MONITORING OF RUSSIA'S ECONOMIC OUTLOOK:

TRENDS AND CHALLENGES OF SOCIO-ECONOMIC DEVELOPMENT

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Monitoring has been written by experts of Gaidar Institute for Economic Policy (Gaidar Institute) and Russian Presidential Academy of National Economy and Public Administration (RANEPA).

Editor: Vladimir Gurevich

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TRENDS AND CHALLENGES OF SOCIO-ECONOMIC DEVELOPMENT

The recent deep plummeting of oil prices is no longer associated, by most of producers, with a severe economic disaster, but it rather undermines still-existing illusions about gradual recovery of seller's oil market. The belief that it will happen was supported by international investment banks through their projections that oil price will soon be back to $100 a barrel and by heads of big energy corporations through their announcements about entering a new commodity super-cycle.

The breakdown of these illusions that verge on mystifications can be beneficial in two ways for Russia. First of all, this can increase chances for making a more meaningful analysis of multiple projects that were hastily presented against the backdrop of increasing oil prices. On the other hand this can alleviate the price imbalance between external and internal fuels markets, which has been increasing throughout the year, having a destabilizing effect on the industry. Furthermore, the decline in oil prices is no longer as much of depressing effect on the exchange rate of the nation's currency as it used to be.

However, the exchange rate (or rather its volatility) remains one of the main inflation risks facing the Russian economy. Inflation continues to speed up, our experts noted, pointing out that core inflation (an indicator excluding changes linked to seasonal and administrative factors) has persistently been increasing since March 2018, suggesting steady acceleration of inflation. The median (one-year ahead) expected inflation rate fell marginally to 9.3% from September because of less concerns over a forecourt price rise. Our experts believe, based on inflation risk analysis, that the central bank may raise the benchmark interest rate late this year/early next year. Interest rates can be cut after pro-inflation shocks that are expected in Q3 2019 have reached their peak.

While analyzing the federal budget outturn for the first nine months of 2018, our experts viewed the dynamics of key fiscal parameters as moderately optimistic dynamics: no heightening of fiscal sustainability risks was seen. In January-September, federal budget revenues were up 2.4 p.p. of GDP from the same period of 2017, whereas growth rates in revenues were slower than a year earlier. As a result, the budget deficit reached 3.5% of GDP (compared to 0.3% during the same period of 2017). Revenues from mineral extraction tax posted highest growth, mainly due to crude oil (up 1.5 p.p. of GDP). The domestic public debt rose by nearly more than Rb 350bn, while the foreign debt was reduced by $2.7bn, and the National Wealth Fund increased Rb 1.25 trillion in recent three quarters on the back of extra oil and gas revenues and exchange rate differences.

Regarding regions' budgets, the experts concluded, based on data for three quarters, that growth rates in revenues may lead to a 10-year high in actual consolidated budget revenues of subjects of the Russian Federation. Furthermore, even lower-revenue regions managed to reduce their public debt in a more intensive manner on the back of increase in revenues under a tight budget expenditure policy.

Corporate income tax, taxes on aggregate income and corporate property tax were principal sources of revenue that contributed to high growth rates in revenues. The Central Federal Okrug posted top growth rates in budget expenditure, mostly due to the contribution of Moscow. Subjects of the Russian Federation continued reducing their public debt: 7.5% down at the end of the first nine months of 2018. According to preliminary assessments, the relationship between regions' debt and tax and non-tax budget revenues was down from 29.1 to 25.8% as of 1 October 2018 compared with 1 October 2017. The experts pointed to the fact that the figure was below the level seen in September 2013 when the balance between regional and local budgets (2013–2015) began to deteriorate on the back of growth in regional and municipal expenditure commitments related to the implementation of the Presidential Executive Orders of May 2012 and amid actual decline in budget revenues.

While summarizing Russia's performance as international donor in 2017, the experts noted a reduction of 5% to $1.19bn in Russia's official development assistance (ODA), which nonetheless was in line with the overall downward trend for ODA globally. Russia's IDA includes a big share of writing off developing countries' indebtedness to Russia. In 2017, Russia wrote off outstanding loans accounting for more than one third of its official development assistance (including its $240m loan to Kirgizstan). The increase in Russia's bilateral aid is coupled with more intensive use of international institutions, such as World Bank's instruments. Humanitarian assistance plays an important part although it is not regarded as part of official development assistance. The experts believe that OECD statistics do not cover the actual size of Russia's assistance, pointing out the significance of creating a national IDA monitoring and assessment framework in the Russian Federation.

1. INFLATION BUILDS UP

A.Bozhechkova, P.Trunin

Emerging markets have stabilized somewhat for the time being, reducing pressure on the Russian rouble. Inflation continues to speed up. The Bank of Russia projects consumer price growth rates reaching 3.8–4.2% in 2018 and the year-to-year inflation rate at 5.0–5.5% at 2019 year end, and it is not until 2020 that the inflation rate is expected to return to its target rate (4%). Inflation risks may force the Russian central bank to hike the benchmark interest rate late this year/early next year.

Inflation stood at 0.4% at the end of October 2018 (0.2% in October 2017). The inflation rate reached 3.5% year-to-year (over previous 12 months) (2.7% year-to-year in October 2017), a gradual return to the target inflation rate (*Fig. 1*). Inflation was higher in January-October 2018 than last year (2.9% against 1.9%).

Food prices rose 0.6% in October 2018 compared with 0.4% in October 2017. The increase was mainly due to higher prices of hen's eggs (7.1%) and sugar (4.9%). At the same time, prices of greengrocery products saw a negative growth rate of -1.1% (2.7% in October 2017). Prices of non-food products increased 0.5% in October 2018 (0.3% in October 2017). Prices of brown goods and other household appliances increased by 0.8% and of tobacco products by 0.7%, the fastest growth compared to other products. Overall, prices of some groups of non-food products were dragged down chiefly by a depreciating rouble. Prices of chargeable services to individuals fell 0.1% in October 2018 (0.2% in October 2017). In particular, there was a seasonal decline of -1.9% and -1.2% in prices of passenger transport services and outbound tourism services, respectively. Prices of utility services and insurance services were 0.4% up each.

Core inflation (an indicator excluding changes linked to seasonal and administrative factors) continued to rise in October, 3.1% up (2.5% in October 2017) over the same period a year earlier. The core inflation has persistently been increasing since March 2018, a sign of steady acceleration of inflation.

