

Czech University of Life Sciences Prague

Faculty of Business and Administration

Department of Economics



Bachelor Thesis

Public Finance and their role – Case study of Russia

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Public Finance and their role – Case study of Russia

Objectives of thesis

The aim of the thesis is to assess the importance of public finance in the Russian economy. The thesis will assess the structures of public finance and their impact on the economy. An analysis will be made on the current state of public finances in Russia.

Methodology

The theoretical part consists of aspects of public finance and their role in the economy. Obtained by analysing the literature and information, including determining the structure of public finance in Russia and identifying the main problems.

In the practical part, the analytical method of analysis will be used. An analysis of the state of public finances over the past 5 years will be conducted.

The proposed extent of the thesis

30 – 40 pages

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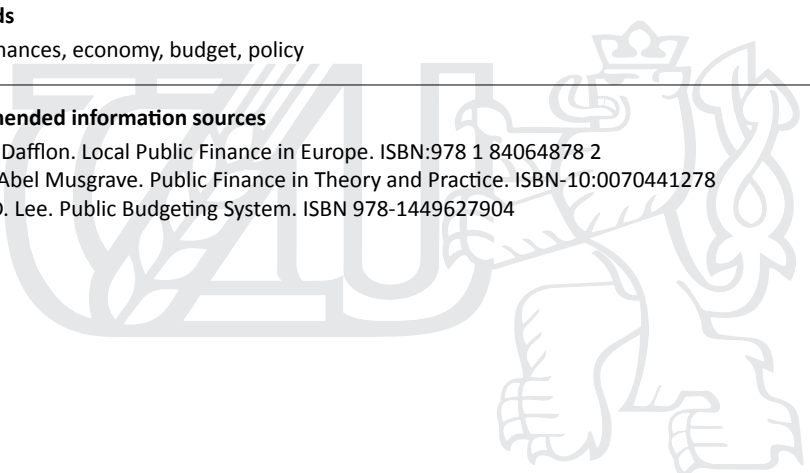
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Bernard Dafflon. Local Public Finance in Europe. ISBN:978 1 84064878 2

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Declaration

I declare that I have worked on my bachelor thesis titled "Public Finance and their role – Case study of Russia" by myself and I have used only the sources mentioned at the end of the thesis. As the author of the bachelor thesis, I declare that the thesis does not break copyrights of any their person.

In Prague on 23.03.2020

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Public Finance and their role - Case study of Russia.

Summary: This thesis examines the role of public finance and how it is used within government to aid the creation of policies on the economy, The Russian government will be used as an example throughout this study. During the research, two blocks were considered. The first block, considers the theoretical aspects of public finance and its role within the Russian economy. Further it describes the system of public finance within Russia and how the structure has been formed to aid economic decisions. In the second block an analysis of the state of public finance was conducted during the period of 2015-2019, with social and economic issues being evaluated.

The conclusion of the thesis emphasises the important role of public finance for each state and member of our society.

Keywords: Russia, public finances, economy, budget, policy.

Veřejné Finance a jejich role - případová studie Ruska.

Souhrn: Tato bakalářské práce se zabývá úlohou veřejných financí a tím, jak se používá ve vládě na pomoc vytváření politik pro ekonomiku, ruská vláda bude použita jako příklad v celé této studii. Během výzkumu byly zváženy dva bloky. První blok se zabývá teoretickými aspekty veřejných financí a jeho úlohou v ruské ekonomice. Dále popisuje systém veřejných financí v Rusku a způsob, jakým byla vytvořena struktura na pomoc hospodářským rozhodnutím. Ve druhém bloku byla provedena analýza stavu veřejných financí v období 2015-2019, přičemž byly posouzeny sociální a hospodářské otázky.

Závěr této práce zdůrazňuje důležitou úlohu veřejných financí pro každý stát a člena naší společnosti.

Klíčová slova: Klíčová slova: Rusko, veřejné finance, ekonomika, rozpočet, politika.

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List of abbreviations

GDP - Gross Domestic Product

IS - Information system

VAT - Value Added Tax

ACK ИДЦ-2 - information system of the Federal Tax Service

1 Introduction

Public finance is an important part of any financial system. They are closely related to the credit, banking and insurance systems of the country. Public finance is the basis of the activities of the state and local governments. It is hardly possible to imagine a state in whose hands there was not a single coin. Only with sufficient financial resources, the state can implement social policy, support important sectors of the economy, conduct research and ensure the country's defense. Public finance is a powerful lever for macroeconomic regulation. Through the skillful use of this tool, the state can solve a variety of problems: regulate the pace of economic growth, maintain the stability of the monetary unit, regulate the level of loan interest, smooth out market fluctuations.

In Russia, the state is just beginning to master this important economic instrument. After the adoption of the Budget Code of the Russian Federation, the work on drawing up and approving the budget acquired strictly regulated and legal norms. As regards budget execution, especially control over the use of budget funds, this work, by and large, only began after the adoption of the Federal Law “On the Accounts Chamber of the Russian Federation”.

In modern Russia, it has not yet learned how to properly build a tax system that would fully take into account and at the same time coordinate the various interests represented in society. It has not yet become accustomed to rationally manage its income, has not learned how to optimize its costs in a limited amount of resources. Insufficient experience in the field of public debt management, its uncontrolled growth, which led to the financial and economic crisis in the country. Much has been done in recent years in the field of inter-budget relations. However, numerous models of the interconnection of budgets of different levels, different schemes for the distribution of expenditure and revenue powers, without which it is difficult to hope that the life of most municipal finances in Russia are developing, are still being proposed and developed. It is changing, improving and becoming more mature. Much has already been established, it has become commonplace. But much remains to be changed. Under these conditions, it is important not only to record the positive that has been achieved, which has become firmly established in practice, but also to outline the directions in which the improvement of the system of state and municipal finances should go in the future. Certain changes have occurred in the

budget system, in the system of inter-budget relations, as well as in the sphere of control over the use of budget funds.

The policy of the Russian state in the field of internal and external borrowing has become somewhat different. These changes are so significant that we could not note this. And not only because most of the changes that have occurred have already been consolidated in the adopted amendments to the Budget and Tax Codes of the Russian Federation, but also because knowledge of these changes in the budget process significantly broadens the understanding of the system of state and municipal finances of Russia, bringing them as close as possible to real practice. The purpose of the thesis is to analyze the role of public finance on the example of Russia. During the writing of the work, two large blocks were considered. The first block examined the theoretical aspects of public finance and their role in the economy. In the second block, an analysis was made of the current state of public finances in Russia.

2 Objectives and Methodology

2.1 Objectives

The aim of the thesis is to assess the importance of public finance in the Russian economy. The thesis will assess the structures of public finance and their impact on the economy. An analysis will be made on the current state of public finances in Russia.

2.2 Methodology

The theoretical part consists of aspects of public finance and their role in the economy. Obtained by analyzing the literature and information, including determining the structure of public finance in Russia and identifying the main problems. In the practical part, the analytical method of analysis will be used. An analysis of the state of public finances over the past 5 years will be conducted.

