Republic	2.0	1.4	1.2	1.0	0.9	1.3	2.1	1.2	1.2	1.5
Mordovian Republic	1.2	1.0	1.6	1.3	1.3	1.3	1.8	1.5	1.5	1.6
Chuvash Republic	1.5	1.3	1.4	1.1	1.0	1.2	2.0	1.4	1.2	1.5
Kirov Oblast	1.3	1.3	2.1	1.6	1.4	1.5	2.3	2.1	1.8	2.1
Nizhniy Novgorod Oblast	—	—	1.1	0.8	0.7	0.5	—	1.2	0.7	0.6
Belgorod Oblast	—	0.1	0.1	0.2	0.2	0.1	—	0.1	0.2	0.1
Voronezh Oblast	1.7	1.7	2.0	1.5	1.3	1.6	2.9	2.1	1.7	2.2
Kursk Oblast	0.4	0.5	0.8	1.1	1.0	0.8	1.2	0.9	1.1	1.0
Lipetsk Oblast	—	—	—	—	—	—	—	—	—	—
Tambov Oblast	1.1	1.0	1.3	1.0	0.9	1.1	1.6	1.0	1.2	1.3
Kalmyk Republic	1.4	1.0	1.2	0.9	0.9	1.1	1.0	1.2	1.2	1.1
Tatarstan Republic	0.9	0.3	1.1	0.8	—	0.6	—	—	—	—
Astrakhan' Oblast	0.9	1.0	2.0	1.5	1.3	1.3	0.3	2.1	1.6	1.3
Volgograd Oblast	0.9	0.7	1.0	0.7	0.7	0.8	0.7	1.5	0.5	0.9
Penza Oblast	1.6	1.6	1.6	1.2	1.1	1.4	2.3	2.1	1.4	1.9
Samara Oblast	—	—	—	—	—	—	—	—	—	—
Saratov Oblast	1.8	1.7	2.6	1.9	1.8	2.0	2.3	2.3	2.1	2.2
Ul'yanovsk Oblast	—	0.8	0.7	0.9	0.8	0.6	—	0.9	0.8	0.5
Adygey Republic	0.5	0.6	0.8	0.7	1.2	0.8	0.7	0.9	1.3	1.0
Dagestan Republic	3.5	5.0	4.4	3.4	5.2	4.3	3.7	3.9	3.9	3.8
Ingush Republic	0.6	0.5	0.6	0.6	0.8	0.6	0.7	0.6	0.6	0.7
Kabardino-Balkar Republic	1.1	1.1	1.5	1.1	3.4	1.6	1.4	1.5	1.6	1.5
Karachay-Cherkess Republic	0.6	0.6	0.7	0.5	0.8	0.6	0.5	0.6	0.7	0.6