The median one-year ahead expected inflation rate stood at 9.3%, according to InFOM's survey published by the Bank of Russia, a decline of 0.8 p.p. from September: individuals came to

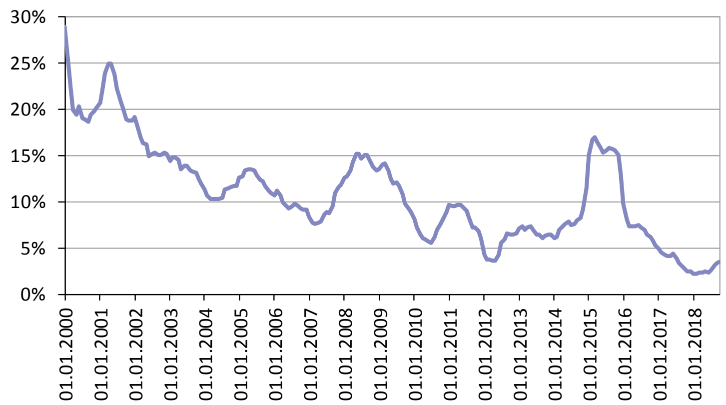

Fig. 1. Inflation (percentage change over previous 12 months)

Source: Rosstat.

be less concerned about forecourt price behaviour. However, inflation expectations remained unstable, averaging 9.6% in May-October (*Fig. 2*) after hitting lows (7.8%) in April this year. Not only inflation expectations but also respondents' assessment of actual inflation rate (10.1%) (10.2% in September) remained high.

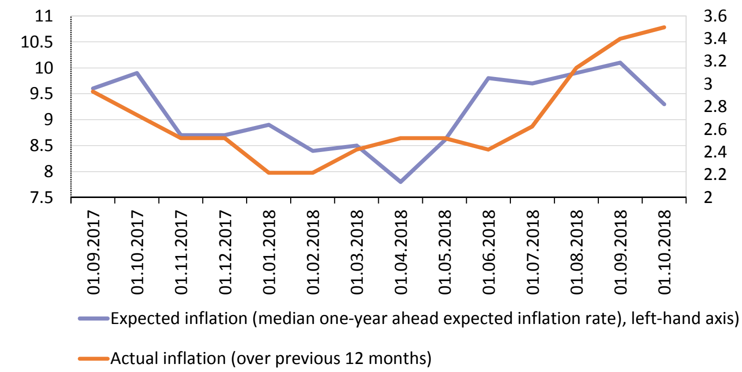

Fig. 2. Inflation rate and inflation expectations

Sources: Rosstat, Bank of Russia.

Exchange rate movements of the rouble/dollar pair constitute a significant source of inflation risks. Despite the fact that the rouble gained 3.6% against the US dollar to 65.6 roubles per dollar in September and the exchange rate remained almost unchanged in October (one dollar was traded at 65.9 roubles on average), the exchange rate volatility increased again amid plummeting oil prices and continuously high geopolitical tensions in November (*Fig. 3*).

The Bank of Russia, faced with an unstable foreign exchange market in August this year, had to put on hold foreign-currency purchases on behalf of the Finance Ministry in market until the end of December 2018. In September-October, the structural surplus of banking sector was reduced to Rb 3.3 trillion late in August 2018 to Rb 2.8 trillion in the middle of November

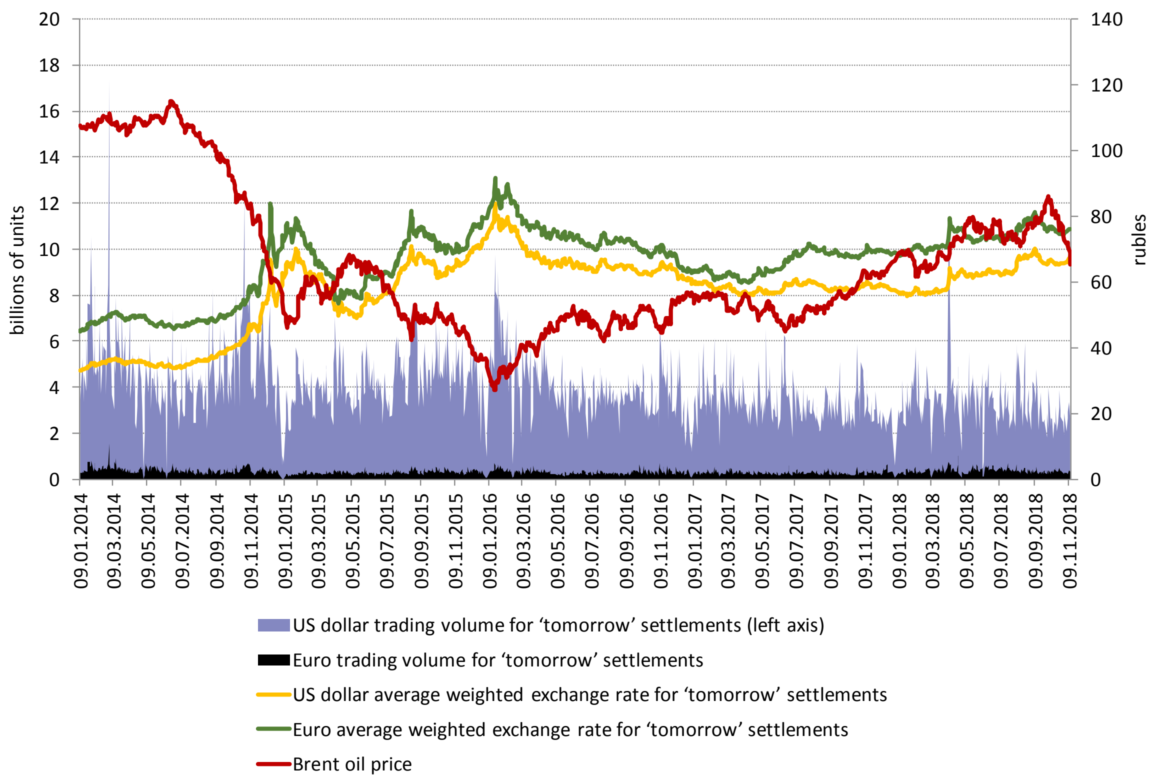

Fig. 3. Rouble-dollar and rouble-euro exchange rates, FX market trading volume, Brent oil price

Sources: Russia's central bank, Finam.

2018. The average amount of credit institutions' obligations to the Bank of Russia was Rb 59.7bn in August 2018, whereas it ran at Rb 325.8bn in September through the first half of November. However, changes in the money market had no effect on the dynamics of interbank lending interest rate which remained stable within a range of 7–7.3% in August through the first half of November. The pace of year-to-year growth in the money base over previous 12 months slowed from 40% in May-July 2018 to 26.3% in August-October after the Bank of Russia decided to stop buying foreign currency in the local market.