3 Literature Review

3.1 The nature of public finance

Public finance is an essential part of a country's financial system. They provide the state with funds for economic, political and social functions. (Gruber, 2005). Public finance is a monetary relationship regarding the distribution and redistribution of GDP and national income associated with the formation of monetary resources at the disposal of the state and the use of public funds for the costs of expanding production, meeting the socio-cultural needs of society, the country's defense and management. (Musgrave, 1989)

The structure of state financing includes the following links:

- budgets of different levels;
- extra-budgetary funds;
- state credit;
- finances of state enterprises.

Budgets of different levels. The main role in public finance is played by budgetary interconnections. They take shape at various levels: federal, republican and local. At the federal level, this is the federal budget, financial resources that are used to solve national problems that are necessary for the entire state. These are the maintenance of the army, state administration, the maintenance of the socio-cultural sphere, for medical needs, and for the solution of international agreements. At the republican level (subject) - the budgets of the constituent entities of the Federation. Financial resources that are intended to fulfill the state functions of the constituent entities of the Federation. These financial resources are divided by territory, industry and should have a socio-economic orientation. (Muhyna, 2013). At the local level - the financial resources of local budgets that are used to regulate the economic processes of the local economy, i.e. creating territorial infrastructure, increasing the competitiveness of products, financing the cost of reproduction of labor resources. The next link is extra-budgetary funds, which can be federal and regional. Off-budget funds of federal purpose are a social insurance fund, a pension fund, and a state employment fund. Off-budget funds for regional purposes - an innovative fund that goes to the creation and implementation of new products, technologies, equipment and other achievements of scientific and technical progress, an environmental fund and a regional development fund. (Musgrave, 1989).

The functional purpose of extra-budgetary funds is divided into: (Gracheva, 2014).

- economic,
- social,
- environmental.

Extra-budgetary funds have their own characteristics:

- finance strictly targeted activities,
- are autonomous in nature,
- do not need legislative drafting,
- isolated from the budget.

Sources of financial resources of extra-budgetary funds are socially - targeted contributions: income from loans and lotteries, voluntary contributions and donations, saved financial resources. Government loans. The state mobilizes temporarily free funds of legal entities and individuals to cover its expenses. To do this, it issues government securities. The main forms of state credit are: loans, treasury loans. Government credit resources should cover the budget deficit and facilitate the outflow of money from circulation.

3.2 Function of public finance

The essence of finance is most fully manifested through their functions. Finance has three main functions (Vasilyeva, 2015):

- Distribution;
- Regulatory;
- Control.

The distribution function of finance is associated with the distribution of the value of the produced social product, the formation of the subjects of economic relations of income and savings, with the creation of funds. Redistribution results in secondary or derivative income. The gross domestic product (GDP) created in society, after deducting the means of production consumed in the production process, undergoes primary distribution, the result of which is the generation of income of the main participants in the sphere of material production. However, this is not enough for the public economy as a whole to develop and function normally. There is a need for redistribution of the created product, which is due to: (Pashkovska, 2013)

- the presence, along with the production non-production sphere, in which the material product is not created (education, healthcare, defense, etc.);
- differentiation of incomes of various groups of the population, which is inevitable in a market economy;
- uneven development of certain territories and sectors of the economy.

As a result of the redistribution, the following are formed:

- state revenues;
- income received in non-productive sectors;
- the population receives additional cash through social payments;
- territories and enterprises - additional resources for development.

Thus, secondary incomes form the final proportions of the use of national income and play an important role in the balanced development of individual sectors of the economy and territories, ensuring a decent standard of living for wide sections of the population.

The regulatory function of finance is manifested through the influence of the state on economic development (the behavior of business entities, the development of individual territories and industries) through financial leverage. The main tools that are used are the following: (Musgrave, 1989)

- taxes that can both reduce and stimulate entrepreneurship and private consumption;
- government spending that encourages firms or workers to produce certain goods and services, as well as social benefits that provide a certain level of income to certain segments of the population;
- regulation or control, through the adoption of relevant laws, certain types of economic activity, up to the prohibition of some of them;
- setting price caps for certain goods and services (mainly in the sectors of natural monopolies).

The modern state, increasing the volume of state capital investments, helps to increase demand, expand investment and increase industrial production. Allocating funds for military purposes, the state makes a demand not only for military equipment, but also for industrial products, equipment, raw materials, and stimulates scientific research. By financing infrastructure, the state helps reduce the costs of private companies. Through taxes, it can limit the private consumption of certain types of goods (for example, alcohol,

tobacco products), and by varying the difference between budget revenues and expenditures, the state is able to maintain one or another balance between the capital accumulated and actually used in production.

The governments of developed countries have begun to actively use finance as a means of regulating the economy since the Great Depression (1929-1933). The main ideologist and founder of the theory and practice of economic regulation through the use of public finance in the 20th century is the English economist J. Keynes, who formulated the theory of public finance, which is an important part of Keynesian (neo-Keynesian) economic theory. (Greene, 2011). The control function of finance is closely related to the distribution function. It cannot be said that control is exercised only after the distribution and redistribution of the aggregate product has occurred and centralized and decentralized monetary funds have been formed. The control function is manifested already in the course of the distribution of GDP among the respective funds and is a control over how correctly the formation of these funds was carried out. In addition, the control function is manifested in the verification of the expenditure of funds for their intended purpose. The financial control is subject to the activities of all participants in financial relations at both the micro and macro levels. It covers the sphere of budgetary relations (control over the correctness of budgeting, targeted use of budgetary funds and extra-budgetary funds, timely payment of interest on state debts, etc.). (Arnold, 2011). Financial control is also carried out in relation to business entities. For private enterprises, it is associated with control in terms of the completeness and timeliness of tax payments, the correct reflection of the costs of production and sale of products, the formation and use of business income. For the public sector, this is control over the targeted use of budget funds, the execution of cost estimates. For individuals, control is associated with the timeliness and completeness of paying taxes on income and property.

When talking about financial control by state authorities, it is primarily about checking compliance with financial legislation in terms of timeliness and completeness of all business entities and citizens fulfilling obligations to the budget system, tax service, credit system, as well as mutual settlements and payments between enterprises and organizations.

Financial control is aimed at increasing the efficiency of using budget funds, economic stimulation of entrepreneurial activity, rational use of material, natural, labor and financial resources at the disposal of the company. (Gracheva, 2014)

The control function of finance is manifested through the activities of financial authorities. Control can be carried out both by special financial departments of enterprises, banks, and state tax and financial authorities, legislative authorities and special departments. In most developed countries, there are also public forms of control over the targeted use of budget funds.

All the above functions of finance are directly implemented in the financial policy and financial mechanism.

Financial policy is a purposeful activity of the state based on financial legislation related to the mobilization of financial resources, their distribution and use for the government to fulfill its functions. The main objectives of financial policy are:

- provision of financial resources for programs implemented by the state;
- establishing a rational, from the point of view of the state, distribution and use of financial resources;
- focusing financial resources on priority areas of public policy;
- achievement of financial stability and financial independence of the state;
- creating a sustainable material basis for the functioning of business entities;
- formation of income levels that ensure normal reproduction of the population.

