MONITORING OF RUSSIA'S ECONOMIC OUTLOOK:

TRENDS AND CHALLENGES OF SOCIO-ECONOMIC DEVELOPMENT

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MAIN TRENDS AND CONCLUSIONS

V.Gurevich

Over the last few days, taxes and other mandatory payments have become the topmost theme of the ongoing discussions of economic issues. The governmental departments have been incessantly putting forth various fiscal schemes, either raising or reducing their suggested tax rates. The expert community, followed by the general public, have been trying to guess the authorities' ultimate choice, and its possible consequences. The hotpot of suggestions and expectations would have still been brewing but for the President's interference: his instruction to the governmental departments was that they should first make their own choice, and only then announce it publicly.

The newly suggested tax initiatives are far from being simple, and this is good. A simple project to be implemented in that sphere would have been like this: pay more, and nothing more to be said (or discussed). Or (in a more populist version): here is some easing for you, and let us not discuss how the government is going to cope afterwards. However, as far as the actually suggested version is concerned (if we choose not to discuss the details of the scheme that envisages a reduction in social insurance payments, to be offset by a raised VAT rate), it may only be admitted that its drawbacks and benefits (and those of the other related initiatives) are numerous, and are rather densely packed. The final verdict has not been passed yet; meanwhile, the Bank of Russia, for example, seems not to have come to any definite conclusion. This is by no means surprising: a raise of VAT will trigger a serious (even if one-time) inflation leap. The Bank of Russia has already invested so much 'physical' and verbal effort in its policy of keeping the inflation rate both low and stable, that a new price leap, for example, some time in 2019 may indeed devalue both its works and deeds. And its unquestionable achievement – low inflation – may be transformed, in the public mind, into its antipode, and this will happen precisely due to it being a one-time development (i.e., the simultaneously and universally increased prices). In such a situation, many would be able to share the personal (and expert's) viewpoint expressed by First Vice Prime Minister Igor Shuvalov, who said that as far as he was concerned, he would have changed nothing.

Nevertheless, the 'tax innovations' (or lack of them) represent a conscious sovereign decision. Meanwhile, factors like, for example, the movement of world oil prices work on a level above any sovereignties. Oil prices plunged – as they sometimes do, quite suddenly, and contrary to an overwhelming majority of forecasts, thus opening up opportunities for quite natural musings as to whether this plunge is short-lived or not. An attempt at analyzing the actual movement of oil prices can add little to the understanding of the oil market – something that everybody seems to know quite well already. First, there are the doubts concerning the reliability of the crude output cut deal between the OPEC members and the oil exporter countries. The market was stirred just by the rumors that somewhere, the oil output reduction was insufficient, and that the half-year-long deal would not be prolonged until the end of 2017. Second, for a long time already, shale output growth and the increasing number of working oil drilling rigs in face of increasing prices can be treated as natural phenomena – in the sense that whenever wind blows, trees begin to sway. That is why US oil has recently been pumped more and more actively.

Consequently, in face of waning market activity it would probably be worthwhile to begin musing as to how many more trillions of rubles (one, two, or perhaps even three) will be generated by the increasingly expensive oil for the federal budget. A conservative approach to this issue may be a pledge, theoretically, of potential economic progress.

Quite understandably, the initially overestimated threat posed by the ruble's strengthening appears not to be even less serious. And the combination of cheaper oil and the US federal Reserve's decision to raise its key rate should altogether eliminate any further worries in that direction (because the national currency has a much greater change to weaken in such a situation). The raised key rate *per se*, similarly to the declared intention of the US regulator to further raise it little by little, was by no means an unexpected development for the markets – their response to it being quite calm. There was no intrigue in that, which is more than could be said of the aversion of the new US president to any toughening of the monetary policy – even on a moderate scale. His attitude follows a certain logic: he would like to do exactly the opposite – that is, to ease the access to money for businesses.

Upon considering Donald Trump's economic plans, our experts note, among other things, his new tax initiatives. Today, the USA applies the highest corporate tax rate (35%) among the developed countries. Trump plans to reduce it to 15%, and also to alter the currently applied depreciation scheme. As far as personal income tax is concerned, the president intends to reduce the number of income tax rates from seven to three, to lower the top marginal income tax rate from 39.6% to 33%, and to equalize the taxable income tax brackets for single, married and head of household filers. As a result, the average personal income tax rate would plunge from 26.5% до 23.3%. Those who can benefit most from these changes are the 1% of richest taxpayers, whose net income would increase by 10.2%–16%; the next 20% would gain 4.4–8.7%, and the other 80%, while losing nothing, would gain a mere 0.8–1.9%.

All this would also have certain consequences for the budget: if Trump's tax ideas should become reality, the amount of budget revenue to be lost over the next decade will be about $4.4–5.9 trillion (as estimated by the US Tax Foundation). However, over the same period, these tax initiatives could produce an additional growth of GDP by 8.2%, thus making the budget loss less substantial ($2.6–3.9 trillion).

The president's ideas also include reforms in the fields of trade policy, the energy sector, the principles of economic activity regulation, infrastructure upgrade plans (it was announced that projects to the total value of S1 trillion will be submitted for the US Congress' approval, to be funded by public and private investments), as well as the elimination of excessive (according to the current White House inhabitant) regulation of the lending activity of financial institutions.

Experts also discuss the prospects for Donald Trump's policy on the international arena, first of all with regard to leading international institutions and projects – from the UNO and G7 to the EU and the WTO to the Trans-Pacific Partnership. While noting Trump's notoriously controversial rhetoric, they insist that this sphere will also undergo certain changes, which in many cases will be, however, far less radical. He is not going to abstain from using diplomatic tools and relying on global institutions in pursuing his political goals; however, the Paris Agreement on climate change may become one of his ‘victims’. The support of international financial institutions may also be reduced. It is still too early to speak of any cardinal revision of the US policy towards the WTO. In spite of the new US president’s talk of the inefficient Brussels bureaucracy, the transatlantic trade and investment cooperation will be continued. However, new US policies on certain sensitive issues may trigger stronger disagreements between the European states, and undermine the EU integrity.

Similarly, it became obvious how quickly and radically Trump can change his rhetoric with regard to economic sanctions against Russia. No reliable forecast in that sphere (especially with regard to time schedule) can be provided by any, even the most powerful, computer. Instead, there have been attempts to calculate the effects of these sanctions, and of Russia’s retaliatory sanctions.

Our experts estimated the effects, on Russian consumers, of the embargo introduced by Russia from the summer 2014 by way of responding to the anti-Russian sanctions imposed by the USA and the EU, in particular the increased prices of certain foreign goods and their domestic analogues. The estimations were based on a comparison of actual and forecasted prices (the latter – if no embargo had been imposed). As a result of the embargo on food imports, the prices of banned items (imported from those countries that were not subject to an embargo) gained 3.0% on the average, while the prices of other goods (against which no sanctions had been imposed) rose on the whole by 2.9%. The effects of sanctions on the annual inflation rate were unevenly distributed over time, surging over the first year or year-and-a-half and thereafter receding, as consumer began to switch over to cheaper goods of lower quality. The researchers also calculated (in money terms) the losses of Russian domestic consumers. According to their estimates, while the structure of demand inside each group of goods (banned and non-banned) remained unchanged, the additional per capita expenditures over the study period (August 2014 – December 2015) amounted on the average to Rb 4,380 per annum.