Given the above risks, the central bank projects consumer prices increasing 3.8–4.2% by the end of 2018 and the year-to-year inflation rate at 5.0–5.5% at 2019 year end, and it is not until 2020 that the inflation rate is expected to return to its target rate (4%). Given concerns over possible reversal of the downward trend in inflation expectations as well as accelerating inflation risks, a more conservative monetary policy may be necessitated in order to keep lid on inflation, which implies the need to raise the benchmark interest rate (left unchanged at 7.5% in October) late this year/early next year. Interest rates can be cut after pro-inflation shocks that are expected in the third quarter next year have reached their peak.

2. ADMINISTRATION OF THE FEDERAL BUDGET FOR NINE MONTHS OF 2018: MODERATE OPTIMISM

T.Tischenko

In January-September 2018, dynamics of federal budget revenues sped up. Based on the results of the past three quarters, their growth was equal to 2.4 p.p. of GDP (up to 18.9% of GDP). Administration of the budget as regards expenditures lags behind the rates of the previous year. Such trends permitted to facilitate a 3.5% of GDP surplus of the federal budget.

According to the updated information of the Federal Treasury, within nine months of 2019 the federal budget revenues increased by Rb 3,017.1bn (or 2.4 p.p. of GDP) compared with the same period of the previous year. This can be explained by growth of Rb 2,055.9bn (or 2.1 p.p. of GDP) and Rb 961.2bn (or 0.3 p.p. of GDP) in oil and gas revenues and non-oil and gas revenues, respectively (*Table 1*). Based on the results of the past three quarters of 2018, the overall federal budget revenues amounted to 81.9% of the forecasted volume, while oil and gas revenues and non-oil and gas revenues, to 87.1% and 78.1%, respectively.

Table 1

THE MAIN PARAMETERS OF THE FEDERAL BUDGET IN JANUARY-FEBRUARY 2017–2018

	January-September 2017		January-September 2018		Change, 2018 on 2017	
	Billion Rb	% of GDP	Billion Rb	% of GDP	Billion Rb	p.p. of GDP
Revenues, including:	10 971.5	16.5	13 988.6	18.9	3 017.1	2.4
– oil and gas revenues	4 246.2	6.4	6 302.1	8.5	2 055.9	2.1
– non-oil and gas revenues	6 725.3	10.1	7 686.5	10.4	961.2	0.3
Expenditures, including:	11 191.2	16.8	11 414.6	15.4	223.4	-1.4
– interest expenditures	542.1	0.8	596.3	0.8	54.2	0.0
– non-interest expenditures	10 649.1	16.0	10 818.3	14.6	169.2	-1.4
Surplus (deficit) of the federal budget	-219.7	-0.3	2 574.0	3.5	2 793.7	3.8
Non-oil and gas deficit	-4 465.9	-6.7	-3 728.1	-5.0	737.8	1.7
GDP (in current prices, billion Rb)	66 534		74 000		7466	

Source: The Ministry of Finance of the Russian Federation, the Federal Treasury and own calculations.

Additional oil and gas revenues can be explained by the fact that actual prices of oil (from 15 September till 14 October the average price of Urals oil was equal to $81.1 per barrel) exceeded the base level; by the estimate of the Ministry of Finance of the Russian Federation they amounted to Rb 479.7bn[1].

In the period under review, tax revenues increased by Rb 2,910.2bn or 2.5 p.p. of GDP relative to the same period of the previous year (*Table 2*). The severance tax revenues demonstrated the highest growth (Rb 1,382.2bn or

1 The information of the official site of the Ministry of Finance of the Russian Federation: https://www.minfin.ru/ru/press-center/?##ixzz5X3yD9zS0

1.5 p.p. of GDP), including an increase of Rb 1,321.8bn in severance tax revenues from oil.

Table 2

THE MAIN FEDERAL BUDGET TAX REVENUES
IN JANUARY-SEPTEMBER 2017–2018

	January-September 2017		January-September 2018		Change, 2018 on 2017	
	Billion Rb	% of GDP	Billion Rb	% of GDP	Billion Rb	p.p. of GDP
Tax revenues, total, including:	9 811.2	14.7	12 721.4	17.2	2 910.2	2.5
Corporate profit tax	581.1	0.9	736.9	1.0	155.8	0.1
VAT on goods sold in the Russian Federation	2 322.7	3.5	2 655.7	3.6	333.0	0.1
VAT on goods imported to the Russian Federation	1 466.2	2.2	1 745.3	2.4	279.1	0.2
Excises on goods manufactured in the Russian Federation	675.3	1.0	684.7	0.9	9.4	-0.1
Excises on goods imported to the Russian Federation	53.9	0.1	65.0	0.1	11.1	0.0
Severance tax	2 887.4	4.3	4 269.6	5.8	1 382.2	1.5
Revenues from foreign economic activities	1 824.6	2.7	2 564.2	3.5	739.6	0.8

Source: The Federal Treasury (updated information), own calculations.

Based on the results of nine months of 2018 relative to January-September 2017, growth in tax revenues from the domestic VAT and the import VAT which both correlate strongly with GDP dynamics is observed (0.1 p.p. of GDP and 0.2 p.p. of GDP, respectively).

Profit tax revenues increased by 0.1 p.p. of GDP or 26.8% in nominal terms on the relevant period of the previous year. Note that corporate tax revenues without consolidated groups of taxpayers taken into account rose by 17.2% in nominal terms, while those with consolidated groups of taxpayers, by 55.3%.

In Q3 2018, revenues from foreign economic activities increased by 0.8 p.p. of GDP to 3.5% of GDP, including growth of 0.4 p.p. of GDP in revenues from export oil duties.

Q3 2018 saw a decrease of 0.1 p.p. of GDP in revenues from excises on domestic goods relative to the previous year values.

If the actual revenues for nine months are matched against the forecasted ones, the cash administration on the main taxes relative to the forecasted annual volumes was as follows: profit tax (91.4%), export customs duties (83.8%), domestic VAT and VAT on import goods, jobs and services (79.7% and 76.1%, respectively) and domestic excises and import excises (71.2% and 70.5%, respectively). With preservation of the attained growth rates of tax revenues in Q4 2018, the overall volume of federal budget revenues may exceed by Rb 1.6 trillion the forecasted one[1].

In absolute terms, federal budget expenditures increased by Rb 223.4bn on January-September 2017 mostly owing to non-interest expenditures. Note that in relative terms they fell by 1.4 p.p. of GDP to 15.4% of GDP (*Table 3*) on the back of reduction of funding on the "Social Policy" item, a decrease of Rb 356.2bn or 1.1 p.p. of GDP, including that of Rb 381.9bn on the "Pension Provision" item.

