

MONITORING OF RUSSIA'S ECONOMIC OUTLOOK:

TRENDS AND CHALLENGES OF SOCIO-ECONOMIC DEVELOPMENT

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TRENDS AND CHALLENGES OF SOCIO-ECONOMIC DEVELOPMENT

Upbeat sentiments prevailed in both the foreign exchange and the equity markets in Russia on the back of high oil prices and temporarily absent threats of new sanctions. These factors, however, are the ones that are driven by most unpredictable dynamics. Anyway, oil market trends were driven by both positive and negative shocks. It is impossible to predict how deep and for how long exports from Iran and Venezuela, and now from Libya, will fall; neither is it possible to project these unpredictable figures onto the increasingly apparent reluctance to cut oil production on the part of Russia. The volatility is spreading to the gas market too, which still remains heavily reliant on oil price quotations.

Despite the fiscal rule in place, Russia also depends (and probably will continue to depend) largely upon the above two markets. A few very impressive economic projects have received coverage in recent days: a large-scale extension of a gas project near the Baltic Sea, a new oil cluster in Taimyr and a LNG (liquefied natural gas) export super-cluster in Yamal and Gydan. It would be pointless to even estimate how much it might cost (as well as speculate about inevitable tax incentives and state budget spending). In such a scenario, however, the future economic growth pattern seems to rely on natural resources not only in the medium term (until 2024), but also in the long term. The question is the extent to which this should be viewed as a risk of sticking to the older economic model and as a chance to monetize hydrocarbon resources before demand begins to decay drastically.

Not so much global but rather socially sensitive consumer lending risks, including those from corporate borrowers (high-debt borrowers will likely to have to go on a diet), is a concern of the Bank of Russia, but growth pace of uncollateralized consumer loans is of greater concern. Although these concerns are not shared by all experts, our experts are not optimistic based on their analysis of the dynamics of deposits, income and loans.

The dynamics of retail bank accounts were the lowest since 2014 despite the 2018 increase of 6.8% (nearly Rb 1.8 trillion). Hard-currency deposits declined by 4.8bn in dollar terms. However, the first two months of 2019 saw retail hard-currency accounts increase by a comparable amount (up \$4.1bn). As a result, hard-currency deposits totalled \$92.5bn, or 21.2% of retail bank deposits. However, consumer lending outpaced deposits in growth. The annualized growth in banks' retail credit portfolio by the beginning of March 2019 reached the pre-crisis level of 22.9%.


Experts' conclusion: the previous year's trend – when bank loans was the main tool to prop up household spending as their earnings were on the slide – continues. However, this financial model cannot be stable in the long term. In 2019, real earnings continued to decline as wage growth rates slumped. If the dynamics continues, then households may run into debt servicing problems and banks may see their credit portfolio quality degrade, which in turn may force them to tighten their lending terms for new loans.

According to data from Gaidar Institute's March 2019 business survey, Russian industrial enterprises reported (based on their sales dynamics) a demand recovery after its early 2019 fall (although only 55% enterprises were satisfied with their physical sales volumes, compared to 63% in the previous year's March). Industrial output was reported to see a more or less positive dynamics too. However, inadequate demand remains the key constraint to a "statically indisputable" output growth, according to 48% enterprises (50% enterprises in 2018 and 41% enterprises in 2017). "Uncertain economic situation and its prospects" is another constraint.

Enterprises' optimism about investment plans dropped, compared to the 2018 year end. Sixty four percent of enterprises were satisfied with their actual investment size in March, compared to 69% in H2 2018 – an all-time high in the history of monitoring (2010–2019). However, researchers do not consider latest assessments as sings of crisis, reminding that only 41% enterprises assessed their investment plans as "normal" investment plans in Q1 2015.

Our experts highlight the need to develop a more predictable, simple and transparent pay system while making comments on intentions to reduce the number of federal civil servants in order to take their salaries to a competitive level (the issue was considered at a Federal Treasury Board meeting). Although the civil service's competitiveness has increased in the labour market, the increase has turned out to be discontinuous: salaries in central federal authorities are higher than in the economy, in contrast to below-average salaries in local/regional executive authorities. The payroll is overwhelmed by various "variables", which, according to experts, is not so much encouraging a higher quality of labour but allowing managers to often pay loyalty bonuses, at a time when civil servants' earnings are unpredictable. Furthermore, there is no single regulation on bonuses and other types of remuneration, so each department has its own way of doing it.