Financial policy is an independent sphere of activity of the state. But at the same time, it is closely connected with any other type of state activity, whether it is monetary policy, social or foreign economic policy of the state. This is due to the fact that the state is not able to solve certain problems if it does not have the appropriate financial resources. (Greene, 2011)

At the same time, it must be borne in mind that the criterion for evaluating a particular financial policy is the extent to which this financial policy contributes to the achievement of goals identified by the state as priorities. Therefore, to evaluate financial policy and make recommendations on how to adjust it, it is important to clearly understand what goals it serves and what ultimately needs to be addressed using these financial instruments.

The role of financial policy is especially great in the era of fundamental changes in society, as happened in Russia in the 90s. On the one hand, with the help of financial policy it is possible to quickly block the existing economic mechanism. On the other hand, through the radical redistribution of financial resources, the formation of a new system of social relations can be accelerated. (Muhyna, 2013)

The financial policy of the state includes the following elements: (Pashkovska, 2013)

- budget policy;
- tax policy;
- price policy;
- monetary policy;
- customs policy;
- foreign and domestic borrowing policy;
- international finance policy.

Central to the financial policy of any state is budget policy.

Budget policy is the purposeful activity of the state to determine the main tasks and quantitative parameters of the formation of budget revenues and expenses, and public debt management. The following indicators can be used as criteria for the effectiveness of fiscal policy: (Vasilyeva, 2015)

- level of collection of budget revenues;
- level of budgetary obligations;
- the size of the budget deficit and the growth rate of public debt;
- the level of monetization of the budget deficit;
- the amount of foreign exchange reserves used to finance the budget deficit;
- GDP dynamics;
- the degree of execution of legislative and equivalent acts on the budget.

Financial policy is implemented through a financial mechanism, which is part of the economic mechanism. It includes:

- a set of organizational forms of financial relations;
- the procedure for the formation and use of centralized and decentralized funds;
- methods of financial planning;
- forms of financial and financial management;
- financial legislation.

3.3 The system of public finance in Russia

3.3.1 State budget

Establishing the composition of budget revenues and expenditures at each level depends on the delineation of functions between federal, territorial and local bodies of state power and administration - budget federalism.

The revenue part of the budgets of various levels of the hierarchy is formed in the framework of the tax policy of the state and territory, as well as relationships with budgets of other levels - inter-budget relations. (Gracheva, 2014)

Inter-budgetary relations of the federal budget with the budgets of the regions consist of the following elements: subsidies, subventions, mutual settlements, short-term budget loans and transfers. Grants and transfers from the federal fund for regional financial support can be classified as universal grants designed to regulate the income of territorial budgets, and mutual settlements and subventions are targeted grants, which can result in both equalization and strengthening of differences in the situation of regions.

The expenditures of budgets of all levels are divided into the budget of current expenditures and the development budget. The budget for current expenses includes transfer payments, expenses for the maintenance of budgetary institutions, subsidies to industries and regions, expenses for the maintenance of public authorities and administration, etc. (Romanovskaya, 2014)

The development budget includes allocations for financing public investment, research and innovation and other costs associated with expanded reproduction. If there is a budget deficit, the priority financing shall be the expenses included in the budget of current expenses. All revenues and expenses are allocated in budgets according to budget classification codes, which ensures the comparability of budget indicators at all levels.

3.3.2 The nature and essential elements of government loan

State loan - a set of economic relations between the state in the person of its government and management bodies and individuals and legal entities, in which the state acts as a borrower, lender and guarantor. (Gruber, 2005)

In quantitative terms, the activity of the state as a borrower of funds prevails. The volume of operations as a creditor, that is, when the state provides loans to legal entities and individuals, is much lower. In cases where the state assumes responsibility for repaying loans or fulfilling other obligations undertaken by individuals and legal entities, it is a guarantor. (Vasilyeva, 2015)

When borrowing funds by the state, the loan is secured by all property in its ownership or in the ownership of a territorial unit.

The basis of the state loan is its repayment and payment (the amount paid is returned with interest). However, government loans are distinguished by lower interest rates, due to the socio-economic significance of the loaned project (development of small business, strategic and socially significant industries, exports). (Arnold, 2011)

As a financial category, state credit performs the distribution and control functions.

Through the distribution function of the state loan, the centralized monetary funds of the state are formed and used on the principles of urgency, payment and repayment. The population pays for public debt servicing through taxes, and state creditors receive income in the form of interest.

Entering into credit relations, the state affects the state of money circulation, the level of interest rates in the money and capital market, production and employment.

The following options for influencing money circulation are possible: (Romanovskaya, 2014)

- 1) an absolute reduction in cash money supply occurs if money is borrowed from individuals and used for lending to investment projects of legal entities;
- 2) the amount of cash money supply does not change if a loan from individuals is spent on wages in the public sector, transfers to the population;
- 3) the amount of cash money supply increases if the state borrows from legal entities and directs funds to payments to the population.

In general economic terms, state credit is an effective tool for structural adjustment of industry, production conversion, and support for domestic producers. (Arnold, 2011)

Depending on the goals, instruments, methods of implementation, state credit can have a positive or negative impact on the socio-economic development of the country. The control function of state credit is carried out by financial institutions, credit institutions, state authorities and administrations. The law on the budget for the corresponding fiscal year establishes the limits for external and internal debt and state guarantees.

3.3.3 The role of non-budget funds

Extra-budgetary funds are created for the implementation of specific goals, and the need for their creation is caused by the objective need to redistribute financial resources to finance the most important social and other needs of society, not provided for in budgets. With their help, two main tasks are solved: providing additional funds to priority areas of the economy and expanding the volume of financing of social services for the population.

Extra-budgetary funds have a number of features that distinguish them from other parts of the financial system: (Gracheva, 2014)

- have a strictly targeted focus;
- funds are used to finance government spending, usually not financed from the budget or financed in small amounts;
- the vast majority of the income of the funds is formed from insurance premiums of legal entities;
- all property and funds of the funds are in state ownership and are not included in the budgets.

Extra-budgetary funds - this is one of the elements of such a link in the financial system as national finance, they are widely developed abroad. The sources of extra-budgetary funds may be special taxes and fees, budget appropriations, special loans, voluntary contributions, as well as income from the activities of the fund itself.

Most often, extra-budgetary funds are classified according to the following criteria:

- validity periods - permanent and temporary;
- accessories - state, local, interstate;
- directions of use - social, credit, economic, scientific, investment, etc.

The main purpose of extra-budgetary funds is compulsory insurance, which is a system of legal, economic and organizational measures created by the state aimed at compensating or minimizing the consequences of changes in the material and social status of citizens and the onset of social insurance risks.

The main activities of the Pension Fund are: (Romanovskaya, 2014)

- 1) targeted collection and accumulation of insurance premiums, as well as financing of expenses related to social protection of the population;
- 2) the organization of work to recover from employers and citizens guilty of harming the health of workers and other citizens, the amounts of state disability pensions due to work injury, professional illness or in case of loss of the bread-winner;

- 3) capitalization of the Fund, as well as the attraction of voluntary contributions of individuals and legal entities;
- 4) control over the timely and full receipt of insurance premiums in the fund, as well as control over the correct and rational use of its funds;
- 5) conducting research work in the field of state pension insurance;
- 6) explanatory work among the population and legal entities on issues within the competence of the Fund.