The authors also note that from their analysis it follows that the effects of sanctions (and the embargo) were strongest over the first 6–12 months, and then the price growth and output decline rates became slower due to changes in the commodity markets. This is an important finding from the point of view of import substitution policy: producers benefit from the introduction of an embargo on imports only for a short period of time, after which its influence on market indices weakens.

If the conclusions derived on the basis of that analysis were true, the effects of embargo on prices and consumption should have disappeared in 2016, or at least dwindle significantly. Instead, both the consumption and personal income indices continued their plunge in the majority of Russian regions.

As for the growth of incomes in Dagestan and Ingushetia, as well as of those in Moscow Oblast and Leningrad Oblast, our experts have their doubts as to the reliability of these data. They also note that, according to statistics, the highest personal income growth in 2016 was registered in the Crimea (by 9%) and Sevastopol (by 4%).

The year-end statistics for 2016 point to slight growth, decline being noticed only in 18 regions. As far as processing industries are concerned, decline was demonstrated by a majority of regions (31), but this index is nevertheless below that for 2015. Investment decline is probably almost over. Regional budget revenues increased by nearly 7%; the highest growth rates were demonstrated by excises, PIT and profits tax. However, these indices were largely boosted by the gains in the Moscow city budget. This is also true for regional budget expenditures. Thus, the significantly increased regional allocations to culture and economic functions occurred largely due to the increased expenditures in the capital city's budget.

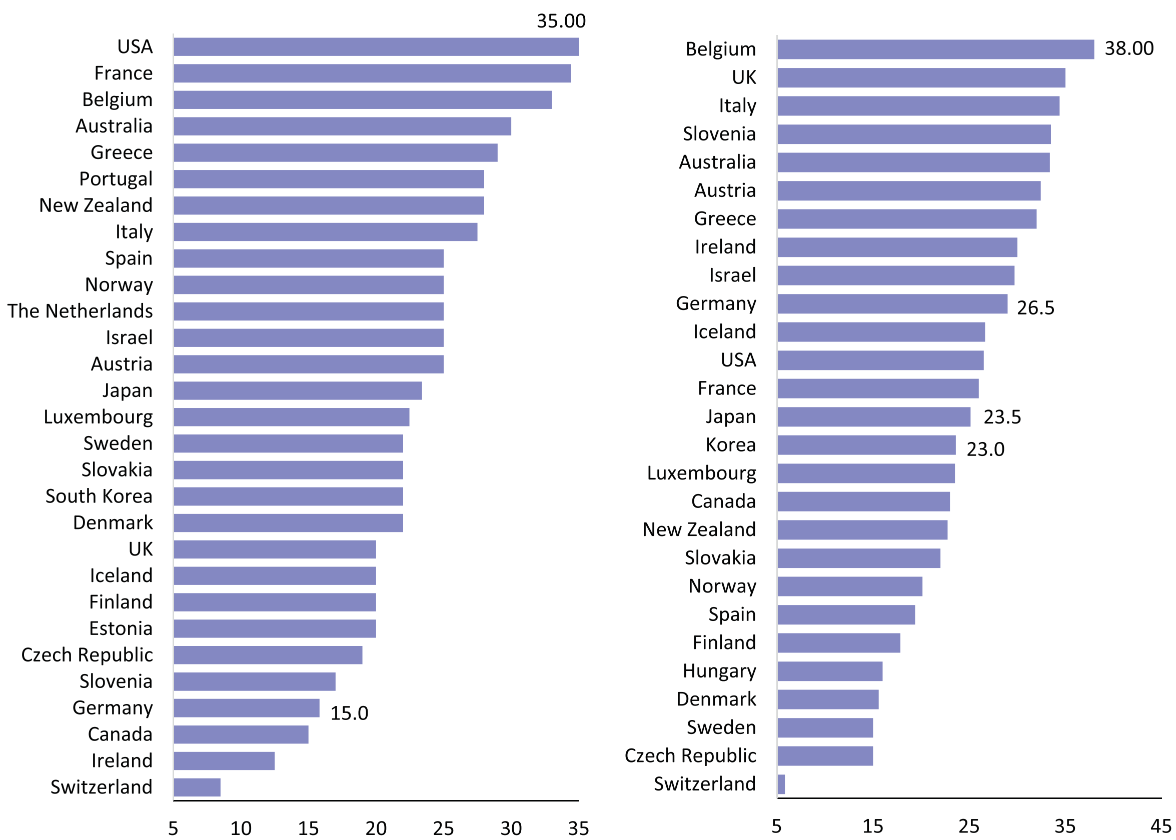
1. TRUMP'S ECONOMIC PLAN: THE ESTIMATED FUTURE EFFECTS

A.Kiyutsevskaya, P.Trunin

It was during his election campaign that US President Donald Trump put forth a number of domestic economic policy proposals, which, once implemented, may not only alter the rules of game in the US economy, but also significantly influence the entire global economy.

The most radical among Trump's initiatives address the following three areas: tax legislation; regulation of economic activities; and investment in US infrastructure. It is expected that an easing of the regulatory norms and a reduction of government interference in the economy followed by a surge of investment activity will boost the rate of economic growth. The alterations to tax legislation suggested by the US President are oriented to reducing the tax load on corporations and individuals in order to increase the amount of additional financial resources available for investment, and to equalizing the fiscal conditions for doing business in the USA with those in the countries the USA is competing with.

The USA applies the highest corporate tax rate among the developed countries – 35% (*Fig. 1*). Trump's economic plan envisages, firstly, that the rate of that tax should be cut down to 15% – that is, to make it one of the low-



Source: OECD.

Fig. 2. Average personal income tax rate, %

est among the developed countries; and secondly, also to alter the currently applied depreciation scheme. While at present capital expenditure depreciation expense is distributed evenly over a period of 3 to 20 years or more, the new plan allows it to be written off within the first year. However, in that case the company would no longer be entitled to reducing its taxable base by the amount of interest it has to pay (with the exception of interest on R&D loans).

It is planned to introduce significant alterations to the personal income tax system, by reducing the number of income tax brackets from seven to three, lowering the top marginal income tax rate from 39.6% to 33%, and by equalizing the taxable income tax brackets for singles and head of household filers. As a result, the average personal income tax rate in the USA would plunge from 26.5% to 23.3% (*Table 1*).

Those who will benefit most from this tax reform are the highest-income strata. As estimated by the US Tax Foundation, if these initiatives are implemented in full, the net income of 80% of taxpayers will increase by 0.8–1.9%, while that of another 20% represented by most wealthy taxpayers will increase by 4.4–8.7%, and 1% represented by the wealthiest ones will gain 10.2–16%.

The practical implementation of Donald Trump's initiatives, as estimated by the US Tax Foundation, will result over the next decade in a loss of tax-generated budget revenue in the amount of $4.4–5.9 trillion (2017–2025). The most dramatic fall will be demonstrated by the corporate tax receipts – $2.122 trillion, while the equalization of personal income tax rates will cost $1.418 trillion. The revenue loss will be partly offset by the increased tax receipts resulting from the elimination of various tax deductions.

In the long run, Trump's tax proposals may create appropriate conditions for accelerating the potential economic growth rate in the USA, and for boosting both wages and employment. The Congressional Budget Office (CBO) estimates that these positive effects may produce, by 2025, GDP growth of 8.2% relative to the index that could have been achieved if the previous economic policy course were to be continued. Given these gains, the expected budget revenue loss over the period 2017–2025 can be less substantial ($2.6–3.9 trillion)[1].