Continues, next page

Table 5. Continued

Region	Planned figures						Actual figures			
	1994 ^a	1995	1996	1997	1998	Average	1994	1996	1997	Average
North Ossetian Republic	0.9	1.1	1.4	1.1	1.4	1.2	0.7	1.6	1.2	1.2
Chechen Republic	1.6	1.6	1.9	1.4	0.3	1.4	—	1.7	—	0.6
Krasnodar Krai	1.5	1.8	4.2	3.2	2.8	2.7	2.0	3.8	3.9	3.2
Stavropol' Krai	2.2	2.6	2.5	2.4	2.4	2.4	2.7	2.8	2.5	2.7
Rostov Oblast	2.6	2.6	2.7	2.4	3.1	2.7	4.1	2.4	2.9	3.1
Bashkir Republic	—	—	—	—	—	—	—	—	—	—
Udmurt Republic	1.0	0.9	1.4	1.5	1.6	1.3	1.2	1.4	1.4	1.3
Kurgan Oblast	1.0	1.0	1.4	1.0	0.9	1.0	1.5	1.4	1.1	1.3
Orenburg Oblast	0.9	0.9	1.1	0.8	1.0	0.9	1.1	1.3	0.7	1.0
Perm' Oblast	—	1.0	—	0.6	—	0.3	—	0.2	0.4	0.2
Komi-Permyak AO	0.5	0.4	0.4	0.3	0.3	0.4	0.5	0.3	0.3	0.4
Sverdlovsk Oblast	—	—	—	—	—	—	—	—	—	—
Chelyabinsk Oblast	—	0.3	0.4	0.8	0.7	0.4	—	0.5	0.6	0.4
Altay Republic	1.0	0.7	0.5	0.4	0.3	0.6	1.7	0.7	0.6	1.0
Altay Krai	4.9	4.2	5.4	4.5	5.5	4.9	6.6	5.3	4.7	5.5
Kemerovo Oblast	17.8	8.1	2.0	3.2	4.0	7.0	13.7	2.7	2.8	6.4
Novosibirsk Oblast	3.9	3.0	1.3	1.3	1.1	2.1	1.5	1.5	1.3	1.5
Omsk Oblast	3.8	3.1	0.5	1.6	1.4	2.1	3.3	1.0	1.2	1.8
Tomsk Oblast	0.7	0.9	0.8	1.0	0.9	0.9	0.4	0.9	1.0	0.8
Tyumen' Oblast	0.1	1.1	2.0	1.5	1.4	1.2	0.1	1.0	1.7	0.9
Khanty-Mansiysk AO	—	—	—	—	—	—	—	—	—	—
Yamal-Nenets AO	—	—	—	—	—	—	—	—	—	—
Buryat Republic	2.5	1.9	2.2	1.6	2.6	2.2	2.8	1.7	2.6	2.3
Tuva Republic	1.4	1.0	1.0	0.9	1.5	1.1	1.3	1.2	1.0	1.2
Khakass Republic	0.4	0.5	0.5	0.3	0.3	0.4	0.5	0.4	0.3	0.4
Krasnoyarsk Krai	—	—	—	—	—	—	—	—	—	—
Taymyr AO	0.6	0.3	0.2	0.2	0.2	0.3	0.3	0.2	0.2	0.3
Evenki AO	0.5	0.3	0.3	0.2	0.2	0.3	0.3	0.3	0.4	0.3
Irkutsk Oblast	—	0.9	—	0.6	1.0	0.5	—	0.0	0.5	0.2
Ust'-Orda Buryat AO	0.7	0.5	0.5	0.4	0.5	0.5	0.6	0.6	0.5	0.5
Chita Oblast	1.6	1.5	1.0	1.2	1.8	1.4	2.2	1.3	1.2	1.6
Aga-Buryat AO	0.3	0.2	0.2	0.2	0.3	0.2	0.3	0.2	0.2	0.2
Sakha Republic	—	1.9	5.5	4.1	3.7	3.0	—	3.1	2.5	1.9
Jewish AO	0.4	0.4	0.7	0.7	0.8	0.6	0.5	0.7	0.7	0.6
Chukotka AO	2.0	1.4	1.6	1.2	1.2	1.5	1.3	1.3	1.3	1.3
Primorskiy Krai	—	1.2	—	4.8	4.3	2.1	—	0.2	3.6	1.3
Khabarovsk Krai	0.5	1.7	1.4	2.4	2.1	1.6	0.2	1.7	2.3	1.4
Amur Oblast	0.7	1.6	3.5	2.6	2.3	2.1	1.1	2.7	3.1	2.3
Kamchatka Oblast	2.2	1.3	—	1.3	1.2	1.2	1.6	0.5	1.0	1.0
Koryak AO	2.6	0.9	0.3	0.5	0.4	0.9	1.6	0.4	0.4	0.8
Magadan Oblast	0.6	1.4	2.1	1.6	1.4	1.4	0.5	2.2	1.5	1.4
Sakhalin Oblast	1.9	1.6	1.8	1.6	1.4	1.7	1.2	1.7	1.6	1.5
Kaliningrad Oblast	0.8	0.9	0.4	0.5	0.5	0.6	0.9	0.3	0.7	0.6
Russian Federation	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

^aLast three quarters.

Source: Compiled by author from *Sobraniye*, No. 10, 1994, pp. 1542-1544; No. 14, 1995, pp. 2203-2205; No. 1, 1996, pp. 205-207; No. 9, 1997, pp. 1713-1715; No. 13, 1998, pp. 2723-2725; Ministerstvo finansov, 1995d, 1998; *MFK Renaissance Research*, March 1998, pp. 30-33.