Social Insurance Fund money is spent on the following purposes: (Romanovskaya, 2014)

- 1) payment of temporary disability benefits;
- 2) sanatorium and resort services for workers and members of their families;
- 3) financing of research work on labor protection;
- 4) insurance against industrial accidents and occupational diseases;
- 5) additional costs for medical, social and vocational rehabilitation;
- 6) organization and maintenance of a unified information system of social insurance;
- 7) compensation for harm caused to employees by injury, professional illness or other health damage associated with the performance of their labor duties;
- 8) the recovery of citizens affected by the Chernobyl accident;
- 9) payment of benefits for pregnancy and childbirth, at the birth of a child, for the care of a child until he reaches the age of 1.5 years; to reimburse the cost of the guaranteed list of services and social benefits for burial;
- 10) children's health;
- 11) expenses for the maintenance of the Fund's institutions themselves;
- 12) the balance of funds at the end of a specific financial year;
- 13) capital investments for the development of sanatorium-resort institutions of the Fund.

The funds of the Mandatory Health Insurance Fund are spent on the following purposes:

- 1) financing of targeted health programs;
- 2) financing of vocational training and retraining;
- 3) the creation of a standardized insurance stock (in case of a critical situation with the financing of compulsory health insurance programs);
- 4) computerization of the system of compulsory health insurance;
- 5) international cooperation on compulsory health insurance;

- 6) financing of scientific research in the field of medicine;
- 7) development of the material and technical base of healthcare;
- 8) alignment of levels of medical care in a territorial aspect;
- 9) payment of medicines;
- 10) the provision of medical care for mass diseases, natural disasters, catastrophes;
- 11) the content of the Fund itself;
- 12) the balance of funds at the end of a particular financial year.

3.4 Public finance and its influence on the economy

The role of the modern state and its finances in the economy or in the economic circuit is enormous. The state is actively involved in regulating the economic life of its country. That regulation of the economy is the essence of state economic policy. (Barrios, 2008)

The state uses numerous economic, political and legal measures to regulate economic life. With their help, the state intervenes in economic processes in order to achieve stable development and adaptation to the constantly changing conditions of modern market conditions. (Gruber, 2005)

The state regulates market processes, counteracting monopoly and encouraging competition. During crises, government intervention in the economy mitigates their negative effects and accelerates their recovery. The state itself also participates in such types of economic activities that are vital for the whole society as a whole, but because of the low profitability (and sometimes unprofitability) it does not attract private capital. To relieve social tension, the state participates in the process of income redistribution, helping low-income groups. (Barrios, 2008)

Direct intervention has a direct impact on the economy as a whole - on aggregate demand and aggregate supply. The most important form of direct intervention in the economy is the creation of the public sector. Expressing the interests of all economic entities, the state organizes the production and sale of products of industries that do not attract private capital due to their low profitability. The public sector is designed to ensure the normal functioning of the economy as a whole. As a rule, it is less effective than private, and is unprofitable, therefore, subsidies are allocated to it. When using the second

important form of direct state intervention in the economy, income redistribution, a significant part of the national income is purposefully redistributed, either in the form of subsidies or payment for research and development, or interest on securities, or unemployment benefits. Through the third form of its direct intervention, various economic programs, the state contributes to serious structural changes in the economy. Priority areas of programs are usually funded from the state budget.

Indirect forms of government intervention have an indirect effect on the economy, aggregate demand and aggregate supply. (Barrios, 2008)

The first of them - the monetary system - is used to influence the economy through the discount rate, open market operations and the mandatory reserve system. Through the tax system, the state affects the amount of income that goes to production, by manipulating the tax rate. In addition, many taxes act as pricing factors, and their change is directly reflected in the prices of goods and services.

Public finance is the aggregate of money (resources) that the state mobilizes to perform its functions. (Bernard, 2002)

The value of public finance is determined by the functions and role of the state in society:

- The essence of the first of them - economic - is to finance the regulatory activities of the state in the national economy (public sector management, programming).
- The second function - defense - is to finance the army, the police.
- The third - social - consists in supporting low-income groups of the population, financing unemployment benefits, people with disabilities and the sick.
- And finally, the last, fourth function that finance performs is the most modern - it is an environmental function. It consists in the provision of subsidies for the development and implementation of new technologies in production that reduce its harmful effects on the environment.

The fulfillment of these four functions is entrusted to the modern financial system, the structure of which depends on specific tasks. The most important tasks are solved by using federal finances, and in them - the budgets of the central government. Less significant tasks are performed by the budgets of regional and local authorities. (Rzhevskaya, 2008)

The state budget or - the budget of the central (federal) government is the largest monetary fund used to finance the activities of the central government. With its help, the state has an impact on many business processes. At the expense of the state budget, the army, the police, part of health care, science are maintained, and the environment is protected. The budgets of regional and local authorities, along with extra-budgetary funds, are included in the finances of local administrations. As a rule, the possibilities of the latter are limited, and they receive subsidies in the form of subsidies from the central government to finance their activities. (Greene, 2011). In addition to budget funds, the finances of state-owned enterprises are also included in public finances. They are formed either at the expense of the budget of the central government, for example, the budget of military enterprises, or at the expense of the enterprises themselves, if they are cost-effective - for example, mail, telegraph, telephone and a number of others, and can generate revenues to the state budget. Extrabudgetary financial resources are used strictly for their intended purpose - to finance targeted programs, both by the central government and regional and local authorities. The state budget is the income and expenses of the state, or in other words, it is a financial plan for the formation and use of the state's monetary fund.

The state budget is approved by the highest legislative power of the country, and the central (federal) government, that is, the executive branch, is responsible for its implementation.

The structure of the state budget consists of revenue and expenditure:

- The revenue side of the budget shows where the money comes from to finance government spending.
- The expenditure side of the budget shows for what purpose the finances accumulated by the state are directed.

Revenues and expenditures of the state are distributed respectively according to budgets of different levels: central (federal) authorities - the largest revenues and expenditures, regional and local. Each of them has its own sources of income and their scope.

The revenue part of the state budget is formed mainly from taxes. In most countries today they make up to 80-90% of all state revenues.

Two other sources also play a role in revenues — government loans and the issue of paper and credit money. Loans are carried out in the form of issuing government securities,

bearing interest. The government resorts to issuing paper and credit money when its revenues do not cover expenses. (Bernard, 2002)

With the help of tax collection, the state carries out the solution of the main functions and tasks assigned to it. Taxes are compulsory, gratuitous and compulsory payments paid by legal entities and individuals to state revenue. Taxes are divided into direct, which charge directly from income and property, and indirect, which are included in the price of goods and tariffs for services. The costs of the economy and social needs are made through public procurement and transfer payments. By purchasing goods and services, the state redistributes resources from private to public consumption.

Using another type of expenses - transfer payments, the state makes social payments to especially needy segments of the population - for social insurance and security, old-age pensions, child benefits, disability and unemployment benefits, pregnancy benefits, etc. Through transfer payments, the government is changing the structure of production of private sector goods. With the help of the state, a certain part of the population gets the opportunity to consume goods paid by society. Subsidies also serve the same purposes. (Greene, 2011).

The ideal condition of the state budget, when the balance of revenue and expenditure is achieved, is quite rare. In most countries, in practice, state budget expenditures exceed revenues (that is, the budget is reduced in deficit).