1 Estimate of the federal budget revenues in 2018 provided in the draft federal budget for 2019 and the 2020–2021 planned period.

Table 3

FEDERAL BUDGET EXPENDITURES IN JANUARY-SEPTEMBER 2017–2018

	January-February 2017		January-September 2018		Change, 2018 on 2017	
	Billion Rb	% of GDP	Billion Rb	% of GDP	Billion Rb	p.p. of GDP
Total expenditures, including:	11 191.2	16.8	11 414.6	15.4	223.4	-1.4
Federal issues	748.9	1.1	810.2	1.1	61.3	0.0
National defense	1798.5	2.7	1 985.1	2.7	186.6	0.0
National security and law enforcement	1 264.6	1.9	1 320.6	1.8	56.0	-0.1
National economy	1 440.3	2.2	1 369.2	1.9	-71.1	-0.3
Housing and public utilities	80.0	0.1	97.2	0.1	17.2	0.0
Environmental protection	74.3	0.1	86.0	0.1	11.7	0.0
Education	426.4	0.6	486.7	0.7	60.3	0.1
Culture and cinema	57.2	0.1	63.3	0.1	6.1	0.0
Healthcare	281.8	0.4	358	0.5	76.2	0.1
Social policy	3 809.5	5.7	3 453.3	4.7	-356.2	-1.1
Physical culture and sports	52.4	0.1	39.7	0.1	-12.7	0.0
Mass media	52.0	0.1	58.9	0.1	6.9	0.0
Public debt servicing	542.1	0.8	596.3	0.8	54.2	0.0
Inter-budget transfers	563.0	0.8	689.8	0.9	126.8	0.1

Source: The Federal Treasury (updated information), own calculations.

Based on the results of three quarters of 2018, expenditures shrank on the same period of 2017 on such items as the "National Economy" (a decrease of Rb 71.1bn or 0.3 p.p. of GDP) and "Physical Culture and Sports" (Rb 12.7bn), having remained unchanged in shares of GDP.

Federal budget expenditures on such items as "Education", "Healthcare" and "Inter-Budget Transfers" demonstrated somewhat growth in shares of GDP. As regards other federal budget expenditure items, within three quarters of 2018 budget allocations in shares of GDP did not change as compared with the level of the relevant period of 2017.

Based on the results of nine months of 2018, dynamics of cash administration of federal budget expenditures amounted to nearly 69.0% against 66.2% a year before.

According to the results of the first three quarters of 2018, the federal budget surplus amounted to 3.5% of GDP against the deficit of 0.3% of GDP in the relevant period of 2017; at the same time non-oil and gas deficit decreased from 6.7% of GDP to 5.0% of GDP.

In January-September 2018, as regards the movement of federal budget funds accounted for as sources of budget deficit funding the following dynamics were evident:

- The volume of securities placed on the domestic market amounted to Rb 893.0bn or 53.3% of the annual volumes with a redemption volume of Rb 520.9bn or 82.5% of the approved annual volume;
- The volume of placement of state securities on the foreign market amounted to Rb 229.8bn with a redemption volume of Rb 363.6bn;
- The volume of budget loans extended for replenishment of balances on accounts of constituent entities of the Russian Federation amounted to Rb 534.2bn; repayment of the earlier extended loans to regional budgets amounted to Rb 395.8bn.

Based on the results of nine months of 2018, federal budget funds on deposit accounts amounted to Rb 1,150.6bn against Rb 988.8bn in the relevant period of 2017.

As of 1 October 2018, the public internal debt amounted to Rb 9,043.3bn (growth of Rb 353.6bn within nine months); the public foreign debt decreased by $2.7bn to $47.1bn.

In January-September 2018, the National Welfare Fund increased by Rb 1,251.5bn owing to additional oil and gas revenues and the exchange rate difference and exceeded Rb 5 trillion as of 1 October 2018.

So, it can be stated that based on the results of nine months of 2018 the dynamics of the main federal budget parameters are moderately optimistic: no escalation of risks to the budget stability was observed.

3. REGIONS' BUDGET, Q3 2018: POSITIVE DYNAMICS

A.Deryugin

Public debt was reduced on the back of accelerating growth rates in consolidated budget revenues of subjects of the Russian Federation in Q3 2018. The revenue growth may push regional and local budget revenue figures to a 10-year high at 2018 year end.

Revenues

Consolidated budget revenues of subjects of the Russian Federation increased 11.8% at the end of the first nine months of 2018 compared to the same period of 2017, way above the CPI rate of that period (103.4% in September 2018 compared to September 2017). Consolidated budget revenues of 83 regions surpassed the value seen in the first nine months of 2017, of which 79 regions saw their revenue growth rates outstrip the inflation rate. Only two subjects of the Russian Federation – The Mari El Republic and The Republic of Mordovia – failed to achieve the previous year's level of 90.8 and 95.8%, respectively. Preliminary assessments of the regional budget outturn for October 2018 show the upward trend towards acceleration of revenue growth rates. This suggests that year-end growth rates in actual revenues of regional and local budgets are about to hit a 10-year high.

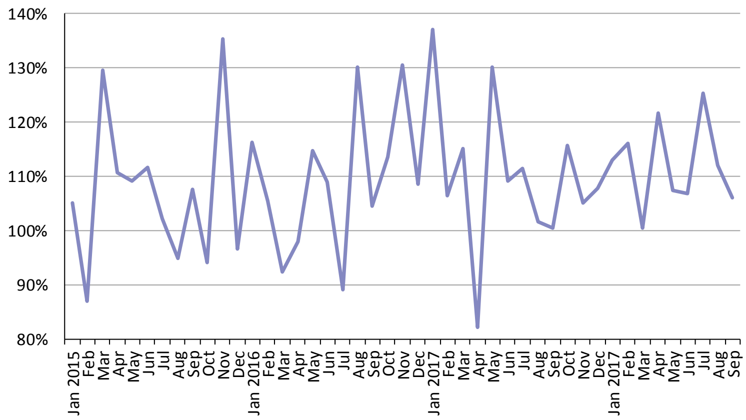

Fig. 1. Growth rates in total consolidated budget revenues of subjects of the Russian Federation, change from the same period previous year, %

Source: calculations based on data released by the Federal Treasury of Russia.

Corporate income tax, taxes on aggregate income, corporate property tax as well as federal budget subsidies (115.2, 117.2, 114.8 and 122.1%, respectively) were principal sources of revenue that contributed to high growth rates in revenues. By contrast, growth rates of excise taxes (103.4%) as well as non-tax budget revenues (100.7%) were much slower than those recorded during the same period previous year although their values remained positive.