In this respect, the experts offer a few proposals on how to alter the civil servants pay system in order to make it more transparent for the general public and predictable for civil servants. The public sector should avoid the situation when basic salaries are set at 10,000–15,000 roubles or less, or they are even below the minimum wage for some offices.

In five recent years, long-term international migration to Russia stabilized at 565,000–600,000 persons a year, according to our experts' migration dynamics analysis. In contrast, outbound migration increased more than 100,000 persons. As a result, the migration gains in 2018 dropped to 124,900 persons, hitting an all time low in many years. Although the method of calculating long-term migrants underwent changes during that time, the today's dynamics is increasingly driven by the fact that the potential of inbound migration to Russia from many post-Soviet nations is about to be exhausted. In 2018, the low migration gains could no longer make up for the decline in Russia's population, as a result of natural population decline. 

1. BANK LOAN REMAINS THE MAIN TOOL TO MAINTAIN HOUSEHOLDS' SPENDING

M.Khromov

Households' bank savings at the turn of 2019 have demonstrated better performance than a year earlier. The largest share of deposits unlike last year was denominated in foreign currency. In the meantime, brisk recovery of the bank lending on the retail side is ongoing. This strengthens the credit model of the households' financial behavior.

2018 saw population funds in the bank accounts and deposits to increase by Rb 1,782 billion, or by 6.8%. Given that, the ruble accounts and deposits have increased by more than Rb 2 trillion, and USD deposits have decreased by \$ 4.8 billion.

Households' deposits upsurge in 2018 was not marked by high rates: 2018 indexes were the lowest since the deposit outflows seen in 2014. However, at the turn of 2019 deposits dynamics stabilized slightly (Fig. 1).

Seasonal contraction of the households' bank savings during the first months of 2019 was limited to January. During the first month of the year, households' bank deposits contracted by 1.2%, or by Rb 338 billion¹. Last year, January bank withdraws hit 1.5%, or Rb 381 billion.

In February households' bank savings not only increased in absolute terms but unlike in 2018 fully compensated the January outflows. The February deposit inflows amounted to Rb 392 billion, or 1.4%. Over the first two months of 2019 as a whole, households' bank deposits have gone up by Rb 54 billion, or 0.2%. In contrast, in January-February last year contraction was observed which amounted to Rb 113 billion, or 0.4%. Consequently, annual households' bank deposits growth rates advanced from 6.8% at year-end 2018 to 7.5% at year-end February 2019.

First months of 2019 have been marked by the take-off of households' funds in bank accounts and deposits denominated in foreign currency. They increased over two months by \$1.4 billion, or by 4.6%. Total amount of deposits denominated in foreign currency hit \$92.5 billion. On the contrary, ruble accounts and deposits contracted over two months by Rb 221 billion, or 1.0%. In other words, total deposit inflows seen at the turn of 2019 was owing to the foreign currency.

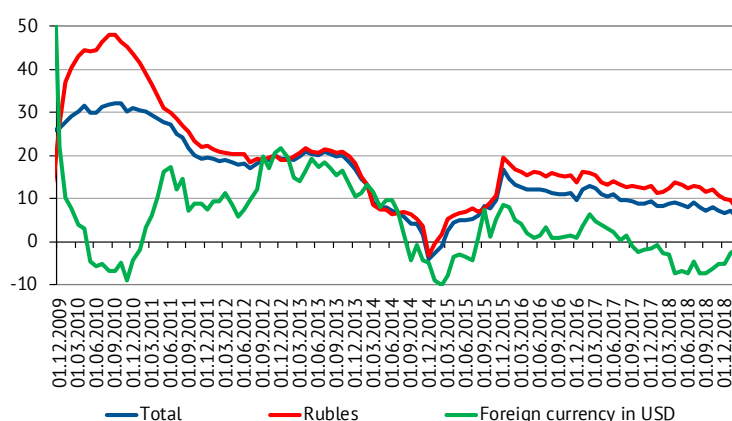


Fig. 1. Households' deposits growth for 12 months, %


Sources: Bank of Russia, own estimates.