Trump's economic plan envisages that budget revenue can be increased by reforming US trade policy, the country's energy sector ($0.147 trillion), and the principles of economic activity regulation ($0.487 trillion). It is expected that these measures can translate into budget revenue growth, over the period 2017–2026, by $2.374 trillion, while the greatest monetary benefits, $1.740 trillion, will be produced by trade policy reform.

Reform of the economic activity regulation system is expected to increase budget revenue by 0.487 trillion over 10 years. One of the priorities to be achieved in this direction is the amendment or partial abolition of the Dodd-Frank Act. The most detailed description of the mechanism of amending that Act was released in November 2016. Most probably, the innovations will have to do with the regulatory requirements to the lending activity of financial institutions. According to Trump, excessive regulation in that sphere prevents the recovery of lending activity across the national economy. The planned alterations may also have to do with the Volcker Rule, whereby

1 According to the Congressional Budget Office, in 2026 US GDP will amount to $27 trillion.

Table 1

SOME CHANGES IN THE PERSONAL INCOME TAX SYSTEM

<table>
<tr><th rowspan="2"></th><th colspan="2">Current tax rates</th><th colspan="4">Donald Trump's initiatives</th></tr>
<tr><th>single</th><th>married filing jointly</th><th colspan="2">single</th><th colspan="2">married filing jointly</th></tr>
<tr><td colspan="7">Personal income tax</td></tr>
<tr><td>Income</td><td>Up to $9,725 – 10%.
From $9,725 to $37,650 – 15%.
From $37,650 to $91,150 – 25%.
From $91,150 to $190,150 – 28%.
From $190,150 to $413,350 – 33%.
From $413,350 to $415,050 – 35%.
From 415,050 – 39.6%</td><td>Up to $18,550 – 10%.
From $18,550 to 75,300 – 15%.
From $75,300 to $151,900 – 25%.
From $151,900 to $231,450 – 28%.
From $231,450 to $413,350 – 33%.
From $413,350 to $466,950 – 35%.
From $466,950 – 39.6%</td><td colspan="2">Up to $37,500 – 12%.
From $37,500 to $112,500 – 25%.
From $112,500 – 33%</td><td colspan="2">Up to $75,000 – 12%.
From $75,000 to $225,000 – 25%.
From $225,000 – 33%</td></tr>
<tr><td>Standard tax deduction, USD</td><td>6,300</td><td>12,600</td><td colspan="2">15,000</td><td colspan="2">30,000</td></tr>
<tr><td>Itemized deductions* (annual cap), USD</td><td>259,400</td><td>311,300</td><td colspan="2">100,000</td><td colspan="2">200,000</td></tr>
<tr><td>Alternative minimum tax, USD</td><td>53,900</td><td>83,800</td><td colspan="4">Repealed</td></tr>
<tr><td rowspan="4">Capital gains and dividends</td><td>Income tax rate</td><td>Capital gains and dividends tax rate</td><td>Traditional income</td><td>Capital gains and dividends tax rate</td><td>Traditional income</td><td>Capital gains and dividends tax rate</td></tr>
<tr><td>15% and less</td><td>0%</td><td>Up to $37,500</td><td>0%</td><td>Up to $75,000</td><td>0%</td></tr>
<tr><td>25%, 28%, 33% and 35%</td><td>15%</td><td>From $37,500 to $112,500</td><td>15%</td><td>From $75,000 to $225,000</td><td>15%</td></tr>
<tr><td>39.6%</td><td>20%</td><td>From $112,500</td><td>20%</td><td>From $25,000</td><td>20%</td></tr>
<tr><td>Estate tax</td><td>40% on estate valued above $5.45m</td><td>40% on estate valued above $10.9m</td><td colspan="4">Repealed, except for estate valued above $10m, in that case capital gains tax rate is applied</td></tr>
</table>

*To determine taxable income, either standard tax deduction (for residents only), or itemized tax deduction, applicable to certain expenses paid within a given year and confirmed by fiscal documents, can be applied. The deductable expenses include the cost of medical services, interest on housing mortgage loans, housing insurance, investment costs, etc. The decisions concerning tax deductions are made on an annual basis, but the majority of US residents prefer standard tax deduction.

banks are required to conduct separately their investment and lending operations. Meanwhile, back in 2010, the Act was supported by only three Republicans in the Senate, and it received no votes in the US House of Representatives. Trump many times aimed his criticism at the activities of the Bureau of Consumer Financial Protection, set up to regulate consumer financial products and services, including housing mortgage loans, in compliance with the Dodd-Frank Act.

It should be noted that, in his first speech to Congress on March 1, the US President spoke only of the feasibility of economic deregulation, without specifying any particular mechanisms or areas of reform. At the same time, Trump emphasized the plans of rebuilding the US infrastructure, mentioning that projects to the total value of $1 trillion were being prepared for submission to Congress. These projects, to be funded not only by public, but also by private investments, will result in the creation of millions of new jobs. According to Trump, with the money spent by the United States in the Middle East (approximately S6 trillion), 'we could have rebuilt our country – twice'[1].

1 Donald Trump's Congress speech, 1 March 2017. See http://edition.cnn.com/2017/02/28/politics/donald-trump-speech-transcript-full-text/

The actual form of implementing Trump's proposals is still unclear, and this is yet another reason for uncertainty. In this connection, although the actual growth rate of consumer prices in the USA is gradually approaching its set target, and the unemployment rate – its natural level, the Federal Reserve is still delaying the increase of its federal funds rate.

US investors met the President's initiatives with approval. Over the 3.5 months since Donald Trump was elected to be US President, the Dow Jones, Nasdaq and S&P500 quotes gained 15.2%, 13.7%, and 12.0% respectively. Such a rapid growth of stock indexes in late 2016 and early 2017 shows that US companies feel generally optimistic about their prospects, and especially so – the top 30 belonging to Dow Jones group.

2. DONALD TRUMP'S POLICY AND INTERNATIONAL INSTITUTIONS

M.Larionova, A.Sakharov, A.Shelepov, M.Rakhmangulov

The rhetoric of Donald Trump, as well as some of his actions, have given rise to a lot of questions as to what will be the United States' future policy toward certain leading international organizations like the UN, G7, the EU, and the WTO. This policy will certainly undergo a number of changes, but most of these changes are not going to be radical. It is obvious that Trump is not going to desist from the use of diplomatic tools and global institutions when pursuing his foreign policy that will primarily be oriented towards safeguarding US national security interests.

The United Nations

Despite tough talk on the UN[1] and the unanimous opinion of numerous experts and politicians that US funds for this organization will be cut, including mandatory contributions to its general budget[2] and peacekeeping operations,[3] as well as voluntary contributions to UN specialized agencies, the US mission to the United Nations continues to operate on a business as usual basis.

There is no doubt that the issue of cutting US funds for the UN will be repeatedly raised by both the Administration and the Congress. However, it can be expected that members of Donald Trump's team will do their best to achieve a proper balance between their public criticism of the UN and a businesslike participation in its major bodies and agencies, whose activities, in their view, directly corresponds to US interests[4]. One of the programs that are likely to fall victim to funding cut is the Paris Climate Agreement[5]. Even if the USA does not withdraw from the Agreement, it is not realistic to expect that Washington will meet the US greenhouse gas (GHG) reduction target agreed to by the Obama administration[6].

US participation in the UN Development Program, UN humanitarian programs and UN peacekeeping operations will be continued.

It is unlikely that having announced his intention to intensify the United States' participation in the struggle against transnational criminal organiza-

1 Donald J. Trump Tweet dated of 27 December 2016: see https://twitter.com/realdonaldtrump/status/813500123053490176

2 The United States' contribution accounts for 22% of the UN general budget, which makes the USA the largest single donor to the UN.