The acceleration of growth rates of profit tax revenues to 132.5% year-on-year in Q3 2018 became essential for total growth in consolidated budget revenues of subjects of the Russian Federation in 2018.

The structure of revenues remained overall stable: the personal income tax (30% of total) and the corporate income tax (25.8%) still remained the key sources of revenues in January-September 2018, about 56% of total consolidated budget revenues of subjects of the Russian Federation.

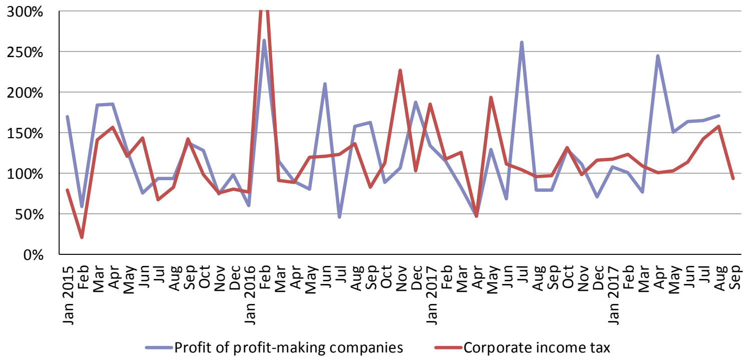

Fig. 2. Growth rates in total corporate tax revenue inflows to consolidated budgets of subjects of the Russian Federation and profits of profit-making companies, change from the same period previous year, %

Source: calculations based on data released by the Russian Federal Treasury and by Rosstat.

The Urals, Sibirsky and Northwestern Federal Okrugs posted top growth rates of 120.5, 113.7 and 113.1%, respectively, in revenue among Russia's Federal Okrugs at the end of the first nine months of 2018. By contrast, the Southern, North Caucasian and Privolzhsky Federal Okrugs recorded slowest growth rates of 109.0–109.5% relative to the same period of 2017.

An analysis of revenue growth rates of subjects of the Russian Federation including 12 higher-revenue subjects not eligible for fiscal equalization transfers in 2018, 41 middle-revenue subjects and 32 lower-revenue subjects shows that the differentiation between higher- and lower-revenue regions is smaller than before. The first nine months of 2018 saw an increase of 111.9, 111.3 and 112.6%, respectively, in revenues of the foregoing groups. However, lower-revenue subjects continued lagging (with growth rates of 108.0% during that period) behind higher-revenue subjects (with growth rates of 112.2 and 112.3%, respectively, for higher- and middle-revenue regions).

A similar trend was also seen in 2017, suggesting that although the problem of inequality between regions was has been somewhat alleviated, it has so far been achieved through inter-budget transfers rather than the development of lagging regions. Given the reduction in their actual level in recent years (from 2.73–2.80% of GDP in 2010–2011 to 1.83–1.85% of GDP in 2016–2017 and keeping it below 2% through 2021), therefore the problem of fiscal inequality will stay unresolved in the short term.

Expenditures

Growth rates in consolidated budget expenditure of subjects of the Russian Federation reached 109.1% in the first nine months of 2018, exceeding the CPI rate and somewhat lower than growth rates in budget revenues. Eighty two regions posted a positive growth, of which 67 saw their revenue growth rates surpass the inflation rate during the same period. Privolzhsky and North Caucasian Federal Okrugs posted slowest growth rates of 103.8% and 104.2%, respectively, and smallest share of the regions with expenditure growth rates above the national average (14%) in the first nine months of 2018. Top growth rates in budget expenditure were posted by the Central Federal Okrug (111.8%) mostly due to the contribution of Moscow (115.0%). Excluding Moscow, regional average growth rates stood at 107.8%. Therefore, regions were in no haste to spend extra money generated from outperforming growth in revenues while continuing their tight monetary policy and repaying their public debt.

The above couldn't help affecting regions' expenditures on public and municipal debt servicing, a decline to 81.7% at the end of the first nine months of 2018. Excluding expenditure on agriculture, which fell (88.4%)

d uring the same period, there was an increase in the rest of expenditures regarding the main items of budget classification (*Table 1*).

Relatively higher growth rates in expenditure were recorded for Environmental Protection (159.6%), National Security and Law Enforcement (116.7%), Culture and Cinematography (116.2%), Mass Media (115.0%) and Nationwide Matters (113.5%).

Table 1

BUDGET EXPENDITURE FUNCTIONAL BREAKDOWN

Budget classification item for expenditures	2017 / 2013, %	9 months 2018 / 9 months 2017, %	As a % of total expenditures	
			9 months 2017	9 months 2018
Budget expenditures, TOTAL	122.7	109.1	100.0	100.0
Nationwide Matters	120.4	113.5	6.2	6.4
National Defence	101.1	101.3	0.0	0.0
National Security and Law Enforcement	109.9	116.7	1.0	1.1
National Economy	132.2	105.7	19.4	18.8
Agriculture and Fishery	91.2	88.4	2.6	2.1
Transport	188.6	100.1	4.7	4.3
Road system (road funds)	129.5	111.6	7.8	8.0
Housing and Utilities	125.1	104.1	8.8	8.4
Environmental Protection	112.2	159.6	0.2	0.3
Education	115.3	111.5	26.2	26.7
Culture and Cinematography	142.4	116.2	3.6	3.9
Healthcare	67.7	113.0	7.9	8.2
Social Security Policy	168.2	108.4	22.4	22.3
Physical Culture and Sports	148.5	105.5	2.4	2.3
Mass Media	108.8	115.0	0.4	0.4
Public and Municipal Debt Servicing	146.9	81.7	1.4	1.1

Source: calculations based on data released by the Federal Treasury of Russia.

Equilibrium and public debt

Subjects of the Russian Federation continued reducing their public debt: 7.5% down from the beginning of the year and 3.2% down to Rb 2.14 trillion from September 2017 to the end of the first nine months of 2018[1]. The decline was due mostly to both outstripping growth in regional budget revenues and to Finance Ministry's measures encouraging regional governments to pursue a tight fiscal policy. Overall, 47 subjects of the Russian Federation reduced while 38 increased their public debt in the period between September 2017 and September 2018. The biggest reduction in public debt was seen in Kemerovo Oblast (-Rb 21.2bn), The Krasnodar Krai (-14.4) and Moscow (-13.4), whereas the biggest growth in public debt was recorded in St. Petersburg (25.2), The Krasnoyarsk Krai (16.3) and the Khabarovsk Krai (Rb 13.2bn). Further, top deceleration rates in public debt were posted by the Republic of Tyva (-49.1%, a nearly 50% reduction in its public debt), Kemerovo Oblast (-37.7%) and Chelyabinsk Oblast (-35.1%), whereas peak growth rates were recorded in the Republic of Crimea (1014.7%) and St. Petersburg (318.7%). High values of the latter stemmed from initially small public debt and are not indicative of deteriorated financial standing of these regions.