The budget deficit is the amount by which expenditures of the state budget exceed its revenues. Deficit is usually caused either by a general decline in production, or by overstated expenses for social programs, or by increased spending on defense, or - the fulfillment by the state of other functions. Reducing the budget deficit has become for the government of most countries a necessary tool for regulating the economy. Much less often, budget revenues exceed expenses, that is, there is an excess of money in the budget, and then it becomes surplus. The budget surplus represents the excess of the budget, that is, the excess of income over expenses. With a lack of funds (from collecting taxes and issuing paper money) to cover the budget deficit, the state resorts to borrowing - internal (that is, money is borrowed from citizens and organizations of their country) or external (that is, money is borrowed from foreign states and financial organizations). In addition to the principal amount on debts, interest is paid. Both large debts and excess monetary emissions lead to negative consequences: as a result of the additional issue of paper money

in circulation, inflation increases, and internal and external borrowings lead to an increase in government debt.

Government debt - the total amount of government debt to the population, owners of government securities, equal to the sum of past budget deficits. (Bernard, 2002)

Currently, in most countries both internal and external debts are growing. This situation, with the inefficient use of the funds received at a certain stage of development, can cause severe socio-economic consequences. Modern experts admit that a situation in which the total amount of public debt exceeds the volume of GDP by 1.5-2 times is dangerous for the stability of the national economy. Therefore, governments of all countries are trying not to bring public debt to this line. They strive to reduce debt servicing costs by lowering budget expenditures. This can be achieved by reducing spending on military needs, conversion in the defense industry, curtailing social programs, and privatizing low-profit enterprises in the public sector.

4 Practical Part

4.1 Public finance and social and economic policy in Russia

A social structure is an interweaving of relationships and interconnections between elements of society that has taken on stable and repeating forms. The social structure gives life organization and stability, assumes the existence of constant and orderly relationships between members of a group or society. The main sources of financing the social sphere are state (centralized) extra-budgetary funds for social purposes, which are formed on a territorial basis. Extra-budgetary social funds include: pension fund, employment fund, compulsory health insurance fund, social insurance fund, social support fund. Financing the social sphere can be considered as an important indicator, a kind of “litmus test” of the internal strength and health of society. In a certain sense, it characterizes the attitude of not only the authorities, but also the majority of the country's inhabitants to their history, their present and their future. (Paykovich, 2019)

Under the current conditions, the dominant direction of financing the social sphere is direct budget financing, based on per capita standards. At the current stage of management, the financing of social services in Russia is carried out by state and municipal authorities, thus, social spending represents the most important component of budget expenditures at all levels. Social expenses are covered by both general and targeted, special tax revenues to the state budget. Due to the special nature of social services, the private sector is not interested in financing social services of the public sector; therefore, the growth of the social sphere is due to an increase in budget financing and depends mainly on the budget revenue base. The majority of the population is not interested in increasing the tax burden, so an increase in the share of budget financing of social services cannot be accompanied by an unlimited increase in social payments. There is a limit to the growth of tax revenues, after which there is an anti-stimulating effect and stagnation in the economy appears.

In Russia, the problem of the ratio of tax revenues and the tax burden of legal entities and individuals, on the one hand, and the volume of budget expenditures on the social sphere, on the other hand, turned out to be even more acute than in countries with developed market economies. In modern conditions, social populism has become a serious factor in pressure on the legislative and executive authorities, which is forced to adopt a number of social laws and decrees that do not have real financial support.

Currently, the main burden on financing the social sphere is provided by the state: from the federal budget and extra-budgetary funds. The share of private financing is much smaller, but in 2015–2019 there was a tendency to increase financing of the social sphere at the expense of the resources of organizations and the population through the creation of business programs. The financial burden on population incomes is increasing, while income differentiation is not taken into account. To ensure social security and at the same time stimulate economic growth, it is necessary to use non-state financial resources. (Popova, 2020). Sources of financing for the social sphere are based on the social obligations of the state in the Constitution of the Russian Federation as a set of public goods. In turn, the state seeks to make them accessible to its citizens.

At the same time, budgetary resources are the main source of financing for the social sphere. The budget provides the maintenance and development of social infrastructure, social protection of the population of the region. In subsidized regions, due to the low revenue side of the budget, financing of the social sphere is carried out in a minimal amount, secondary incomes of the population are small, which also inhibits cash flow through the banking system.

Finances in social work are an essential component of the entire financial system of the state. This is a system of providing, organizing and spending funds in the social sphere.

Their implementation in the social sphere is based on the principles of: (Popova, 2020)

- 1) The principle of using all financial and economic factors to increase the level of social protection and the formation of social funds means the maximum possible degree of use of the main measures of economic reform (privatization, improvement of the tax system, lending, etc.) for social purposes.
- 2) The principle of social response involves revising social standards in the allocation of funds in connection with inflation, rising living costs, increasing the living wage, changing the level of employment of the able-bodied population and increasing material resources of social protection.
- 3) The principle of a differentiated approach in determining the size of appropriations and social assistance depending on the specifics of the region and local conditions.
- 4) The principle of independence of local authorities in the accumulation and use of funds in accordance with the law.

5) The criterion of economic efficiency, which is largely determined by the amount of social expenditures and the amount of deductions for their financing, correlating with all macroeconomic indicators (gross domestic product, wage funds, incomes of the population).

6) Consideration of state minimum standards, within which funds should be allocated for basic social positions (standard of living, science, culture, education, medicine, ecology).

7) The advantage of the social sphere in the distribution of additional budget revenues and the course for the outstripping growth of social spending compared to other types of budget expenditures. The formation of the system of expenses for social programs is carried out in accordance with the main directions of the state social policy. Neglecting problems can lead to high social costs and conflicts. Sources of financing for the social sphere are based on the social obligations of the state in the Constitution of the Russian Federation as a set of public goods. They are divided into centralized and decentralized. Under the centralized refers to those funds that are at the disposal of the state and local governments. These include the federal budget, regional budgets, local budgets and state extra-budgetary funds. Centralized sources play a leading role in financing the social structure of society.

The main element of decentralized sources is citizens spending on social services. Actively influencing reproduction processes, finances ensure a stable flow of financial resources in the process of forming the revenue base of the budget system, which allows for public spending in accordance with the main directions of the country's socio-economic plans.

In modern conditions, the most important component of municipal finance is a municipal loan. In countries with developed market economies, the role of borrowed funds for the implementation of the tasks of social and economic development of municipalities is of great importance. Attraction of borrowed resources is carried out through the issuance of municipal securities and bank loans. The implementation of radical transformations at the present stage of the economic development of the Russian Federation is possible only with the active and skillful use of finance as an instrument of influence on the socio-economic processes of the development of society, which necessitates a theoretical understanding of the contents of finance, their role and influence on all aspects of the process of social reproduction. Forms of financial impact on economic and social processes are direct and indirect financial regulation. Direct financial regulation involves the impact on a particular regulatory object. For example, the provision of tax benefits to

small enterprises and individual entrepreneurs as part of a small business support program or state and municipal orders to non-profit organizations and others. Indirect financial regulation acts indirectly through other objects.