3 The USA finances 29% of UN peacekeeping operations. Donald Trump and the United Nations: a fight waiting to happen?: see http://www.telegraph.co.uk/news/2017/01/19/donald-trump-united-nations-fight-waiting-happen/

4 Republicans Have Long Wanted to Punish the U.N., but Trump Might Actually Do It, P. 3: http://www.politico.com/magazine/story/2016/12/republicans-have-long-wanted-to-punish-the-un-but-trump-might-actually-do-it-214558

5 Trump 'will definitely pull out of Paris climate change deal': see http://www.independent.co.uk/news/world/americas/donald-trump-paris-climate-change-deal-myron-ebell-us-president-america-pull-out-agreement-a7553676.html

6 US INDC: see http://www4.unfccc.int/ndcregistry/PublishedDocuments/United%20States%20of%20America%20First/U.S.A.%20First%20NDC%20Submission.pdf

tions[1], Donald Trump will desist from using the political and legal tools for combating terrorism that were created after the tragedy of 9/11/2001 in accordance with UN Security Council Resolution 1373.

It can be anticipated that the expected Presidential Executive Order titled 'Auditing and Reducing US Funding of International Organizations' will take into account two more arguments in favor of continuing US active involvement in UN activities. In the first place, if the USA abandons its leadership therein, China will be ready to increase her influence in the UN system[2]. In the second place, even if the USA discontinues its funding of UN development programs, US budget expenditures will be cut by less than 0.2% of GDP, which represents about one-fifth of the amount of the corporate income tax cuts promised by Trump. Thus, this measure will have a negligible effect on the US federal budget, but will certainly inflict serious reputational damage on the USA[3].

'The Group of Seven' (G7)

Some experts believe that the May 2017 G7 Summit in Taormina, Italy, will become a 'catastrophe': 'Many instinctively think the summit is due for a disaster, as a defiant Trump confronts his fellow leaders' core convictions and policy priorities on climate change, migration and open trade'[4]. However, the G7 leaders have much more in common with regard to their high priorities and values than they have difference. Moreover, this 'club' has already shown, on numerous occasions, its ability to 'socialize' newcomers and skeptics[5]. It is highly unlikely that the Taormina summit will result in the adoption of any historical decisions. Past experience shows that in order such decisions can be arrived at, two factors are absolutely necessary: definitely expressed US leadership and full support from at least one power besides the United States[6]. The Taormina summit will be a success if its participants manage to work out coordinated policies designed to promote economic growth, investment in infrastructure, and struggle against terrorism.

'The Group of Twenty' (G20)

With regard to the possible changes in the United States' involvement in G20 affairs under Donald Trump, experts have different, and sometimes rather contradictory, views. Under the worst scenario, G20 breaks down entirely, and international economic cooperation reverts back to its age-old format –

1 Presidential Executive Order on Enforcing Federal Law with Respect to Transnational Criminal Organizations and Preventing International Trafficking, Sec. 2 (d): see https://www.whitehouse.gov/the-press-office/2017/02/09/presidential-executive-order-enforcing-federal-law-respect-transnational

2 Republicans Have Long Wanted to Punish the U.N., but Trump Might Actually Do It, P. 4: see http://www.politico.com/magazine/story/2016/12/republicans-have-long-wanted-to-punish-the-un-but-trump-might-actually-do-it-214558

3 The balance sheet on 'America First', P. 4: see https://www.bostonglobe.com/opinion/2017/01/29/the-balance-sheet-america-first/5NN1urTLce1xB0rGObvUEI/story.html#comments

4 President Trump Meets the G7/G20: see http://www.g7g20.com/articles/john-kirton-president-trump-meets-the-g7-g20

5 Hanging Together. Cooperation and Conflict in the Seven-Power Summits, Revised and Enlarged Edition. P. 256–257: see http://www.hup.harvard.edu/catalog.php?isbn=9780674372269

6 Ibid., p. 272–273

meetings between ministers of finance[1]. There is no doubt that the agenda of G20 contains many issues which are being approached by the US President in a rather unorthodox way. These issues are as follows: trade and investment liberalization; the Sustainable Development Goals; the Paris Agreement; financial regulation; and the phasing out of inefficient fossil fuel subsidies. However, some of the issues on the agenda of G20 indeed correspond to the policy priorities of the 45th President of the United States.

First of all, he is certainly not averse to G20's main goal of achieving steady, sustainable, balanced and inclusive growth. Secondly, the issue of combating terrorism is definitely at the top of the new US administration's agenda. Thirdly, the same is true of investment in infrastructure seen as an important means of stimulating economic growth and increasing the competitiveness of the United States. Bearing this in mind, the tactics of the German delegation to the G20 summit – to abstain from any attempts at making some progress in tackling controversial issues – for example, the issue of financial regulation, but to consolidate the decisions agreed upon at the 2016 G20 Hangzhou summit and simultaneously to make palpable progress towards solving non-controversial issues[2] – seems to be highly promising.

Multilateral institutions in the field of international trade

The new US administration has announced that the trade agreements characterized by the Trump team as disadvantageous and dishonest to the US economy should be revised[3].

The Trans-Pacific Partnership

On 2 January 2017, Donald Trump signed a memorandum suspending US participation in the Trans-Pacific Partnership (TPP) and directed the US trade representative to withdraw the United States as a signatory to the Trans-Pacific Partnership (TPP), to permanently withdraw the United States from TPP negotiations, and to begin pursuing, wherever possible, bilateral trade negotiations to promote American industry, protect American workers, and raise American wages[4].

So far, a number of contradictory opinions have been expressed on the TPP's future without the USA. Japan's Prime Minister Shinzo Abe said that the TPP 'has no meaning' without the United States[5]. The Japanese Deputy Prime Minister and the US Vice President were instructed to discuss fully on the economic relations between the USA and Japan in order that a new framework for economic dialogue could be launched[6].

1 America's International Role Under Donald Trump, P. 13: see https://www.chathamhouse.org/publication/americas-international-role-under-donald-trump

2 Germany's gamble to break even with Trump at G20: see http://www.politico.eu/article/germanys-gamble-to-break-even-with-trump-at-g20/

3 Trade Deals That Work For All Americans: see https://www.whitehouse.gov/trade-deals-working-all-americans

4 Presidential Memorandum Regarding Withdrawal of the United States from the Trans-Pacific Partnership Negotiations and Agreement: see https://www.whitehouse.gov/the-press-office/2017/01/23/presidential-memorandum-regarding-withdrawal-united-states-trans-pacific

5 TPP 'has no meaning' without US, says Shinzo Abe: see https://www.ft.com/content/59972c38-b058-11e6-a37c-f4a01f1b0fa1.

6 Remarks by President Trump and Prime Minister Abe of Japan in Joint Press Conference: see https://www.whitehouse.gov/the-press-office/2017/02/10/remarks-president-trump-and-prime-minister-abe-japan-joint-press

Australia insists that the TPP should be renegotiated in order to create an opportunity for this partnership to proceed without the United States, and that there is potential for China to join the TPP. The Australian government is hopeful that other countries can be encouraged to continue TPP negotiations[1].

Most likely, there will be a lengthy process of revising the bilateral trade agreements between the USA and the countries of the Asia-Pacific region (APAC). Washington's participation in any new multilateral initiatives (especially in initiatives that include developing countries) is unlikely.

The North American Free Trade Agreement (NAFTA)

The USA is also going to renegotiate the North American Free Trade Agreement (NAFTA). If the other participants in NAFTA (Canada and Mexico) refuse to comply with Donald Trump's plan to renegotiate this trade agreement, the USA will withdraw from NAFTA[2].