¹ Hereinafter changes are indicated with the exchange rate adjustment unless indicated otherwise.

The proportion of the currency deposits over the first months of 2019 remained practically unchanged staying at 21.2% – both as of 1 January 2019 and as of 1 March 2019. That was due to the appreciation of the national currency to foreign currencies. For example, over January-February 2019 ruble has appreciated in relation to the US dollar by 2.1% and in relation to the European currency – by 3.8%. In sum, the ruble equivalent of the currency deposits has decreased over two months by 0.8%.

Against the backdrop of households' bank savings upsurge the lending bank activity on the retail side continues rising. Over the first two months of 2019, households' bank loan debt has risen by Rb 383 billion, or by 2.5% (Rb 193 billion, and 1.5% – a year earlier). Growth rates of the retail bank loan portfolio in annual terms reached at end-February 2019 22.9%, which corresponds the spring 2014 level (*Fig. 2*).

Advance of the lending market continues boosting increasing consumer spending of the households. For instance, during the first months of 2019, the retail trade turnover rose by 1.6–2.0% against the corresponding months of 2018, spending on paid services went up by 0.8–2.3%, on catering – by 4.9–5.5%. Herewith, the real disposable income of the households in January 2019 contracted by 1.3% in comparison with January 2018¹. The paramount component of population income – wages noticeably slowed down growth rates in 2019. If in 2018 the real wages advanced by 6.8%, then in January 2019 solely by 1.1%, and in February – by 0.7% in relation to the corresponding months of 2018.

Thus, one can note the continuation of the last year's trend when bank lending was the main tool for maintaining households' spending amid contraction of real income and slowdown of wages growth. Sustainability of such households' financial model is not viable in the long term without the recovery of the real income growth. Alternatively, population can soon face the deterioration of their financial ability to service debt and the banks will face the deterioration of the lending portfolio, which, in its turn, will make them to tighten conditions for the new loans issuance. 

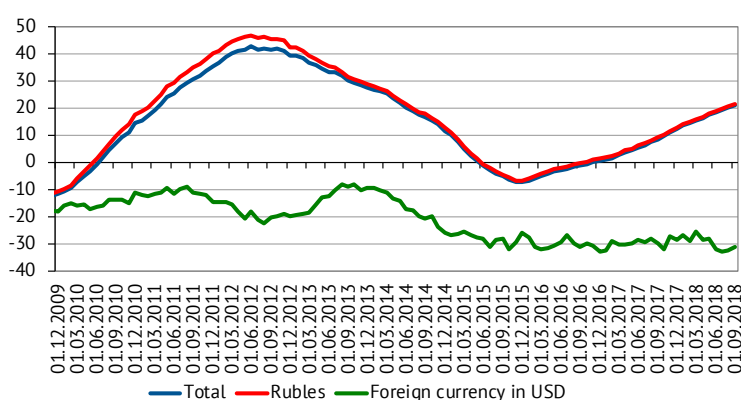


Fig. 2. Retail loans growth rates over 12 months, %

Sources: Bank of Russia, own estimates.

¹ From February Rosstat has terminated monthly release of households' income promising to switch to quarterly schedule.

2. INDUSTRIAL SECTOR IN Q1 2019: OUTPUT GROWTH IS HAMPERED BY INSUFFICIENT DOMESTIC DEMAND

S.Tsukhlo

In the first months of 2019, Russian industry preserved output growth amid the recovery of the sales upward dynamics and around zero balance estimates of finished goods inventory. Nearly half of enterprises consider insufficient demand a major setback for significant output growth. Nevertheless, grounds for optimism remain regarding output plans and workers recruitment. The scale of investment satisfied around two thirds of industrial enterprises.

March data on the sales dynamics exhibit a recovery of demand – they hit by business' estimates 10 months maximum. Thus, the negative seen at the beginning of the year (January collapse and slight February recovery) was neutralized in March. However, the outcome (physical sales volume in March) satisfies solely 55% of businesses and this is the minimum for the last 12 months. In March 2018, 63% of enterprises considered sales volumes as normal.

That said, enterprises deem as unlikely further demand recovery. Sales projections stopped gaining grounds for optimism.

In the context of emerging positive estimate of demand dynamics industrial output growth remained. In Q1 2019, only January turned out to be a failed month from the point of view of industrial output growth.