Financial regulation of territorial proportions is carried out mainly through the mechanism of inter-budgetary regulation (regulating revenues; subsidies, subventions to budgets of other levels of the budget system), financing targeted programs of development and support of certain regions and municipalities. (Paykovich, 2019). One of the main methods of financial regulation of the social structure of society is the use of a progressive income tax rate, tax benefits, high levels of inheritance tax, property tax paid by individuals, and also other social benefits. Regulation of sectoral and social proportions is carried out both at the national level and at the regional level. The subjects of the federation in federal states have great potential for financial impact on economic and social processes, and since the regional level of state power is more than the federal one is closer to the needs of specific organizations and citizens, the effectiveness of such regulation is significantly strong.

4.2 Basic parameters of the budget

The budget at the federal level in 2015-2019 contained a number of features due to the current economic situation. In these years, revenue mobilization, reduction and redistribution of federal budget expenditures and limitation of its deficit were used. This made it possible to balance the budget in the medium term.

One of the key decisions for the next three years was the “freezing” of federal budget expenditures in nominal terms at the level of 15.8 trillion rubles.

In this section, we will conduct a comparative analysis of the revenue and expenditures of the federal budget for 2015-2019.

Let us present the characteristic of federal budget expenditures for the indicated period as a table. (Table 1)

Table 1: The main characteristics of the federal budget

	billion rubles					% GDP				
	2015	2016	2017	2018	2019	2015	2016	2017	2018	2019
Income	13659	13369	13437	13989	14825	16,9	16,1	15,5	15,2	15,0
Including										
Oil-and-gas	5863	4778	5029	5133	5370	7,3	5,8	5,8	5,5	5,4
Non-oil-and-gas	7797	8591	8408	8856	9455	9,6	10,4	9,6	9,6	9,6
Costs	15620	16403	16181	15978	15964	19,3	19,8	18,6	17,3	16,1
Deficit (- /) surplus (+)	-1961	-3034	-2744	-1989	-1139	-2,4	-3,7	-3,02	-2,2	-1,2
Non-oil-and-gas deficit	-7823	-7812	-7773	-7122	-6509	-9,7	-9,4	-9,0	-7,7	-6,5

Source: minfin.ru own proceed

A noticeable increase in non-oil-and-gas revenues in 2016 (to the level of 10.4% of GDP) is a consequence of the expected receipt of additional income from the partial privatization of «Rosneft».

The volume of receipts for all items of non-oil-and-gas revenues (except for import duties, the reduction of which is expected to be at the level of 0.1 percentage points of GDP), in 2015–2019 projected at or above their 2016 estimates (approximately 0.1 percentage points of GDP). The most noticeable increase in revenue is expected for VAT (for goods sold on the territory of the Russian Federation): +0.4 percentage points of GDP by 2019 (see table 2).

Table 2: Federal budget revenues in 2015-2019

	Billion rubles					%, GDP				
	2015	2016	2017	2018	2019	2015	2016	2017	2018	2019
Total revenue	13659	13369	13437	13989	14825	16,9	16,1	15,5	15,2	15,0
Oil-and-gas	5863	4778	5029	5133	5370	7,3	5,8	5,8	5,6	5,4
Included in them										
MET	3160	2819	3278	3386	3527	3,9	3,4	3,8	3,7	3,6
Export duties	2703	1959	1750	1746	1843	3,3	2,4	2,0	1,9	1,9
Non-oil-and-gas	7797	8591	8408	8856	9455	9,6	10,4	9,7	9,6	9,6
Included in them										
corporate income tax	491	465	599	635	686	0,6	0,6	0,7	0,7	0,7
VAT on goods sold in the territory of the Russian Federation	2448	2637	2888	3205	3559	3,0	3,2	3,3	3,5	3,6
VAT on goods imported into the territory of the Russian Federation	1785	1910	2001	2119	2265	2,2	2,3	2,3	2,3	2,3
excise taxes on goods produced on the territory of the Russian Federation	528	623	791	854	894	0,7	0,8	0,9	0,9	0,9
excise taxes on goods imported on the territory of the Russian Federation	54	57	51	50	52	0,1	0,1	0,1	0,1	0,1
Import duties	560	542	529	538	558	0,7	0,7	0,6	0,6	0,6

Source: minfin.ru own proceed

The sustainability of non-oil-and-gas tax revenues, as well as partial compensation for the drop in oil and gas revenues in the medium term, will be supported by measures to mobilize additional revenues to the budget. The most significant measures include:

- 1) Scheduled for 2018–2020 the completion of the “tax maneuver”, which entailed an increase in MET rates for oil and oil products, with the simultaneous abolition of export duties on them and changes in the system of levying excise taxes on oil products. Also, in trial mode, the introduction of value added tax (VAT) was launched. In general, in the field of taxation of oil and gas production in the medium term, it is planned to balance the level of tax burden on the oil and gas industries;
- 2) Increase in the minimum standard for dividends on state shares and state-owned companies - from 25 to 50%;
- 3) The creation of a unified system for administering budget revenues by introducing a unified methodological base. This initiative is expected to increase revenue collection and reduce administrative burdens.

However, the expected effects from the implementation of the latter measure are clearly overrated. Firstly, the expected improvement in the quality of import administration through the integration of information systems (IS) of the Federal Customs Service and the Federal Tax Service may increase the tax base of VAT on imports, however, given the fact that most of the tax withheld during customs declaration is subsequently deductible for "internal" VAT, the overall effect on the income of this tax can be much more modest.

Secondly, an increase in customs value will lead to an increase in customs duties, which in turn will increase the costs of suppliers and cause either an increase in prices (inflation) or a decrease in profit (lost income from income tax).

Thirdly, as regards the automated control system ACK ИДЦ-2 (information system of the Federal Tax Service), which was put into effect in 2015, it identifies those companies that do not show implementation, although they carry out procurement operations, thereby narrowing the selection of control and auditing activities of the Federal Tax Service . The fiscal effect in 2015 was estimated at 150 billion rubles, but taking into account the complication of "cashing out" funds in general and the fact that the automated control system ACK ИДЦ-2 has been in effect since 2015, the fiscal effect was mainly realized in the year the system was put into operation and it can hardly be subsequently manifested in the form of significant additional annual income.

Table 3: Federal budget expenditures by functional classification items for 2015-2019

	Billion rubles					% GDP				
	2015	2016	2017	2018	2019	2015	2016	2017	2018	2019
Costs of everything, including:	15620	16403	16181	15978	15964	19,3	19,8	18,6	17,3	16,1
National issues	1118	1098	1170	1126	1115	1,4	1,3	1,3	1,2	1,1
National defense	3181	3889	2840	2728	2856	3,9	4,7	3,3	3,0	2,9
National Security and Law Enforcement	1966	1943	1968	1945	2007	2,4	2,3	2,3	2,1	2,0
National economy	2324	2166	2292	2247	2054	2,9	2,6	2,6	2,4	2,1
Housing and communal services	144	57	60	30	27	0,2	0,1	0,1	0,0	0,0
Environmental protection	50	65	76	78	80	0,1	0,1	0,1	0,1	0,1
Education	611	558	568	589	586	0,8	0,7	0,7	0,6	0,6
Culture and Cinematography	90	92	94	88	80	0,1	0,1	0,1	0,1	0,1
Healthcare	516	466	377	394	360	0,6	0,6	0,4	0,4	0,4
Social politics	4265	4631	5080	4962	5054	5,3	5,6	5,9	5,4	5,1
Physical culture and sport	73	66	86	55	34	0,1	0,1	0,1	0,1	0,0
Media	82	76	74	68	67	0,1	0,1	0,1	0,1	0,1
Public debt service	519	640	729	848	870	0,6	0,8	0,8	0,9	0,9
Intergovernmental transfers	682	656,4	768	770	776	0,8	0,8	0,9	0,8	0,8

Source: minfin.ru own proceed

The largest share in the classification of expenses is social policy. In 2017, the share of spending these funds amounted to 5.9%. If we talk about the dynamics of this indicator, then already in 2018 it drops by 0.5%. By 2019, an increase in social policy expenditures amounted to 5054 billion rubles.