The new US President is most highly displeased with the US goods trade deficit with Mexico and the influx of Mexican labor into the United States. The already unpleasant situation was further aggravated by the cancellation of the bilateral meeting between the US and Mexican Presidents planned for the end of January 2017[3]..

The issue of NAFTA's future was also discussed at President Trump's meeting with Canadian Prime Minister Justin Trudeau on 1 February 2017. At the same time, the US President noted that as far as the US-Canada trade relationship was concerned, 'it's a much less severe situation than what's taking place on the southern border'[4]. It can be expected that the negotiation process between the USA and its two North American neighbors will be lengthy and convoluted.

The World Trade Organization (WTO)

The 2017 Trade Policy Agenda and 2016 Annual Report of the President of the United States on the Trade Agreements Program indicate that the USA is going to continue, with some reservations, its activity within the framework of the World Trade Organization (WTO). The document emphasizes that existing US legislation should be used to counteract and override WTO decisions that are seen to be inimical to US national interests. The USA considers the commercial practice of dumping carried out by other countries as a major challenge to US national interests in the field of international trade, and reserves the right to resort to anti-dumping and countervailing measures in accordance with WTO rules.

The document contains a detailed plan for US participation in various WTO bodies and its continued cooperation with WTO member states for the

1 Tokyo turns down Australian proposal for TPP without U.S., vows to keep pushing Trump: see http://www.japantimes.co.jp/news/2017/01/24/national/politics-diplomacy/tokyo-turns-australian-proposal-tpp-without-u-s-vows-keep-pushing-trump/#.WMK33G-LSM8

2 Trade Deals That Work For All Americans: see https://www.whitehouse.gov/trade-deals-working-all-americans

3 Mexican president cancels meeting with Trump: see http://edition.cnn.com/2017/01/25/politics/mexico-president-donald-trump-enrique-pena-nieto-border-wall/

4 Remarks by President Trump and Prime Minister Trudeau of Canada in Joint Press Conference: see https://www.whitehouse.gov/the-press-office/2017/02/13/remarks-president-trump-and-prime-minister-trudeau-canada-joint-press

purposes of promoting the principles of world trade liberalization[1], thus making it impossible to suggest that US policy towards the WTO is already being radically changed.

International Financial Institutions

The Trump administration's focus on fostering economic growth on the basis of the USA's own resources, on weakening the multilateral vector of US economic policy, on eliminating excessive government regulation of the economy, and on pursuing primarily the national interest may result in a slackening of US support for the international financial regulatory institutions in which the USA currently plays a leading role[2].

NATO

Strengthening of the United States' military capabilities is one of the top priorities of the Trump administration[3]. During his presidential campaign, Donald Trump said NATO was 'obsolete', and cast doubt on whether the NATO commitment truly serves the United States' best interests. Since his inauguration as US president, Trump's team has sought to soften the rhetoric around NATO. Thus, the rather trivial issue of ensuring a fair distribution of the burden of collective security within the framework of NATO and of compelling all NATO members to increase their defense spending to 2% of their GDP has suddenly come to the fore out of the blue[4].

It should be expected that the Trump administration will increase pressure on NATO member countries. Apparently, the United States will retain its leading role in the North Atlantic Alliance in the Trump era. And it is equally apparent that the US demand that their NATO partners should increase their defense spending does not mean that US defense budget will be reduced.

The European Union (EU)

Having launched a barrage of criticism of the 'counterproductive' EU regulatory apparatus and taken a swipe at the EU by labeling it 'a vehicle for Germany, Donald Trump has met a strong rebuff from EU leaders. Notwithstanding their hurt feelings and painful emotions, it is clear that the main problems in the USA-EC relationship (cooperation within the framework of NATO, Trump's support for Brexit, the suspension of negotiations on the Transatlantic Trade and Investment Partnership (TTIP)) should not become an obstacle to the continuation of transatlantic economic and investment cooperation. At the same time, the new US administration's policy on a number of sensitive issues can deepen the diversity of opinion among the European countries and thus negatively affect the coherence and unity of the EU[5].

1 2017 Trade Policy Agenda and 2016 Annual Report: see https://ustr.gov/sites/default/files/files/reports/2017/AnnualReport/AnnualReport2017.pdf.

2 The economic consequences of Donald Trump: see http://www.economist.com/blogs/freeexchange/2016/11/global-economy

3 The Inaugural Address: see https://www.whitehouse.gov/inaugural-address

4 Remarks by the Vice President and NATO Secretary General Stoltenberg at a JPA: see https://www.whitehouse.gov/the-press-office/2017/02/20/remarks-vice-president-and-nato-secretary-general-stoltenberg-jpa

5 America's International Role Under Donald Trump: https://www.chathamhouse.org/publication/americas-international-role-under-donald-trump

3. THE EFFECT OF FOOD SANCTIONS ON PRICES IN RUSSIA IN 2014–2016

E.Ponomareva, R.Magomedov

In H2 2014, Russia introduced a food embargo against a number of countries as a retaliatory measure to economic, technological and financial sanctions. Limitation of imports of goods to Russia led to growth in prices on foreign goods and their domestic analogs, as well as changes in the consumer goods basket. According to our estimates, as a result of the food embargo prices on goods under sanctions (delivered from countries against which the food embargo was not imposed) rose on average by 3.0%, while prices on sanctions-free goods, generally by 2.9%.

In August 2014[1], Russia introduced a ban on imports of individual types of agricultural and food commodities from the EU countries and the US[2]. The above ban has brought about changes in the commodity and geographic patterns of imports to Russia. It is to be noted that the ban on food products from a number of countries has limited competition on the Russian market and eventually affected the Russian ultimate consumer due to appreciation of prices on import-substituting goods.

One can single out the following two effects of the embargo on the Russian domestic market: a consumer effect and production effect.

The consumer effect is related to a decrease in households' well-being due to price rises caused by sanctions. The production factor is justified by growth in revenues of agricultural and food producers thanks to limitation of the competition on the part of imports.

The Gaidar Institute carried out evaluation of consumers' losses as a value of compensation variability[3] of income with the embargo on individual types of products from the EU countries and the US introduced by Russia[4]. Estimates were made on the basis of comparison of actual and forecast (when there

1 The RF Government. Resolution No.778 of August 7, 2014 of the Government of the Russian Federation on Measures on Implementation of Executive Orders No. 560 of August 6, 2014, No.320 of June 24, 2015 and No.305 of June 29, 2016 of the President of the Russian Federation. 30.06.2016th ed. 2014.

2 The food embargo is in effect from December 31, 2017. Imports of individual goods from the following commodity groups – milk and dairy products, meat and meat products, vegetables, gourds, fish and fish products, fruits and berries – are banned to Russia from western countries. For more information on countries subjected to the embargo and the Eurasian Economic Union's detailed FEACN codes of goods which imports are banned to Russia from those countries, refer to RF Government Resolution No.778.