1 Analysis of changes in public debt over past 12 months appears to be more correct than from the beginning of financial year because of the substantial seasonal effect on public debt dynamics.

There was no big difference between "wealthy" and "poor" regions in terms of their public debt. In addition, growth rates in public debt of lower-revenue regions were not above the average for the first time over past eight years (*Fig. 3)*. This is indicative of trend reversal in recent years when lower-revenue regions could not, despite tighter fiscal rules, achieve the level of fiscal balance of the rest of subjects of the Russian Federation.

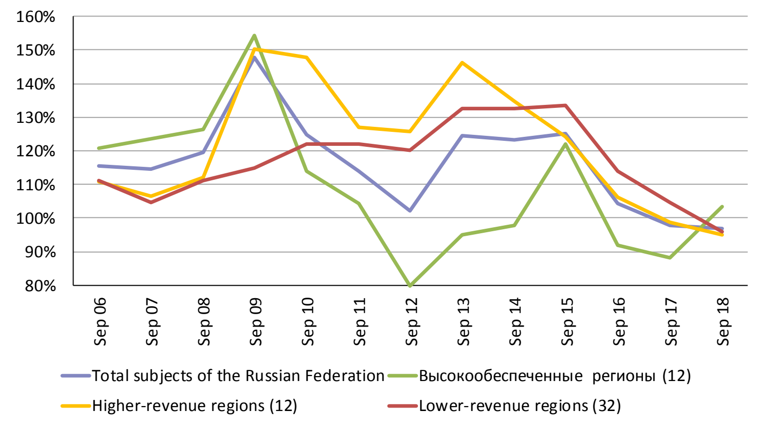

Fig. 3. Dynamics of growth rates in public debt owed by subjects of the Russian Federation with different fiscal capacity, %

Sources: own calculations based on data released by the Ministry of Finance and the Federal Treasury of Russia.

There was a marked decline in regions' debt burden on the back of high growth rates in revenues over past 12 months as well as overall trends towards reduction of regions' public debt. According to preliminary assessments, the relationship between regions' debt and tax and non-tax budget revenues was down from 29.1 to 25.8% as of 1 October 2018 compared with 1 October 2017 (*Fig. 4*). It was below the level seen in September 2013 (26.7%) when the balance between regional and local budgets (2013–2015) began to deteriorate on the back of growth in regional and municipal expenditure commitments related to the implementation of the Presidential Executive Orders of May 2012 and amid actual decline in budget revenues. The number of regions with heavy debt burden was reduced too. Seven subjects of the Russian Federation posed the relationship between public debt and budget revenues above 100% as of 1 October 2017, whereas only three remained at the end of Q3 2018.

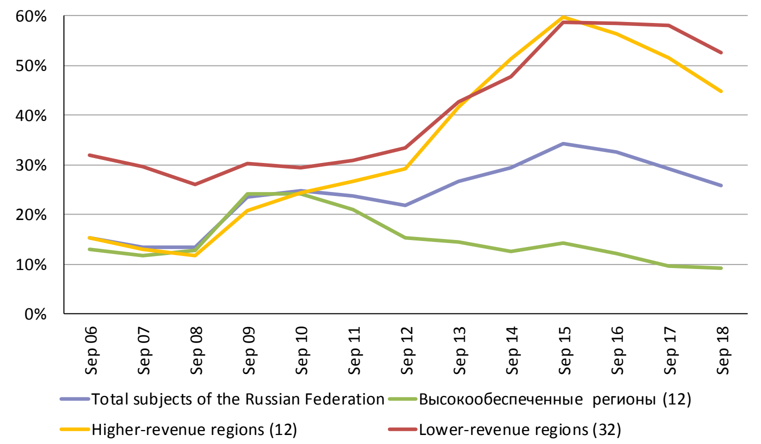

Fig. 4. Dynamics of relationship between public debt owed by subjects of the Russian Federation and tax and non-tax revenues, %

Sources: own calculations based on data released by Russia's Finance Ministry and Federal Treasury.

One may say that the aforementioned regional debt related issues have been resolved in general. However, the debt burden on lower-revenue regions remains heavy enough, twice the average, despite the positive trend (*Fig. 4*).

Federally funded loans continued to make up the majority (51.4%) of regional public debt structure by the end of September 2018. Loans from credit institutions whose share was reduced from 24.5 to 18.9% from September 2017 through September 2018 were gradually replaced by securities, reaching 25.8% of regions' public debt (*Fig. 5*).

The dynamics of regions' public debt will not undergo substantial changes in the short term: high growth rates in regional and local budget revenues that were seen in the third quarter will most likely continue through the end of the year, allowing regions to achieve a good fiscal balance and public debt dynamics as long as a tight fiscal polcy in place.

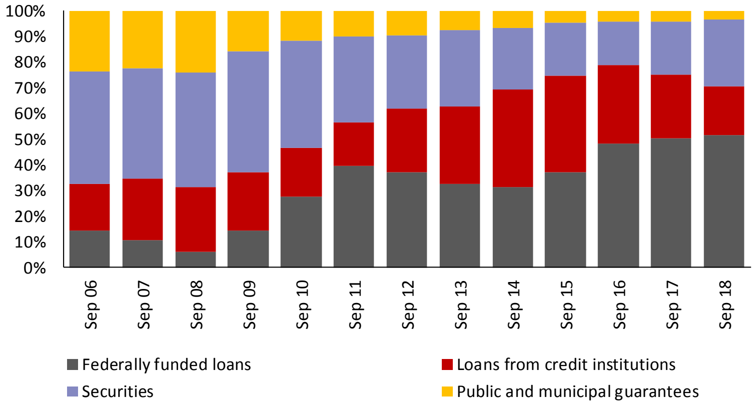

Fig. 5. Breakdown of public debt owed by subjects of the Russian Federation, %

Source: calculations based on data released by Russia's Finance Ministry.

4. RUSSIA AS INTERNATIONAL DONOR IN 2017

Y.Zaitsev, A.Knobel

The Russian Federation continued to strengthen its international donor position in 2017. Russia spends more than $1bn annually on international development assistance programs and projects. Building a good-neighbourliness belt around the country as part of its economic support of CIS nations remains top priority for Russia.