The second section is national defense. The Ministry of Finance of Russia radically - by almost a third - from 3.89 trillion to 2.84 trillion rubles - reduces military spending in 2017. This is 27% less than planned for 2016, and 11% less than in 2015. At the same time, spending on national security will be almost unchanged - 1.943 trillion rubles. Over the next 3 years, the trend towards a decrease in funds allocated for defense will continue, although it is obvious that this is one of the key pillars of the country, which has a national vital support.

The national economy ranks third in the distribution of budget funds. In 2016, the amount was 2166 billion rubles, in 2017 it decreased to 2292 billion rubles, but this did not affect the percentage ratio.

National Security and Law Enforcement. There is unstable dynamics, a decrease by 23 billion rubles by 2018 and a sharp increase, in monetary terms, by 62 billion rubles in

2019, but in percentage terms the indicators are reduced, this will be facilitated by higher federal budget revenues.

National issues. In the period from 2016 to 2018, their share in the total expenditures of the Federal budget of the Russian Federation is characterized by an upward trend. This is evidence of an increase in the cost of financing the state apparatus. Each subsection has a large number of appropriations, which in general is evidence of the growth of this indicator.

Environmental expenditures from 2015 to 2017 increased by 26 billion rubles. This section is inextricably linked with the development of infrastructure. Until 2019, there has also been a steady increase in environmental spending.

Transfers to the regions. The total amount is 768 billion rubles, or less than 5% of budget expenditures. Moreover, the revenues of the regions decreased in 2017 by approximately 119 billion rubles, since the rate of deductions of income tax to the federal budget was increased from 2% to 3%, respectively, due to a decrease in the rate of its deduction to regional budgets from 18% to 17%.

In general, 74 billion rubles were allocated to support the media (the amount has been quite stable over the past few years), of which 84% (almost 65 billion) were allocated to support TV and radio, mainly television, of course.

Public debt service. I must say that in recent years, the cost of servicing the state debt has grown rapidly - back in 2015 they amounted to 519 billion rubles, according to the budget for 2017 - already 729 billion. About three quarters of the state debt are domestic borrowings, which are growing rapidly: in 2015, the domestic public debt amounted to only 7.3 trillion rubles (9% of GDP), in 2017 it is planned to increase it to 12.8 trillion rubles (13% of GDP).

Over the past few years, the government and the President of the Russian Federation approved 45 priority state programs. In the budget for 2017 there are no resources for the full implementation of each of them. But the costs of several priority projects are envisaged: healthcare development - 3.84 billion rubles; development of education for 2013-2020 - 42 billion rubles; Housing and communal services and urban environment - 10 billion rubles; international cooperation and export - 41 billion rubles; integrated development of single-industry towns - 6.5 billion rubles; ecology - 20.19 billion rubles, etc.

4.3 Social and economic issues

In accordance with the proposals of the Ministry of Finance of Russia, it is planned to determine the maximum amount of federal budget spending since 2020 as the sum of three components: (Popova, 2020)

- 1) the base volume of oil and gas revenues, calculated at a base oil price at a constant level of \$40 per barrel of «Urals» brand and a base exchange rate of ruble;
- 2) the volume of non-oil-and-gas revenues calculated in accordance with the basic version of the medium-term forecast of the Ministry of Economic Development of Russia;
- 3) debt service costs. Moreover, in the case when the forecasted amount of resources of the Reserve Fund on January 1 of the first year of the planning period falls below the level of 5% of GDP, the maximum amount of use of the resources of the Reserve Fund for the next budget year cannot exceed 1% of GDP and, based on this, the limit is adjusted amount of expenses.

This construction of rules is aimed at reducing the influence of fluctuations in oil prices on domestic prices and the exchange rate, while budgetary policy is interfaced with the tasks of monetary regulation. It is obvious that in conditions when the first and third components of the formula will behave acyclically, the second – pro-cyclically and there is no deficit, an active budget policy is impossible in principle. Along with the theses on large-scale privatization and stabilization of the tax burden, this indicates that a course has been taken to reduce the share of direct government participation in the economy.

The construction of rules in the long term does not look stable enough, since maintaining the linking of costs to the price of oil makes sense only if the budget rules are based on a more or less plausible hypothesis that describes the patterns of movement of oil prices. Otherwise, the credibility of the rules may be undermined, and then their revision is inevitable, as was already the case with their version of 2004.

Also, the budget rule from 2020 is supposed to limit the basic level of borrowing to the volume of debt servicing expenses (0.8–1.0% of GDP per year). That, in principle, is true, since it is not so much the size of the debt that is critical as the amount of the cost of servicing it. However, the following points should be taken into account: already in 2018, debt servicing costs, under the hypothesis that the deficit will be reduced, will approach the upper limit (0.93% of GDP); planned to attract annual domestic borrowing in the amount of more than 1 trillion rubles; Problems remain with the growing debts of the regions and

the imbalance of the Pension Fund of the Russian Federation. All of the above together indicates the low realism of this limitation.

The goal of the transition to the new budget rules from 2020 determines the need for budget consolidation, which is planned for the transition period 2017–2019. The upcoming fiscal consolidation implies a greater degree of contraction in the volume of government spending obligations with a simultaneous increase in their effectiveness.

Thus, in the period under review, federal budget expenditures are reduced both in nominal terms by almost 0.5 trillion rubles to the level of 2016, and in shares of GDP - by almost 4 percentage points (from 19.8% of GDP in 2016 to 16.1% in 2019).

It is also important to consider not only the total volumes, but also the structure of federal budget expenditures, which has worsened in recent years. As a result, expenditures grew in only three areas, and all of them are not productive — national defense, social policy, and debt servicing. Among countries not at war, Russia is one of the champions in terms of defense spending. Pension spending is growing steadily, and without a pension reform, this trend is unlikely to change in the coming years.

The problem of public debt has exacerbated at the regional level - in recent years there has been an uncontrolled increase in the volume of public debt of the constituent entities of the Federation. Regions, increasing salaries to employees of the budget network, not only refuse from budget investments, but also increase debts due to growing deficits of consolidated budgets. So, if by 2012 many constituent entities of the Russian Federation had insignificant public debt, by the beginning of 2016, in 14 regions the volume of public debt exceeded 100% of tax and non-tax revenues of regional budgets.