“Insufficient domestic demand” nevertheless remains the major setback for statistically unquestionable output growth. This factor is reported by 48% of enterprises, in 2018 it was mentioned by 50% of respondents. In 2017, insufficient demand was considered a constraint by 41% of enterprises.

In 2019, export demand was mentioned by 23% of enterprises, rating it third on the list of constraints. The second place has been taken by “unclear current situation and its prospects”. Among the resources, skilled workers were in short supply for 17% of enterprises in order to secure current output. Shortage of machinery and equipment was registered by only 10% of enterprises.

Estimates of finished goods inventory still demonstrate consistent control by enterprises of their inventories. Balance of responses “above norm” – “below norm” remains around zero, and the proportion of “normal” estimates does not fall below 70% since mid-2017. However, stable near zero balance of estimates of inventories represents a sign for minimal hopes of the industry for demand growth meeting which requires controlled oversupply of inventories.


In March industry again informed about the sale prices growth. Pricing policy of the Russian industry is disorganized in the context of economy's adaptation to the VAT rate rise. The February forecasts of price shifts envisaged such development in March. The March forecasts promise a more moderate price increase in April-May.

Growth rate of industrial costs has been relatively stable since early 2018. Neither devaluation upsurge of 2018, nor the VAT rate rise in 2019 have not significantly affected the shift of that indicator.

Following customary January dismissals seen in February-March industry proceeded to hire the required number of workers. As a result of dismissals at the turn of 2019, the surplus of staff has decreased to an all-time low – mere-

ly 5% of enterprises estimated their actual number of workers as “more than sufficient”. Such indicator value was registered only in January 2008 – at the peak of the pre-crisis overheating of the Russian economy. The staff shortage registered in Q1 2019 is relatively small – merely 10% of enterprises reported it. Herewith, recruitment plans have reached the high level.

While resolving the staff shortage issues, businesses will introduce competitive in their view wages in the industrial sector. They are considered normal by 80% of producers, which is the maximum since the onset of this indicator monitoring (2007–2019). Industry is ready to increase wages in the context of the inflation growth.

The March investment plans of industry continued losing grounds for optimism accumulated in December-January. The actual investment volumes in Q1 2019 satisfy 64% of enterprises. That is not the best result for the last years, but not critically low. Investment in Q3 and Q4 2018 were estimated as normal by 69% of enterprises, which was the maximum for the entire period of this indicator monitoring in 2010–2019. For comparison, investments of the crisis Q1 2015 were considered normal by only 43% of enterprises. 

3. WAGES AND SALARIES OF PUBLIC OFFICIALS: HOW MUCH AND HOW TO PAY

E.Dobrolyubova, V.Yuzhakov

A recent Federal Treasury Board announced a reduction in the number of federal employees. The task is to bring the remuneration of public officials to a competitive level among other things. This task can be solved, but in order to do it the system of salaries and wages should become more predictable, simple and transparent.

In the last 15 years, there were several attempts in Russia to modernize the system of governmental civil service and every time reforms concerned wages and salaries in connection with objectively estimated results of efficiency of those public officials.

In particular, the approved documents provided for building – up of the effective system of financial and non-financial motivation of public officials. It was suggested to improve legislation of the Russian Federation related to financial motivation of public officials with the goal to bring their labor remuneration to competitive level at the labor market. It was planned, inter alia, to increase guaranteed part of financial allowance and payment shares based on efficiency of their professional business activity. What are the results?

Having analyzed respective normative legal acts and major databanks on labor remuneration of public officials we came to the conclusion that above-mentioned tasks have not been completely solved.

Indeed, competitiveness of governmental service grew in general at the labor market in the last 15 years, however, this growth was erratic: thus, labor remuneration in central offices of Federal agencies exceeded similar level in the economy for most of the categories of employees with the exception of category “specialists” in certain bodies, while labor remuneration of public officials was, on the contrary, below average in economy in the territorial bodies (*Table 1*).

Russian state civil service loses certain internationally comparable positions to developed countries. For example, average salary of a customs inspector exceeded GDP by 1.6 times per capita in OECD countries in 2015; for tax inspectors, the ratio was 1.7 times. For Russia, these ratios are much lower: 0.89 for customs officers and 0.98 for tax officials.