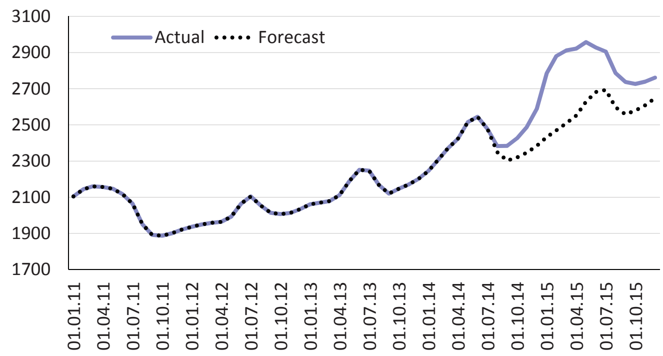
3 A compensation variability is a monetary evaluation of the value of the consumer's additional income required for maintaining his/her well-being with external conditions modified (within the frameworks of this paper it is introduction of the embargo). Mas-Colell, Andreu, Michael Dennis Whinston, and Jerry R. Green. Microeconomic Theory. Vol. 1. New York: Oxfordun iversitypress, 1995. The methods of quantitative evaluation are presented in detail in the complete version of this paper: The Effect of Food Sanctions on Prices in Russia in the 2014–2016 Period // Economic Development of Russia No.3, 2017.

4 In accordance with Resolution No. 778 of August 7, 2014 of the Government of the Russian Federation on Measures of Implementation of Executive Orders No. 560 of August 5, 2015, No. 329 of June 24, 2015 and No.305 of June 29, 2016 of the President of the Russian Federation (22.10.2016th ed.).

is no embargo in force) indices of prices on goods. It was assumed that with absence of the food embargo dynamics of prices on goods out of the consumer goods basket can be illustrated by means of a standard ARIMA model[1]. To take the specifics of individual types of goods into account, they were divided into analogs of goods under sanctions[2] and sanctions-free goods[3].

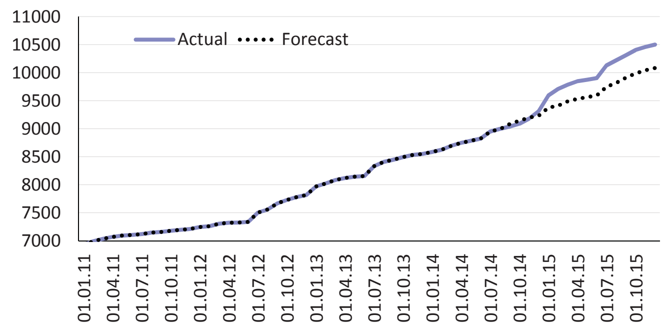
Comparison of the actual and forecast (received on the basis of evaluation of economic models) dynamics of prices on the above goods (*Fig. 1* and *Fig. 2*) shows that introduction of the food embargo has resulted in additional growth in prices on both types of goods.

Estimation of consumers' losses due to introduction of the embargo has shown that with absence of sanctions the value of a set of goods under sanctions would have been lower than the current value by nearly 3%, while the cost of a set of sanctions-free goods, by 2.9 %[4]. In accordance with the methods employed, fractional consumer losses amounted to 2.9%[5]. Average growth in the annual rate of inflation due to introduction of sanctions amounted to 3.1 p.p. as regards both goods under sanctions and sanctions-free goods.



Note. A dash line illustrates dynamics of prices on a set of goods which are analogs of those under sanctions with hypothetical absence of the embargo, while a solid line represents the actual dynamics.

Fig. 1. The cost of a fixed set of goods which are analogs of goods under sanctions, rubles



Note. A dash line illustrates dynamics of prices on a set of sanctions-free goods with hypothetical absence of the embargo, while a solid line, the actual dynamics.

Fig. 2. The value of a fixed set of sanctions-free goods, rubles

1 Rosstat's Order No.733 of December 30, 2014 on Approval of Sets of Consumer Goods and Services for Price and Tariff Monitoring on a Monthly Basis.

2 This group includes vegetables and fruits, FEACN commodity groups 0701 – 0714 (mainly OKVED A 01.11 – 01.12), as well as FEACN 0801 – 0813 (OKVED A 01.13), milk and dairy products, meat and meat products, fish and fish products, FEACN commodity groups 0401 – 0406 (OKVED DA 15.20), FEACN 0201, 0202, 0203, 0207, 0210, 1601 00 (OKVED DA 15.13), FEACN 0301 – 0308 (OKVED DA 15.20 and 15.52), milk and dairy products, meat and meat products, fish and fish products, FEACN commodity groups 0401 – 0406 (OKVED DA 15.20), FEACN 0201, 0202, 0203, 0207, 0210, 1601 00 (OKVED DA 15.13), FEACN 0301 – 0308 (OKVED DA 15.20 и 15.52).

3 Including import dependable and non-import dependable goods, as in the period under review the exchange rate had a significant effect on price dynamics of some sanctions-free goods.

4 Correlation between forecast and actual prices on sanctions-free goods and, particularly, goods under sanctions varied greatly over the forecast period. So, the indices in question were calculated as average growth rates of correlation between year-on-year forecast and actual prices.

5 As the share of expenditures on goods under sanctions, such an indicator as the total share of consumer expenditures on such groups of goods as meat; fish and seafood, dairy products, cheese and eggs; vegetables and fruits was used. Consumers' income was calculated as the average value of the sum of multiplication of prices on goods out of the fixed set of goods and services by fixed volumes of consumption thereof in the period of from August 2014 till December 2015 on the basis of assumption that the pattern of consumption remained unchanged.

The effect of the sanctions on the annual rate of inflation was uneven during the entire period. In the first six months, growth in the inflation rate year-on-year due to sanctions amounted to 29.9 p.p. and 5.1 p.p. as regards goods under sanctions and sanctions-free goods, respectively. In the first 12 months, the indices in question amounted to 8.6 p.p. and 4.3 p.p., respectively. Such an irregularity can be explained by the fact that due to appreciation of prices on goods which are analogs of those under sanctions consumers switched over to identical less expensive and lower quality domestic goods and import goods from other countries. In addition to the above, gradual reduction of the sanctions-related effect over the time can be explained by reduction of average production costs thanks to growth in domestic production. The reasons for which prices on goods under sanctions eventually rose as much as those on sanctions-free goods can be explained by the same factors. In addition to the above, it is to be taken into account that the forecast period included 2 periods with seasonal reduction of prices on fruits and vegetables and that factor affected the overall price dynamics, as well. Also, consumers' year-on-year monetary losses were calculated: with a modified pattern of demand within the set of goods under sanctions and that of sanctions-free goods, additional per capita expenditures in Russia[1] in the period under review amounted on average to Rb 4,380 a year[2].

The most important output of the research consists in the fact that the most serious effect produced by sanctions fell on the first six-twelve months, while later on growth in prices and a drop in consumption volumes due to changes on commodity markets decreased. The above fact is important in terms of implementation of the import substitution policy: producers can benefit from introduction of the embargo only in the short-term prospect, while in the long-term prospect the effect of the embargo on market indices is diminishing.

1 The Rosstat estimates the value of a set with a fixed consumer goods basket, rather than the cost of actual consumption of a set of goods and services. In this case volumes of consumption of each type of goods are fixed and do not change in moving along one indifference curve which situation virtually takes place with changes in relative prices on goods (as a result of substitution of one goods for other).

2 This indicator was calculated as the difference between consumers' income on the fixed set of goods and services during the period when the sanctions were in effect and consumers' income with year-on-year compensation variability taken into account.

4. REGIONS IN 2016: INDEXES HAVE IMPROVED AT THE CAPITAL'S EXPENSE

N.Zubarevich

In 2016, the number of major indexes – investment dynamics, population income, and consumption (retail trade) – was declining. Indexes of the budgets balance significantly improved but mainly at the Moscow budget's expense. In 2016, industry demonstrated weak growth and the unemployment level remained low. However, regional dynamics as before differ noticeably.