Table 6. Share of FFSR in Actual Regional Budget Revenues, 1994 and 1996-1997

Region	1994	1996	1997	Average	Region	1994	1996	1997	Average
Karelia Republic	1.5	15.0	15.2	10.6	Karachay-Cherkess Republic	10.2	32.2	34.5	25.6
Komi Republic	—	1.7	2.4	1.4	North Ossetian Republic	10.7	34.3	33.3	26.1
Arkhangel'sk Oblast	6.1	8.4	7.9	7.5	Chechen Republic	—	80.7	—	26.9
Nenets AO	16.6	21.7	21.7	20.0	Krasnodar Krai	3.7	13.7	16.3	11.3
Vologda Oblast	—	2.6	—	0.9	Stavropol' Krai	10.0	20.3	21.8	17.3
Murmansk Oblast	—	0.7	4.7	1.8	Rostov Oblast	10.4	11.3	16.8	12.8
St. Petersburg city	—	1.7	1.4	1.0	Bashkir Republic	—	—	—	—
Leningrad Oblast	2.4	3.3	5.9	3.9	Udmurt Republic	7.2	10.0	10.5	9.2
Novgorod Oblast	2.9	22.1	22.3	15.8	Kurgan Oblast	13.8	23.1	21.4	19.4
Pskov Oblast	19.2	33.6	29.2	27.3	Orenburg Oblast	4.7	8.3	5.2	6.1
Bryansk Oblast	18.7	21.0	14.1	17.9	Perm' Oblast	—	0.8	2.0	1.0
Vladimir Oblast	5.9	13.6	14.3	11.2	Komi-Permyak AO	23.9	40.0	39.8	34.6
Ivanovo Oblast	6.2	26.5	31.4	21.4	Sverdlovsk Oblast	—	—	—	—
Kaluga Oblast	13.2	12.1	18.8	14.7	Chelyabinsk Oblast	—	1.4	2.4	1.3
Kostroma Oblast	6.6	16.7	19.5	14.3	Altay Republic	43.0	54.8	51.3	49.7
Moscow city	—	—	—	—	Altay Krai	20.3	30.8	33.3	28.1
Moscow Oblast	—	2.5	4.9	2.4	Kemerovo Oblast	22.9	7.4	10.3	13.5
Orel Oblast	3.2	20.3	28.0	17.1	Novosibirsk Oblast	4.8	7.6	7.9	6.8
Ryazan' Oblast	—	8.3	11.0	6.4	Omsk Oblast	12.1	5.7	7.2	8.4
Smolensk Oblast	7.3	13.0	13.1	11.1	Tomsk Oblast	3.3	8.7	8.6	6.9
Tver' Oblast	10.2	10.1	12.1	10.8	Tyumen' Oblast	0.3	5.2	10.1	5.2
Tula Oblast	8.2	8.9	7.9	8.3	Khanty-Mansiysk AO	—	—	—	—
Yaroslavl' Oblast	—	0.2	4.9	1.7	Yamal-Nenets AO	—	—	—	—
Mari-El Republic	24.3	28.4	34.0	28.9	Buryat Republic	20.5	23.5	40.3	28.1
Mordovian Republic	19.0	22.7	24.2	22.0	Tuva Republic	16.5	57.1	54.7	42.8
Chuvash Republic	15.2	17.7	15.2	16.0	Khakass Republic	6.7	9.3	8.6	8.2
Kirov Oblast	14.8	22.1	21.8	19.6	Krasnoyarsk Krai	—	—	—	—
Nizhniy Novgorod Oblast	—	4.7	2.7	2.5	Taymyr AO	12.3	24.1	16.1	17.5
Belgorod Oblast	—	1.3	2.8	1.3	Evenki AO	17.2	29.3	44.5	30.3
Voronezh Oblast	13.6	16.5	15.1	15.1	Irkutsk Oblast	—	0.1	2.4	0.8
Kursk Oblast	10.4	9.8	15.1	11.8	Ust'-Orda Buryat AO	30.7	53.5	64.5	49.5
Lipetsk Oblast	—	—	—	—	Chita Oblast	15.6	16.5	18.5	16.9
Tambov Oblast	14.1	14.8	20.0	16.3	Aga-Buryat AO	27.4	65.0	70.7	54.4
Kalmyk Republic	18.7	52.6	47.8	39.7	Sakha Republic	—	13.7	12.7	8.8
Tatarstan Republic	—	—	—	—	Jewish AO	15.7	47.7	51.3	38.2
Astrakhan' Oblast	3.6	31.9	26.7	20.7	Chukotka AO	10.4	27.7	36.8	25.0
Volgograd Oblast	2.8	8.0	3.9	4.9	Primorskiy Krai	—	1.1	17.3	6.1
Penza Oblast	18.7	28.8	21.9	23.1	Khabarovsk Krai	0.7	9.5	16.2	8.8
Samara Oblast	—	—	—	—	Amur Oblast	7.2	26.7	38.9	24.3
Saratov Oblast	9.8	13.7	14.3	12.6	Kamchatka Oblast	11.2	8.2	19.2	12.9
Ul'yansovsk Oblast	—	11.0	10.6	7.2	Koryak AO	31.0	39.5	49.9	40.1
Adygey Republic	16.0	38.6	51.9	35.5	Magadan Oblast	3.7	24.9	22.9	17.2
Dagestan Republic	14.3	52.9	49.5	38.9	Sakhalin Oblast	6.9	19.2	21.0	15.7
Ingush Republic	32.0	70.9	66.4	56.4	Kaliningrad Oblast	9.1	5.2	12.3	8.9
Kabardino-Balkar Republic	15.5	31.7	34.1	27.1	Russian Federation	4.7	7.4	7.9	6.7

Sources: Compiled by author from Ministerstvo finansov, 1995d, 1998; and MFK Renaissance Research, March 1998, pp. 30-33.

Regions (FFSR). Such an effort should be more productive if it is undertaken at a time when the political and economic balance between Russia's center and its regions is more stable.

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