The above comparisons reflect overall amounts of monetary remuneration while structure of civil service labor remuneration significantly differs from private sector. Thus, when share of variable employee benefits (including bonuses) accounts for about 25% of the payroll fund in non-governmental organizations according to Rosstat, variable payments in territorial bodies of Federal agencies constitute 38% and 48% of labor payments in central offices. However, up to now, there is no single standard regulation on awarding bonuses or any other financial motivation of public officials, i.e. procedure, amount, frequency of awarding and motivation payments are referred to discretionary power of Federal governmental bodies: every public agency use their own rules to regulate these matters. There is no rigid linking of bonuses with performance indicators in most of the governmental bodies with the exception of Federal Treasury, Federal Tax Service of Russia, etc., and failure to achieve goals and expected results of the body’s activities is not a reason to reduce (or avoid paying) bonuses

Table 1

Comparison of the average accrued wages and salaries in central offices of Federal executive bodies and in economy per categories of employees in 2017 (Rb/month)

Place of employment	Average accrued wages	According to categories of positions (categories of employees)			
		CEOs	Assistants (consultants)	Specialists	Providing specialists ("other employees" for economy in general)
Headquarters of Federal executive authorities					
Federal Ministries, Federal Services and Federal Agencies under President of RF, Federal Services and Agencies subordinate to these Federal Ministries	122.268	250.252	130.004	111.572	78.918
Federal Ministries under Government of RF, Federal Services and Agencies subordinate to these Federal Ministries	95.526	202.959	152.541	79.514	48.531
Federal Ministries under Government of RF	84.003	163.503	144.474	69.346	57.567
Average economy data (Moscow)	72 649	141 145	No comparable data available	78.231	46.872
Territorial bodies of the Federal executive bodies					
Federal Ministries, Federal Services and Federal Agencies under President of RF, Federal Services and Agencies subordinate to these Federal Ministries	33.711	52.860	45.254	31.645	26.452
Federal Ministries under Government of RF, Federal Services and Agencies subordinate to these Federal Ministries	45.928	69.921	51.155	42.498	27.998
Federal Services and Federal Agencies under Government of RF	36.789	56.596	45.461	33.509	26.815
Average economy data (Russian Federation)	38.609	74.059	No comparable data available	41.955	23.876

Sources: Rosstat, Ministry of Finances of Russia.

to its employees. Legislation on public service does not reflect any restriction concerning amount of bonuses.

As a result, Russian public officials often face the unpredictability of their salary earnings. This circumstance can also be used when changing leadership: employees of the old "team" will simply be deprived of their bonuses, their salaries drop significantly and they leave on their own will giving space for the new "team". Bonuses become a way to support loyalty of leadership rather than a tool for motivation to work better.

From our perspective, a unique and absolutely transparent procedure of bonuses, awarding of motivation payments and other financial incentives for the whole system of civil service is required excluding any institutional improvisation. The next step is to enlarge the structure of remuneration of public officers. Guaranteed part of labor remuneration, i.e. 80%, may include only official salary or official salary and irreducible wage premium for service, qualification and efficiency. The share of wage premium shall not exceed 25% of the total expenditures for guaranteed, i.e. permanent part of labor remuneration. In this context, the amount of labor remuneration for certain positions, which are currently below minimum statutory monthly index should significantly grow. It is essential to avoid situations when labor remuneration hardly exceed

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Rb 10.000–15.000 while an average accrued monthly wages of public officials at central offices exceed Rb 100.000. Growth of guaranteed wages and salaries will make it transparent for the community and predictable for the employee in question. 

4. THE POTENTIAL OF LONG-TERM MIGRATION TO RUSSIA IS NEARLY EXHAUSTED

N.Mkrtchyan, Yu.Florinskaya

The number of long-term migrants to Russia has not been growing since 2014, while the rate of their departures keeps increasing. The migration growth – the lowest in the post-Soviet period – fails to make up for the natural decline in the population.