Russian industry adapted to the deteriorated conditions and exhibited slight growth by 1.1% at the year-end. In 2016, recession was observed solely in 20 regions, whereas their total share in industrial output is considerable – slightly over 18%. Rates of recession are low: in Vologda and Samara regions, Perm and Krasnoyarsk Krai – 1–2%, in Vladimir, Omsk, and Chelyabinsk regions, Komi Republic – 3–4%, and in Orenburg region – 6%.

Recession is mainly due to a decline in crude oil refining volumes resulting from the so-called tax maneuver in force in the oil industry and unprofitable for the oil refineries as well as from poor market conditions observed in metallurgy industry. Growth turned out to be more dynamic: in large industrial regions industry grew stronger in Moscow, Tula, and Rostov regions (by 13–14%), in Kaluga, Yaroslavl, and Sverdlovsk regions, Stavropol Krai, Udmurtia and Sakhalin (by 6–9%). On the whole, industrial dynamics is the best in agricultural regions, regions with string military-industrial complex and new oil producing regions. Kaluga automobile cluster began to rebound. In 2016, the number of regions with ongoing recession in manufacturing industries shrank to 31 (in 2015 – 43 regions). However, their number is high.

Investment

Investment slowdown is about to end (-0.9% in 2016 against 2015). However, for the period from 2013 to 2016 investment contracted sharply – roughly by 12%. In 2016, investment slump was unfolding in 47 regions. Regions with major investment volumes (federal cities and oil and gas producing districts of Tyumen region), on the whole, maintain positive dynamics, their competitive advantages emerge in crisis circumstances (*Table 1*). Yakutiya boasted of sustainable investment growth owing to the investment in oil and gas extraction. Other regions with high investment volumes – Tatarstan, Bashkortostan, Voronezh and Tyumen regions – exhibit positive investment dynamics.

Federal budget investments ensured investment growth in Dagestan, in a number of other republics of North Caucasus (Chechnya – by 43% during 2013–2016, Kabardino-Balkaria – by 67%), as well as in Republic of Crimea (by 28% in 2016). The most severe investment slump has been persisting in Krasnodar Krai – Olimpics-2014 high base effect can not be an excuse any more. Severe slowdown is also ongoing in Kemerovo, Novosibirsk, and Nizhniy Novgorod regions and other developed Volga and Urals regions.

Investment decline was reflected in the housing commissioning indexes with a two-year lag: the slump commenced in 2015 and is still ongoing (-6.5% in 2016). Housing commissioning declined in 48 regions. It was especially notice-

Table 1

DYNAMICS OF INVESTMENT IN REGIONS WITH HIGH INVESTMENT VOLUME
(OVER 1% OF RUSSIA'S INVESTMENT)

	Growth rates, %		Share, % 2016		Growth rates, %		Share, % 2016
	2016 to 2013	2016 to 2015			2016 to 2013	2016 to 2015	
RF	**-11.7**	**-0.9**	**100**	**NWFO**	**-9.0**	**8.3**	**11.3**
CFO	**-5.6**	**-1.3**	**25.9**	St. Petersburg	1.8	12.4	4.0
Moscow	2.4	0.7	11.6	Leningrad region	-19.1	11.6	1.8
Moscow region	-14.5	-2.8	4.3	Komi Republic	-12.8	12.8	1.4
Voronezh region	8.4	0.1	1.9	**SbFO**	**-23.2**	**-4.2**	**9.6**
UFO	**5.5**	**8.8**	**18.7**	Krasnoyarsk Krai	-15.0	0.9	2.9
Yamal-Nenets AO	20.0	22.5	7.5	Irkutsk region	-4.4	17.5	1.8
Khanty-Mansi AO	4.9	2.6	5.5	Kemerovo region	-43.0	-13.4	1.1
Sverdlovsk region	-20.0	-8.9	2.4	Novosibirsk region	-44.2	-18.9	1.0
Tyumen region*	1.7	14.5	1.8	**NFO**	**-42.9**	**-16.4**	**7.6**
Chelyabinsk region	-29.4	-15.3	1.3	Krasnodar Krai	-62.6	-29.3	2.9
VFO	**-15.6**	**-7.7**	**16.6**	Rostov region	-12.7	-12.2	2.0
Republic of Tatarstan	0.0	0.0	4.4	Volgograd region	4.5	-9.1	1.2
Republic of Bashkortostan	8.7	4.2	2.5	**SEFO**	**-11.1**	**-2.9**	**6.7**
Samara region	-27.2	-21.7	1.8	Republic of Sakha (Yakutiya)	32.3	28.8	1.9
Perm Krai	-27.1	-3.3	1.6	Sakhalin region	-5.8	-18.8	1.7
Nizhniy Novgorod region	-38.6	-14.2	1.5	**NCFO**	**-2.0**	**-3.7**	**3.3**
Orenburg region	-11.6	-10.4	1.1	Republic of Dagestan	13.2	0.8	1.4

* without autonomous okrugs.

able in Tyumen region (-21% in 2016), Novosibirsk and Belgorod regions (-13 – -15%, respectively) regions. The dynamics varies is federal agglomerations: in the Moscow region the slump lasted for two years in a row (-8% in 2016 and -14% in 2015), in Leningrad region it was not so acute (-6% in 2015) and lasted for a year. Moscow demonstrated a nosedive in 2016 (-14%) against housing commissioning growth posted in 2015, St. Petersburg, on the contrary, exhibited small positive dynamics (3%) in 2016 against a drop registered in 2015.

Housing markets of major cities remain disorganized. Among the regions with high per capita housing commissioning rates, the following regions demonstrate positive dynamics (1–3%): Ulyanovsk, Lipetsk, Voronezh, and Tambov regions. Housing construction programs designed for migrants from the north and financed by large companies contribute to this positive dynamics. In the Far East and Transbaikal with small volumes of housing commissioning, the decline is unfolding for a second year and spilled over to nearly all regions except Sakhalin.

Household income and labor market

Household income dynamics demonstrates a downturn trend. In 2016, the recession got worse in comparison with 2015 (-5.6% and -4.1%, respectively). Data on household income both in the Republics of Dagestan and Ingushetia and in the Moscow and Leningrad regions is unreliable. According to statistics, household income in 2016 grew faster in the Republic of Crimea (by 9%) and in Sebastopol (by 4%).

The retail trade was contracting, but its recession rates decelerated by half compared to 2015 (-5.2% and -10.0%, respectively). According to statistics, the most insignificant slump in the retail trade was registered in the Far East and in the Republics of North Caucasus. At the same time, retail trade was growing in Dagestan and Chechnya during two last years. Most likely, the question is about inaccurate estimates of trade volumes at the outdoor markets. In 2016, underemployment declined in roughly all regions, which also points to the regional labor markets stabilization.

Overall, regional labor markets remain stable; the unemployment level measured by the WLO methodology did not practically change and in the majority of regions remained very low.

Revenue, expenditure and debt

Regional budgets revenues in 2016 went up by roughly 7%. Excises grew faster (36%), proceeds from PIT and income tax paramount for regional budgets moved up by 8%, which offset a reduction of transfers volume (*Table 2*). Subsidies on capital expenditure (by 26%) contracted most of all among all transfers, which took a toll on the investment dynamics. Budgets revenues declined solely in 10 regions, most critically in Sakhalin (by 30%), in Nenets AO (by 21%), and Khanty-Mansi AO (by 11%) owing to the fact that their budgets revenues depend on crude oil price. In terms of revenues growth, Moscow stands apart: its budget moved up by roughly Rb 200bn (to Rb 1.86 trillion) owing to proceeds from income tax (by 18%) and PIT (by 8%). Capital budget revenues growth is comparable with total budget revenues growth of Rostov region with population of 4.2 million.

