Oil and Gas Revenues of the Russian Federation: Trends and Prospects

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Abstract

Russia is one of the leading countries that actively produce oil and supply it to other countries: Over last ten years Russian economy depends on oil and gas revenues as the oil prices grow. This has double meaning. On the one hand, the Russian economy demonstrated growth; the budget revenues, therefore, grew due to oil and gas industry, which may be beneficial for the state. But then the oil dependency resulted in other industries underdeveloped or even did not develop at all, which would be negative in terms of diversification of the national economy and mitigation of risks. Therefore, as the oil prices reduced late 2014, it negatively affected the Russian economy and may adversely affect the prospects of economic growth under uncertainty of oil prices.

Keywords: diversification of economy, oil price, oil and gas revenues, budgetary risks;

1. Introduction

Division of labour and diversification of global economy happen in the financially globalising environment. The countries specialise in individual branches of industry, while the matter of diversification of national economy is important either as the demand for goods and services may drop, where such products as oil and gas always face the issue of prices. In this regard, there is a risk factor, specifically for those countries, which economy is not diversified or highly depends, for instance, on oil prices or other production factor. Studying such risks is always up
to date. Therefore, the matter of economies’ dependency on oil and gas is characteristic of all oil producing countries.

Issues of financial globalisation and diversification of global economy are of importance as well. This matter is studied by Dell'Ariccia, G., diGiovanni, J., Faria, A., Kose, A., Mauro, P., Ostry, J.D., Schindler, M., Terrones, M, Luminita, P., Gabriela, U., Adrian, U., Anca, V., Agnello, L., Castro, V., Jelles, J.T., Sousa, R.M. Diversification of individual economies is no less pressing. This matter is described by Nicita, A., Rollo, V., Du, J., Lu, Y., Tao, Z., Knight, D.M. The matter of oil prices having an effect on global and individual economies is studied by Cunado J, PerezdeGracia, Bennkhodja, M. T., Li, X., Li, M. Financial risks for global economy and economy of each individual country are covered by Li, C., Balding C. and LeeM., Arnold, B., C. Borio, Ellis L. and Moshirian F., Sabitova N., Shavaleyeva Ch.

2. Key Findings

Early in the 2000s, the Russian government declared double increase in GDP by 2010 along with growth of oil prices. However, the 2008-2009 financial crisis prevented this challenge to turn into reality. According to Central Bank of Russia, over 2000 through 2008, the GDP increased 1.7 times, while export oil prices 4.3 times and natural gas prices 4.1 times. In the course of crisis 2009, the average export oil prices dropped 1.6 times and the gas 1.4 times while the GDP decreased by 7.8% only. Further growth of average export prices for oil and natural gas in 2011-2013 did not result in similar GDP growth, although it was recorded. GDP and average export prices for oil and natural gas are provided in Table 1.

| Years | GDP, billion Rubles | Average export natural gas prices, USD per barrel | Average export natural gas prices, USD per cubic metre |
|-------|---------------------|---------------------------------------------------|------------------------------------------------------|
| 2000  | 24799.9             | 20.94                                             | 85.84                                                |
| 2001  | 26062.5             | 20.78                                             | 98.25                                                |
| 2002  | 27312.3             | 21.02                                             | 85.69                                                |
| 2003  | 29304.9             | 23.81                                             | 105.51                                               |
| 2004  | 31407.8             | 31.02                                             | 109.05                                               |
| 2005  | 33410.5             | 45.21                                             | 151.36                                               |
| 2006  | 36134.6             | 56.32                                             | 216                                                  |
| 2007  | 39218.7             | 64.28                                             | 233.66                                               |
| 2008  | 41276.8             | 90.68                                             | 353.69                                               |
| 2009  | 38048.6             | 55.61                                             | 249.27                                               |
| 2010  | 39762.2             | 74.11                                             | 268.48                                               |
| 2011  | 41457.8             | 101.74                                            | 338.88                                               |
| 2012  | 42872.9             | 103.14                                            | 348.33                                               |
| 2013  | 43411.3             | 100.41                                            | 342.29                                               |
| 2014  | 43656.2             | 97.60                                             | 341                                                  |

Source: Bank of Russia (2015).