The Long-Term Migration

Starting from 2014, the number of international migrants arriving in Russia has stabilized at the level of 565,000–600,000 persons, but the number of departures continued to go up from 308,000 persons in 2014 to 441,000 persons in 2018. As a result, the migration growth of the population decreased and amounted to 124,900 persons by 2018 (Fig. 1). According to the data of the current migration accounting, this index is the lowest one since 2004. However, unlike the present-day situation, early in the 2000s the long-term migration was not completely accounted for, which fact is recognized by numerous experts. For this reason, the adjustment of the migration growth data based on the outputs of the 2010 All-Russian Census was needed. If such adjustments are taken into account, in 2018 the migration growth in Russia's population was the lowest one in the entire post-Soviet period.

A dramatic increase in the number of arrivals in Russia took place in 2011 after the modification of the methods of statistical accounting (persons registered not only at the place of residence, but also at the place of their stay for the period of 9 months or more started to be taken into account as long-term migrants). However, the number of departures started to grow with a lag of 1–3 years as migrants' registration at the place of stay started to expire. This affected dramatically migration growth indices, particularly, in 2011–2012; from 2013 the situation stabilized. But the “mismatch” between arrivals and departures and the lag of the latter's delay kept affecting migration growth indices in all the subsequent years.

For example, in 2015 after a decrease in arrivals from Uzbekistan migrants who came to Russia from that country earlier and got a registration in 2011–2014 when the number of arrivals was rapidly growing continued to leave Russia. As a result, in 2015 Russia had for the first the migration decline in population. However, it did not much affect the index of overall growth in migration to the Russian Federation because in 2014–2015 the number of arrivals from Ukraine increased

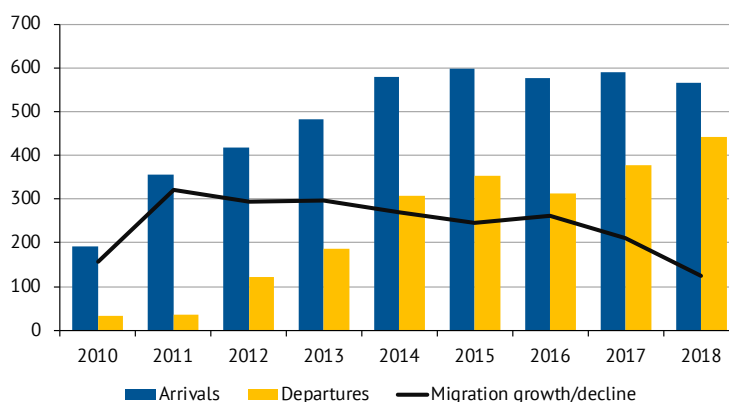


Fig. 1. The international migration in Russia in 2010–2018, thousand persons

Source: The Rosstat.

4. The Potential of Long-Term Migration to Russia is Nearly Exhausted

dramatically. From 2016, the inflow of arrivals from Ukraine was shrinking and in 2018 it was lower (nearly 30%) than in 2015, while the number of departures grew 2.6-fold.

An increase in the number of arrivals from far-abroad countries in 2011–2013 caused subsequent growth in departures, too. Throughout the 2010s, Russia observed migration growth, but the data of the recipient countries did not confirm that. After a long break, in 2018 the Rosstat registered the decline in migration.

In 2018, the decline in the index of Russia's migration growth was justified not only by the consequences of the modification of the methods of accounting of the long-term migration alone. The potential of migration to Russia from post-Soviet countries is nearly exhausted; it particularly concerns countries of the western part of the former USSR. On one side, the number of Russians and representatives of titular nations living beyond the Russian borders has largely decreased on the back of their repatriation for more than 25 years to the historical homeland. Most of those who remained outside Russia got integrated; also one should not underestimate the aging of Russian communities beyond Russia. In addition, there is no longer any great difference between Russia and other countries as regards the social and economic development even as compared to the 2000s. This factor makes the migration's choice in favor of Russia not quite unambiguous; residents of more and more countries reorientate towards the EU and other countries. The extent of the emigration of Russians to far-abroad countries remains unclear.

The prospects of migration growth in Russia's population have become of particular importance amid the renewed natural decline in the population which failed to be compensated by the migration in 2018.

At the same time, the scope and directions of the internal migration in Russia have remained virtually unchanged in the past few years. Without residents of the Republic of Crimea and the city of Sevastopol taken into account, in 2018 the number of internal migrants increased by 6.6% as compared to 2013, while in 2011–2013 the number of resettlements accounted for by the statistics doubled (the consequences of the reform of the system of statistical accounting of migration in 2011).