Russia allocated $1.19bn for its official development assistance (ODA) in 2017, 5% less than in 2016[1], this is in line with the overall downward trend for ODA globally, a decline of 0.6% to $146.6bn in 2017 from earlier year[2]. The Russian government has nonetheless spent a total of more than $1bn on international development assistance (IDA) projects and programs for three consecutive years (*Fig. 1*). Russia's ODA, however, represents not more than 0.08% of its gross national income (GNI), whereas the UN IDA's target for donor countries' annual assistance is 0.7% of their GNI[3].

Russia's IDA includes a big share of writing off developing countries' indebtedness to Russia. In 2017, Russia wrote off outstanding loans totaling $424.94m (35.6% of total ODA). For example, Russia wrote off its $240m loan to Kirgizstan in June 2017[4]. This mechanism remains a traditional form of Russia's IDA on the back of active credit support of foreign nations. For instance, the Russian government issued a 10-year-maturity loan of $700m to the Republic of Belarus in 2017[5].

Humanitarian assistance remains the principal channel of Russia's international deve-

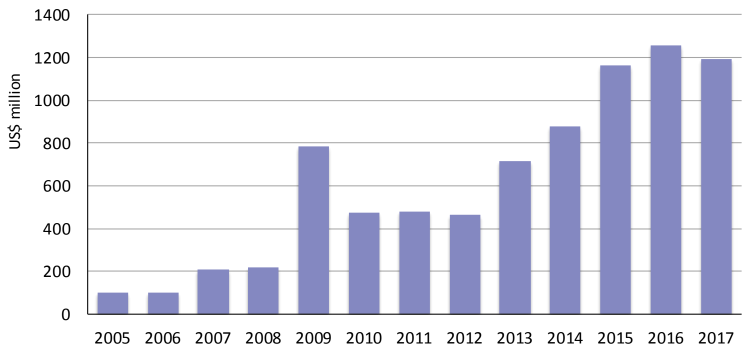

Fig. 1. Russia's official development assistance in the period from 2005 through 2017, US$ million

Source: compiled using data from the OECD/DAC (Development Assistance Committee) and Russia's Finance Ministry.

1 Zaitsev Y.K., Knobel A. Y. Russia's economic aid to other nations in 2016 // Russian Economic Developments. 2017. Vol. 24. No. 10. P. 17–21. URL: https://elibrary.ru/item.asp?id=30459846

2 Development aid stable in 2017 with more sent to poorest countries. DAC OECD. URL: http://www.oecd.org/development/development-aid-stable-in-2017-with-more-sent-to-poorest-countries.htm

3 The 0.7% ODA/GNI target – a history. OECD. URL: http://www.oecd.org/dac/stats/the07odagnitarget-ahistory.htm

4 Russia writes off $240m loan to Kirgizstan. Vedomosti, dated 20 June 2017 URL: https://www.vedomosti.ru/economics/news/2017/06/20/695219-kirgizii

5 Belarus obtains $700 million loan from Russia. RIA Novosti. URL: https://ria.ru/economy/20170915/1504859213.html

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Table 1

RUSSIA'S FINANCIAL PARTICIPATION IN INTERNATIONAL DEVELOPMENT INSTITUTIONS IN 2017

International institution	Russia's financial participation, US$ million
UN institutions	148.22
World Bank's institutions (IDA, MBRD, IFC, IAHR)	61.3
Regional development banks	225.12
The Montreal Protocol*	3.55
Other international institutions	17.65
Total	455.83

* The Montreal Protocol on Substances that Deplete the Ozone Layer. Dated 16 September 1987. URL: http://www.un.org/ru/documents/decl_conv/conventions/montreal_prot.shtml

Source: compiled using data from OECD/DAC and Russia's Finance Ministry.

lopment assistance[1]. According to data from the Federal Customs Service (FCS), Russia as part of its humanitarian assistance, shipped goods worth $23.3m in 2017, 2.2 times the amount appropriated in 2016. The Syrian Arab Republic has become the main recipient of Russia's humanitarian assistance, with charitable assistance accounting for 84% of Russia's humanitarian assistance totalling $19.6m. However, humanitarian assistance is not regarded as part of official development assistance but is rather regarded as a stand-alone form of aid[2]. Although humanitarian assistance adds to Russia's total contribution to the international development assistance, it has no effect on the official development assistance.

In 2016 and 2017, Russia's multilateral aid accounted for 39 and 38.5%, respectively, of its overall assistance. This suggests that Russia has intensified the use of international institutions to provide ODA. Russia's key partners are UN institutions ($148.22m), the World Bank Group ($61.3m) as well as regional development banks ($225.12m) (*Table 1*).

Although Russia did not support a $13bn paid-in capital increase to the World Bank at annual and spring meetings of the World Bank and the IMF in 2018, it continues employing World Bank's instruments for implementing assistance programs[3]. For example, the Russian Federation supports multilateral projects as part of

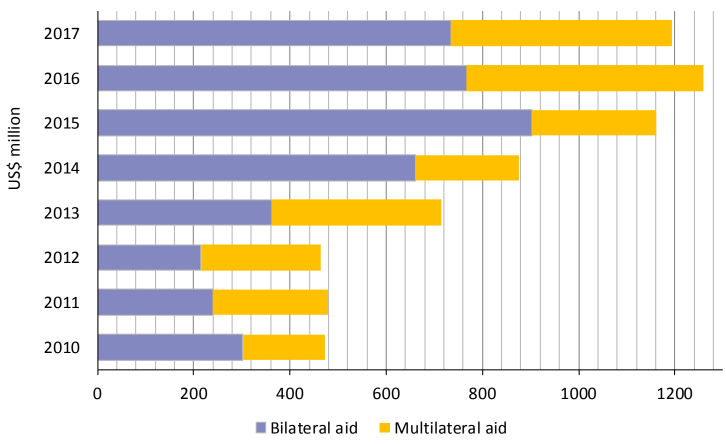

Fig. 2. Russia's ODA distribution for bilateral and multilateral aid, US$ million

Source: compiled using data from OECD/DAC and Russia's Finance Ministry.

1 Humanitarian assistance is not regarded as part of official development assistance but rather as a line of national efforts in international development assistance.

2 Humanitarian Assistance. OECD DAC. URL: http://www.oecd.org/dac/stats/humanitarian-assistance.htm

3 Russia and the United States refuse to participate in paid-in capital increase to the World Bank. Dated 22 April 2018. URL: https://www.rbc.ru/politics/22/04/2018/5adc50499a79471b369363ca

14 DA/MBRD trust funds[1]. Furthermore, seven World Bank's projects are in progress in Russia[2]. As to regional development banks, in 2017 the focus was placed on banks with projects implemented within the Eurasian space (*Fig. 2*).

In its bilateral cooperation in 2017 Russia focused on supporting CIS nations and also became a major donor for some countries. For example, Russia accounted for 19.8% of total development assistance to Tajikistan, according to data released by the Agency for Statistics under the President of Tajikistan[3].