At the end of 2014, oil prices dropped rapidly. The highest rates of drawdown were recorded over a period of September 2014 through December 2014, where the prices dropped from 100 USD per barrel to 56 USD. Behaviour of oil prices in 2014-2015 is demonstrated in Fig. 1.
The Russian economy, especially the budget system is contingent on oil and gas revenues. The oil and gas revenues include returns on mineral extraction tax in terms of hydrocarbons, export customs duties against oil, natural gas and oil product. The behaviour analysis of GDP and oil and gas revenues of Russian Federation budget system suggests that their trends repeat in general (Fig. 2).

The revenues of extractive companies grow with the increase in prices for oil and natural gas. According to Rosstat data, the profit of extractive companies grew 2.2 times since 2005. Meanwhile, their profit share in the total financial result for all industries increased from 18.6% in 2005 to 22.7% in 2013. These revenues are subject to levying corporate income tax. But the budget classification does not classify them as oil and gas revenues. The corporate income tax goes to federal revenues (at the rate of 2%) and regional revenues (at the rate of 18%).

The oil and gas revenues feed the federal budget only and partially the stabilisation fund since 2004, which was split into two funds in 2007, namely the Reserve Fund and the National Welfare Fund. Currently, 30% of the RF consolidated budget revenues and over 50% of the federal revenues fall to the share of oil and gas revenues. The share of oil and gas revenues sought to grow both in consolidated and federal revenues. If in 2004 the oil and gas
revenues made 19.06% of the consolidated revenues and 30.19% of the federal revenues, then in 2014 they amounted to 31.77% and 51.28%, respectively.

Table 2. Oil and gas revenues of consolidated and federal revenues in 2004-2014.

| Year | Consolidated revenues, billion Rubles | Federal revenues, billion Rubles | Oil and gas revenues: Billion Rubles | % of consolidated revenues | % of federal revenues |
|------|--------------------------------------|---------------------------------|-------------------------------------|---------------------------|----------------------|
| 2004 | 5 429.89                             | 3 428.87                        | 1035.11                             | 19.06                     | 30.19                |
| 2005 | 8 127.09                             | 5 127.23                        | 2162.1                              | 26.60                     | 42.17                |
| 2006 | 10 076.22                            | 6 278.89                        | 2943.54                             | 29.21                     | 46.88                |
| 2007 | 12 609.58                            | 7 781.12                        | 2897.37                             | 22.98                     | 37.24                |
| 2008 | 15 474.71                            | 9 275.93                        | 4389.43                             | 28.37                     | 47.32                |
| 2009 | 13 264.37                            | 7 337.75                        | 2983.96                             | 22.50                     | 40.67                |
| 2010 | 14 842.76                            | 8 305.41                        | 3830.67                             | 25.81                     | 46.12                |
| 2011 | 19 011.89                            | 11 367.65                       | 564177                              | 29.67                     | 49.63                |
| 2012 | 20 920.06                            | 12 855.54                       | 6453.18                             | 30.85                     | 50.20                |
| 2013 | 21 185.06                            | 13 019.94                       | 6534.04                             | 30.84                     | 50.18                |
| 2014 | 23 402.29                            | 14 496.83                       | 7433.81                             | 31.77                     | 51.28                |

Source: Russian Federal Treasury (2015)

Such characteristic of the RF budget system, primarily the federal budget means significant risks for the budget and the entire economy. In addition, the risks also rise for both the regional and local budgets notwithstanding that they do not include customs duties and hydrocarbon revenue tax. This risk is owing to regions cannot be fully backed by budget transfers, which proportion in the regional and local budgets is great. Budget risks also rise for those regions, which budgets form significantly due to taxes payable by oil and gas corporations operated in their areas.

It however should be noted that slump in oil prices in the Q4 2014 did not result in corresponding drop of federal revenues and affect them in January 2015 (Table 3).