No new centers of attraction of migrants have appeared; Moscow with the Moscow Region, St. Petersburg with the Leningrad Region and the Krasnodar Territory are still undisputable leaders. The attraction centers of the second order – the Tyumen Region, the Novosibirsk Region and the Kaliningrad Region – were joined by Crimea and Sevastopol. The outflow of the population from the Far Eastern Federal District and the Siberian Federal District continues, but the leader in terms of the absolute loss in the internal migration is the Privolzhsky Federal District.

The number of Russian regions where migration loss is observed is growing. The lower the increase in Russia's population as a whole owing to the international migration, the fewer regions retain migration growth. In 2018, out of 85 Russian regions only 18 regions saw migration growth (26 regions and 35 regions in 2017 and 2016, respectively).

The Temporary Migration

In the past three years, the number of temporary migrants staying in Russia within a year fluctuated at the level of 9.2–10.2m persons (in 2013–2014 the indices were within the range of 10–11.5m persons). Early in 2019, there was no evidence of return to the pre-crisis values of the temporary migration (*Fig. 2*). As of 1 April

2019, there were 9.56m foreigners in the territory of the Russian Federation (9.24m, 9.53 and 10.76 as of 1 April 2018, 1 April 2017 and April 2014, respectively).

The temporary migration is a migration mostly from the CIS states: as of 1 April 2019 8.2m persons (86%) from the CIS stayed in Russia (8.1m persons (85%) as of 1 March 2019). The leading positions are still retained by Central Asian countries and Ukraine (Table 1).

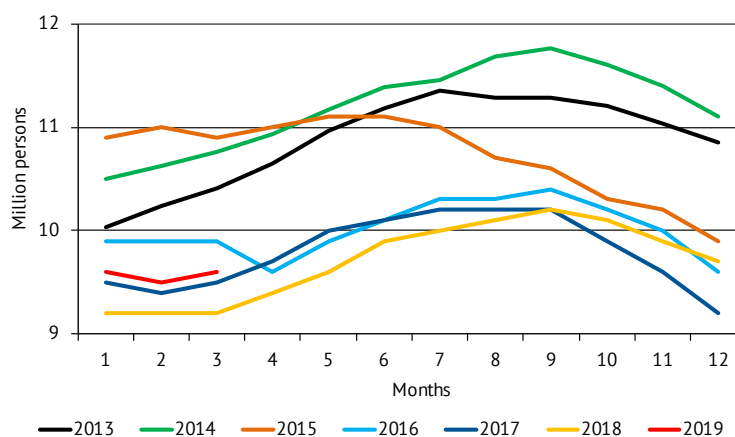


Fig. 2. Arrivals of foreign nationals in Russia as of the end of the month, million persons, 2013–2019

Source: The RF Federal Migration Service, the Main Directorate for Migration Affairs of the Ministry of Internal Affairs of the Russian Federation and the Central Database of Accounting of Foreign Nationals and Stateless Persons (CDAFNSP).

Table 1

Foreign nationals from the CIS in the Russian Federation as of the specified date, persons

	04.03.2015	01.03.2016	01.03.2017	01.03.2018	01.03.2019
Azerbaijan	562787	520844	521179	605993	634293
Armenia	484892	469481	451411	475144	466883
Belarus	529953	650809	677651	629691	648405
Kazakhstan	626594	624512	561805	480389	491333
Kirgizia	523221	572759	595385	631861	704734
Moldova	557592	488616	463509	393363	337725
Tajikistan	963489	862914	865865	968717	1111479
Uzbekistan	2131300	1764468	1517855	1718140	1906797
Ukraine	2552844	2507677	2330594	1984442	1773544
CIS, total	8932672	8462080	7985254	7887740	8075193

Source: The RF Federal Migration Service, the Main Directorate for Migration Affairs of the Ministry of Internal Affairs of the Russian Federation and the Central Database of Accounting of Foreign Nationals and Stateless Persons (CDAFNSP).