Table 2

DYNAMICS OF REVENUES AND EXPENDITURES
OF REGIONAL CONSOLIDATED BUDGETS

Revenue	Growth rates, % 2016 to 2015	Expenditure	Growth rates, % 2016 к 2015	Number of regions with declining revenue	
				2016	2015
Total revenues, including	7	Total expenditures	4.8	21	31
Excises	36	National economy	7.3	24	31
Tax on total income	12	Housing and utility sector	9.5	37	51
Income tax	8	less Moscow	3.0		
PIT	8	Culture and cinematography	9.8	34	54
Property tax	5	less Moscow	4.5		
Transfers	-3	Education	3	22	48
Including grants	1	Healthcare	-5.5	53	20
Government grants	-1	Healthcare with expenses on TFMMI	-1.4	44	0
Subsidies	-11	Social policy	10.5	14	16

Regional budgets expenditures in 2016 grew faster in comparison with 2015 (4.8% and 1.4%, respectively) – it is hard to save during federal election year. The number of regions with a negative expenditures dynamics declined by a third. The share of spending on social purposes fell from 61% to 58% over three years. In 2015, expenses on education and practically stayed on hold and expenses on culture fell as in 2016 expenses on healthcare declined even with spending growth on territorial funds of mandatory medical insurance (TFMMI). Significant growth of spending on culture seen in 2016 is

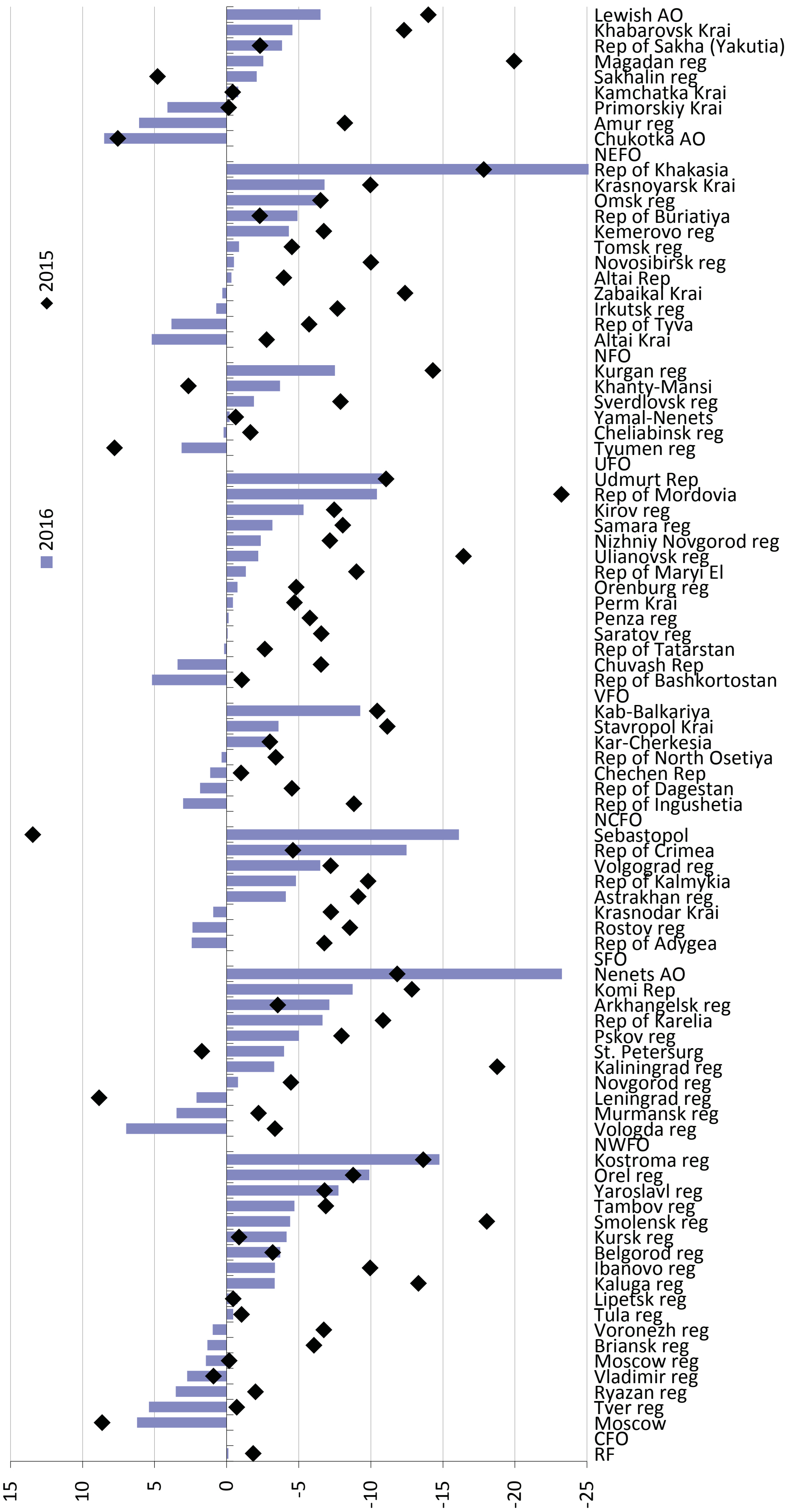


Fig. 1 Deficit, in % to regional consoligated budget revenue

due to Moscow's share, which went up by 41% (!). Expenses on social policy (social safety net) posted sustainable growth in the majority of regions. It is politically dangerous to cut them during the election year.

Moscow also affected regional budgets expenditures on non-social policy development in 2016. Significant growth of regions sending on national economy (assistance to agro sector, transport, road facilities, etc.) were mainly due to the growth of expenses by 18% disbursed from the capital's budget. Other regions increased this type of spending by only 4%. Fast growth of spending on housing and utility sector has the same explanation: the Moscow budget increased it by 28%. Without the capital, in other regions this growth constituted 3%. In 2016, Moscow set a record: the share of spending on urban amenities hit 10.8% of total expenses of a huge capital budget. Moscow spent on urban amenities Rb 188.7bn (project 'My Street', renovation of the center of Moscow, was financed from this budget line). This is more than spending on education – Rb 161.6bn. All other regions spent on urban amenities Rb 127bn.

The issue of imbalance observed between revenues and expenditures of regional budgets in 2016 eased somewhat, the deficit is minimal (-0.1% of revenues) but mainly due to huge surplus of the Moscow's budget (Rb 115.6bn). The number of regions with deficit shrank from 75 in 2015 to 55 in 2016, but they are still in a majority (*Fig. 1*). Regions with inefficient budgetary policy had the highest budget deficit (Republic of Khakasia, Mordovia, Udmurtia, Crimea, Sebastopol, Kostroma, and Orel regions) and Nenets AO, where revenues dipped sharply.

In 2016, regional debt volume went up barely by 2%, its structure became more acceptable: the share of super cheap budget loans (38%) nearly came up with the share of expensive bank loans (40%). That is why, regional budgets expenses allocated to debt service moved up merely by 1.5%. Large volume of budget loans extended by the federal authorities played a stabilizing role. However, the issue is not resolved: the overindebted regions (Ivanovo, Kostroma, Yaroslavl, and Astrakhan regions, Republics of Khakasia, Mordovia, Mari El, and Udmurtia) spend in the range of 5–6% of the total budget expenses on debt servicing.

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