Table 3. Federal revenues in 2014.

| Month            | Revenues, billion Rubles |
|------------------|--------------------------|
|                  | Total                    | Including oil and gas revenues |
| December (2013)  | 1261.23                  | 593.31                          |
| January          | 1 326.67                 | 615.04                          |
| February         | 1 041.88                 | 618.74                          |
| March            | 1 152.87                 | 592.89                          |
| April            | 1 232.85                 | 689.99                          |
| May              | 1 128.30                 | 632.03                          |
| June             | 1 238.34                 | 554.75                          |
| July             | 1 134.76                 | 610.43                          |
| August           | 1 183.95                 | 573.47                          |
| September        | 1 258.69                 | 607.39                          |
| October          | 1 193.28                 | 618.40                          |
| November         | 1 059.80                 | 605.63                          |
The comparative analysis of monthly incomes that fed the federal budget over a period from December 2013 through January 2015 suggests that the budget received 2.49 billion Rubles less in January 2015 than in January 2014 (less than 0.2%), while it received the oil and gas revenues 15% less, i.e. totally 94.27 billion Rubles. Although, comparing December 2013 and December 2014 shows a substantial growth in oil and gas revenues by 121.74 billion Rubles (20.5%) and federal revenues by 22.5%.

We think that oil and gas revenues may further lower along with the total federal revenues if the oil prices decrease, whereas budget revenues remain at the current level in case of oil price freezing. Analysing the situation with oil price, A.G. Siluanov, the Russian Federation Minister of Finance expects lowering the oil and gas revenues roughly by 20%. Against this background, it fair to assume that the oil and gas revenues feeding the Russian federal budget may amount to about 5.5 trillion Rubles.

Table 4. Forecast indicators for oil and gas revenues of the Russian federal budget.

| Forecast indicators | 2015    | 2016    | 2017    |
|---------------------|---------|---------|---------|
| Urals oil prices in the Fiscal Policy Guidelines for 2015 and for planning period of 2016 and 2017 (USD per barrel) | 101     | 100     | 100     |
| Oil and gas revenues in the Fiscal Policy Guidelines for 2015 and for planning period of 2016 and 2017 (billion Rubles) | 6 818.60 | 6 843.10 | 7 590.90 |
| Anticipated oil and gas revenues of the federal budget if they drop by 20% (billion Rubles) | 5454.88 | 5474.48 | 6072.72 |

Therefore, the federal revenues may be expected to lower by more than 1 trillion Rubles if the current conditions to form the federal budget are maintained. This forecast may, however, be pessimistic, but quite possible. The question is how long the oil price will stay at this level.

3. Conclusions

The analysis revealed that the budget system and economy of the Russian Federation highly depend on oil and gas revenues, which, in turn, hinge on global prices for oil and natural gas. The unstable global economic situation raises budget risks in Russia, which are not easy to predict. The public sector of the Russian Federation is too exposed to the dependency of the national economy on oil and gas. Therefore, threads are emerged to the capability primarily of the federal government to promptly discharge expenditure obligations. However budget risks emerge toward those constituents of the Russian Federation, which budgets are based significantly on taxes payable by oil and gas corporations. Currently, such risks are not assessed by any governmental institution of the Russian Federation and, therefore, are not included into budget planning. Although, the annual document of the RF Ministry of Finance “The Fiscal Policy of the Russian Federation” published in July 2014 when drafting the federal budget includes Section “Main Macroeconomic and Budgetary Risks”. However, this section is descriptive only, where the RF Ministry of Finance lists the risk factors for national fiscal system, including without limitation to probability of reduction in oil prices. But the document does not provide any assessments. The international rating agencies include the dependency of national economy and fiscal system on oil and gas into their assessments of the Russian Federation.

Particularly, this dependency does not allow other industries to develop in a proper way. The Russian government repeated many times that other trades need to develop. This, however, did not result yet in any serious movements in economic conversion. Certainly, as compared with manufacturing activity, extraction of minerals including oil and gas production shows highest profitability making it investment attractive.
Current unstable global economic situation significantly exposes national economies and fiscal systems of many countries to risks and not only because of fluctuations of oil and gas prices. Therefore we consider that it would be a good practice for Russia to establish a special-purpose institution to monitor vulnerability affecting the national finance system and to provide with recommendations to prevent or mitigate the detrimental effect. Such a body, the Financial Stability Board, was established by G20 countries in 2009 and demonstrated its necessity. We believe that this institution would anticipate potential threats for Russian economy, thus mitigating the risks for the entire national financial system and the budget system in particular.

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