Growth potential of the temporary migration from the Eurasian Economic Union is virtually exhausted; the only exception is Kirgizia whose number of migrants to Russia has exceeded by nearly 30% the pre-crisis values. The increased migration from Azerbaijan and Tajikistan has already attained the values of 2013–2014; the migration from Uzbekistan is growing, too, but is still 20% short of the pre-crisis level. At the same time, the migration from two countries of the western part of the former USSR – Ukraine (the indices have approached the level observed before the developments in Ukraine's south-west and surpassed it by the mere 10–12%) and Moldova (a 40% reduction as compared to 2013–2014).

The temporary migration from developed countries has decreased three-fold as compared to the pre-crisis level. Openness of the country and the easing of the visa regime during the FIFA World Cup did not have a long-term effect on this trend. The presence of nationals from those countries in Russia keeps

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shrinking (Table 2). As compared to arrivals as of the same date (the beginning of March) last year, the number of persons from far abroad countries who came to Russia on business decreased; the number of those who work for hire or come for a private visit has slightly increased.

Table 2

Foreign nationals from some countries of the EU and the US
in the Russian Federation as of the specified date, persons

	02.03.2014	04.03.2015	01.03.2016	01.03.2017	01.03.2018	01.03.2019
EU as a whole	1177366	811696	483683	468516	393331	382207
Germany	347094	238293	110706	97326	90049	83624
Spain	76576	45445	14635	12819	12201	11553
Italy	75173	52541	27577	24814	21268	20696
UK	178186	109930	28311	23989	19806	17586
Finland	117326	68893	79157	96600	67814	49193
France	64886	50622	33446	26366	24443	25666
US	220275	141115	45625	40441	36017	35983

Source: The Main Directorate for Migration Affairs of the Ministry of Internal Affairs of the Russian Federation and the Central Database of Accounting of Foreign Nationals and Stateless Persons (CDAFNSP).

As of 1 March 2019, there were 3.97m labor migrants in Russia (those who came to work for hire). It is somewhat more than in 2018 at the same date (3.76m labor migrants); nearly 97% of all the labor migrants came from the CIS (0.7% and 2.7% from the EU and other far abroad countries, respectively). As compared to the previous year, the labor migration from all the CIS states (particularly, Kirgizia, Tajikistan and Uzbekistan), except for Ukraine and Moldova, has increased; labor migrants from those two countries prefer increasingly to work in Europe. Among far abroad countries, the leaders as regards the number of labor migrants in Russia are still China, Vietnam, Turkey and North Korea.

As of the end of February 2019, labor migrants had 1.71m valid work permits (work permits and patents); about 1.1m persons had the right to work without such documents (nationals of the member-states of the EEU). So, around 71% of labor migrants can be considered as “notionally legalized” on Russia’s labor market (for complete legalization employers have to enter into an official contract with migrants) as compared to 72% as of the same date last year. As is evident, the efforts related to toughening of the migration legislation have not resulted in growth in the share of legalized migrants on the Russian labor market.

In the first two months of 2019, the number of newly executed work permits and patents exceeded the indices of the past few years, though it is still quite short of the index of 2014 (Table 3). At the same time, the index growth in the beginning of the year does not give grounds to speak about positive trends – the indices of the beginning of 2018 surpassed the relevant data of 2017, however, the total number of documents executed within that year turned out to be lower.

Within two months of 2019, migrants paid Rb 7.88bn (advance tax payments for patents) to regional budgets (Rb 7.11bn in the same period of 2018). Those payments were made mostly by migrants from Uzbekistan and Tajikistan; their share in the volume of the received patents amounted to 89% (85% within the same two months of 2018).


Total 3

Work permit documents issued to migrants in the Russian Federation,
January-February, persons

	2014	2015	2016	2017	2018	2019
Work permits for foreign nationals*	118682	29320	8518	10233	10486	12127
Including:						
Work permits for skilled workers*	2897	1423	985	1415	1494	1834
Work permits for high-skilled workers	4488	3490	2695	3144	3144	3731
Patents**	223322	79185	126983	140272	167058	191107
Total	342004	108505	135501	150505	177544	203234

Source: The Main Directorate for Migration Affairs of the Ministry of Internal Affairs of the Russian Federation, 1-RD Form.

* From 1 January 2015 work permits are issued only to foreign nationals from countries the Russian Federation maintains a visa regime with;

** From 1 January 2015, patents are issued to foreign nationals from countries with a visa-free regime for employment both with individuals and legal entities. 

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