Thus, three main problems can be distinguished for a radical review of the nature of budget policy: (Prokofiev, 2019)

1. For a long time, a budget dependent on raw materials revenues became a serious deterrent and even a brake on the structural adjustment of the economy: guaranteed rental incomes and the lack of demand from the raw materials sector for direct budget support discouraged measures to change the structure of the economy. Since 2015, the volume of oil rent redistributed through the budget has been steadily declining, which creates the conditions for changing the priorities of budget expenditures.

2. One of the goals of fiscal policy was to proclaim a reduction in the deficit, but the availability of reserves in sovereign funds made it possible not to look for answers to the challenges of the budget for long-term balance (aging of the population, inertial-inflexible

spending structure with a shift in social and power directions, changing the structure of budget revenues, shadow sector and low stability of the banking system). At the same time, the Reserve Fund was completely exhausted in 2017, and there was hardly enough liquid reserves of the SWF (not placed in infrastructure projects) to balance the federal budget in the planning period. This situation also encourages a rethinking of approaches to budget policy.

3. The "self-reproducing" size of the debt of the consolidated budgets of the constituent entities of the Russian Federation with pedantic performance (following the decrees) of indicators will finally transfer the problem of balancing regional budgets to the federal level, which no longer has its own reserves to maintain the stability of not only the budget system as a whole, but also the federal budget itself. The current fiscal policy leads to a widening fiscal gap and deterioration in long-term fiscal sustainability, which actually means putting off the crisis in public finances for a not-so-distant future.

4.4 Allocation of finance for social and economic development

Improving financial control in the Russian Federation should be carried out as follows: the methodological frameworks of financial control in the Russian Federation will be created as the most important component of national control, which will allow all control subjects and business entities to obtain clear guidelines in the process of determining and implementing their tasks and functions. In modern conditions, there is no effective mechanism for interaction between state financial control bodies and the legislative and executive authorities, the development of which is a key issue in organizing state financial control in the Russian Federation. Methods of state financial regulation are budget and tax policies, regulation of prices and tariffs of natural monopolies, depreciation methods, state guarantees, insurance and lending, forms of support for small businesses. Thus, tax regulation in the world practice includes a progressive system of taxation of citizens' incomes, relatively high tax rates on inherited property, tax incentives for small enterprises, innovations, and investments. For small businesses special tax regimes apply. Tax benefits are set for special economic zones (for land tax, property tax, etc.).

Methods of intergovernmental regulation are regulatory taxes (income), subventions, subsidies. The methods of financial regulation in the social sphere are such social standards as the living wage, minimum wage, pensions, allowances, scholarships,

compensation, subsidies, financial assistance, etc. State support for mortgage lending provides for the provision of state guarantees for bank mortgages, budget subsidized mortgage interest, and shared participation of budget funds in financing housing construction along with funds from private investors.

In the real sector of the economy, a number of financial instruments are used: (Prokofiev, 2019)

- state financial support to agricultural producers in the form of subsidizing interest
- on the use of bank loans;
- financial support for the development of small businesses through special funds, the provision of soft loans, sureties or guarantees for loans received by small enterprises, individual entrepreneurs in commercial banks, the provision of financial assistance on a paid or unpaid basis, equity participation in the creation of business entities;
- when concluding government contracts for the purchase and delivery of products for state needs, state customers are required to place at least 15% of the total supply from small businesses;
- financial stimulation of investment activity in Russia involves the use of investment tax credit.

Thus, an investment tax credit can be provided to an organization if there is at least one of the following reasons: (Prokofiev, 2019)

- R&D or technical re-equipment of own production;
- implementation of innovative activities;
- fulfillment of a particularly important order for the socio-economic development of the region.

There is the possibility of using special economic measures. Special economic measures include a ban on actions against foreign states. Such measures may be aimed at:

- 1) suspension of the implementation of all or part of the programs in the field of economic, technical assistance, as well as programs in the field of military-technical cooperation;
- 2) the prohibition of financial transactions or the establishment of restrictions on their implementation;
- 3) the prohibition of foreign economic operations or the establishment of restrictions on their implementation;

4) change in export and (or) import customs duties.

In order to increase the efficiency of spending public funds, a promising direction for improving control is the transition to an audit of the effectiveness of public spending, which is the direction of the control bodies, which involves the analysis of the effectiveness and thriftiness of using public funds, an assessment of possible reserves for their growth and the validity of spending.

It should also be noted that the use of new information technologies should become a factor in improving the efficiency of state financial control. Informatization of the activities of public authorities and state financial control based on advanced technologies opens up prospects for improving the efficiency of use of public resources.

At present, unprecedented measures are being taken in Russia to implement financial management, namely: tax incentives, support for the real sector of the economy, modernization of tax collections, etc.

From all of the above, it follows that thanks to the above measures, it was possible to reduce inflation, stop the decline in production, and in a number of sectors there is an increase in production (in the military-industrial complex, agriculture, information communications), and to reduce the economic dependence on the sale of hydrocarbons. It should also be noted that with further improvement in the field of financial management, there are serious reasons to believe that these trends will develop.

5 Conclusion

The reliability of the financial system is of great socio-economic importance for each state. The state of the financial system affects the interests of almost every member of our society, the violation of which inevitably causes serious negative political, social and economic consequences that can undermine the foundations of society.

To a large extent, success in overcoming the economic crisis, reducing inflation and increasing financial stabilization depends on the efficient operation and reliability of the financial system. It is no coincidence that the process of economic transformation in all countries with a transformational economy began precisely with the financial system.

Summarizing all of the above, we can name the following results:

1. The domestic system of financial regulation of the economy and the social sphere has to go through many stages of development, but one thing is certain - approaches to solving the problems it faces, to assessing its impact on reproduction, finding directions for increasing the efficiency of the mechanism and improving the corresponding process should be based on the methods of experimental design theory.
2. The financial activity of the state is the activity of the state in the formation, redistribution and use of cash funds. It is based on fundamental rules and requirements - principles inherent in all activities of the Russian state and enshrined in the Constitution of the Russian Federation. The state carries out financial activities using various methods, depending, in particular, on the subject of legal relations, the conditions of accumulation and use of funds. The methods of financial regulation in the social sphere are such social standards as the living wage, minimum wage, pensions, allowances, scholarships, compensation, subsidies, financial assistance, etc.
3. The financial system of the Russian Federation as a set of financial institutions includes 6 state bodies and institutions endowed with a number of functions and competencies.
4. The current state of Russia's finances observes a number of key problems, among which the most acute are the dependence of the country's financial system on the external economic situation, as well as the gap between the real and financial sectors of the economy. The socio-economic situation is characterized by a significant differentiation of incomes, low living wage, minimum wage, and pension replacement ratio.

Modern financial policy is characterized by insecurity, inconsistency, and the absence of a clear plan of action. And her condition is such that without decisive, quick

and radical changes in financial policy that can drastically limit the budget deficit, take the extra money out of circulation, ensure the financial independence of labor collectives and authorities at all levels, wake up the economic initiative of each member of the society - further movement is impossible.

The Russian system of financial regulation of the economy and the social sphere has to go through many stages of formation, but, of course, one thing - approaches to solving the problems it faces, to assessing its impact on reproduction, finding directions for increasing the efficiency of the mechanism and improving the corresponding process should be based on a truly scientific theory of financial impact and objective analysis of a specific historical situation.

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