Nations of Latin America, Africa and Asia entered Russia's list of priority regions in 2017 (*Table 2*)[4]. In addition, Russia's bilateral aid in 2017 was found to be more diversified than it was in 2016. For instance, Kenya, The Lao People's Democratic Republic, Marshall Islands, Palau, Peru became new recipients of Russia's official development assistance.

Table 2

RUSSIA'S BILATERAL AID BY RECIPIENT COUNTRY, 2012–2017, US$ MILLION

Recipient country	2012	2013	2014	2015	2016	2017
Bilateral aid (total)	214.71	361.85	660.29	902.14	762.06	733.77
Afghanistan	0.45	0	4.95	2.56	0.04	0.04
Azerbaijan	1.73	-	0.48	0.01	0.05	2.49
Armenia	5.79	5.26	5.86	37.37	40.33	15.63
Belarus	0.11	1.47	2.5	2.97	2.87	2.25
Burundi	0.14	-	-	-	-	0.04
Vietnam	2.56	0.4	-	0.16	0.2	6.93
Guinea	0.97	-	16.79	6.25	6.32	3.72
Egypt	0.07	-	-	0.78	-	0.03
India	0.06	0.01	-	-	0.38	0.46
Iran	0.1	-	1.3	1.3	-	-
Iraq	0.41	0.55	1.07	0.23	1.58	1.59
Jordan	2.6	5.44	3	4.99	0.5	1.67
Yemen	1.5	-	0.36	2.36	-	1.0
Kazakhstan	1.6	0.08	0.55	0.57	0.32	0.48
Cambodia	0.09	-	-	-	0.15	0.37
Kenya	2.88	2.19	2	-	-	1.0
Kirgizstan	37.92	76.73	202.87	322.81	198.81	129.81
Kiribati	-	-	-	-	-	0.01
Congo	0.28	-	-	1.21	-	1.0
Cuba	5.58	2.76	176.98	351.97	352	353.83
DPRK	15.5	33.61	68.42	59.77	58.63	57.71
Laos	0.23	-	-	-	-	0.17
Madagascar	0.06	-	-	-	9.89	8.89
Marshall Islands	-	-	-	-	-	0.01
Mongolia	7.92	0.01	-	0.23	0.21	1.16

1 Russia and the World Bankк: International Development Assistance. World Bank's official website in Russia. URL: http://www.vsemirnyjbank.org/ru/country/russia/brief/international-development

2 The World Bank's projects and operations. URL: http://projects.vsemirnyjbank.org/search?lang=ru&searchTerm=&countrycode_exact=RU

3 What is Russia's assistance to Tajikistan?, dated 27 November 2017. URL: http://news.tj/ru/news/tajikistan/politics/20171127/kakuyu-pomotsh-okazivaet-rossiya-tadzhikistanu

4 Russia spent more than $1.2bn in assistance to developing countries in 2017. URL: http://tass.ru/politika/5152423

Table 2, cont’d

Recipient country	2012	2013	2014	2015	2016	2017
Morocco	0.08	1.98	1.5	0.6	-	4.16
Mozambique	0.09	13.05	8	8	8	8
Myanmar	-	-	0.05	0.08	-	0.17
Namibia	0.09	0.46	-	0.06	-	1.5
Nepal	0.18	-	-	-	0.2	0.25
Nicaragua	10.86	36.4	17.24	5.56	12.04	14.01
Palau	-	-	-	-	-	0.01
Peru	-	-	-	-	-	0.4
Serbia	9.49	36.47	16.21	11.25	11.7	6.87
Somali	2.04	1	1	-	1	1.0
Sudan	0.01	2.56	0.05	1.54	0.01	1.0
Syria	11.17	12.95	7.33	22.1	4	20.53
Tonga	-	-	-	-	-	0.01
Tajikistan	15.21	17.12	19.48	21.76	13.66	16.1
Tanzania	0.07	3.37	1.37	1.37	1.37	1.37
Tunisia	0.04	1.98	1.65	1.12	-	5.66
Uzbekistan	0.92	0.34	1.15	0.52	0.05	2.98
Ukraine	1.15	0.69	6.82	-	5.62	5.0
Fiji	-	-	0.13	-	0.02	0.01

Source: compiled using data from OECD/DAC and Russia’s Finance Ministry.

An important point to note is that the actual amount of Russia’s official development assistance is bigger than what is published in OECD statistics because Russia provides assistance to nations that are not registered as recipients of OECD/DAC (Development Assistance Committee). For instance, Russia continues to support the socio-economic development of the Republic of South Ossetia. In particular, the Russian government has allocated Rb 600m for the construction of a surgery complex at the Republican hospital as part of the projects within the Russian financial aid investment program for the period of 2015–2017[1].

In addition, the Russian Federation allocates funds to combat international terrorism, provides military support, which, however, are not covered by ODA statistics. Exclusion of these cash flows leads to underestimation of Russia’s official development assistance statistics[2].

A combination of issues related to accounting, performance and effectiveness of Russia’s assistance has put forward the objective of creating a national IDA monitoring and assessment framework in the Russian Federation. The framework, when completed, would help address other objectives related to the compliance with Russia’s international commitments.

1 Federally funded construction of surgery complex in South Ossetia. Dated 11 July 2018. URL: https://vademec.ru/news/2018/07/11/v-yuzhnoy-osetii-otkryli-medkompleks-za-schet-finansovoy-pomoshchi-rossii/

2 Zaitsev Y.K. International assistance development programs from the perspective of supporting Russian business investment activity in developing countries: Opportunities and Challenges // National Strategy Issues. M., 2013. No. 5. P. 54–71. URL: https://elibrary.ru/item.asp?id=21081853

AUTHORS

Alexandra Bozhechkova, Head of Monetary Policy Department, Gaidar Institute; senior researcher, Center for Central Banks Studies, IAES, RANEPA

Alexander Deryugin, researcher, Budget Policy Department, Gaidar Institute; senior researcher, Budget Policy Issues Department, IAES, RANEPA

Yuri Zaitsev, senior researcher, International Trade Studies Laboratory, IAES, RANEPA

Alexander Knobel, Head of World Trade Laboratory, Gaidar Institute; Director of Center for International Trade, IAES, RANEPA

Tatiana Tischenko, senior researcher, Budget Policy Department, Gaidar Institute; Budget Policy Studies Department, IAES, RANEPA

Pavel Trunin, Director of Center for Macroeconomics and Finance, Gaidar Institute; Director of Center for Central Banks Issues, IAES, RANEPA

Designed by E.Nemeshaeva