

# MONITORING OF RUSSIA'S ECONOMIC OUTLOOK:

## TRENDS AND CHALLENGES OF SOCIO-ECONOMIC DEVELOPMENT

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# Monitoring of Russia's Economic Outlook

**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)

**Editorial board:** Sergey Drobyshevsky, Pavel Kadochnikov, Vladimir Mau and Sergey Sinelnikov-Murylev

**Editor:** Vladimir Gurevich



GAIDAR  
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FOR ECONOMIC  
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## TRENDS AND CHALLENGES OF SOCIO-ECONOMIC DEVELOPMENT

Events that make up a sort of “oil chain” still remain in the spotlight – not only in Russia.

The US threat to apply new sanctions to block all oil exports from Iran has added to global oil prices, thus heightening the possibility that OPEC+ countries may pull out of the deal as well as inspiring doubts about the mechanism of a negotiated domestic market price control agreement between Russian oil producers and the federal government. The principle stating that the higher the global prices, the bigger the financial compensation for oil producers has already led to a situation where the National Wealth Fund (NWF) may be used as a source of such compensation (which is hardly in line with the fiscal rule in force). With further global price rises, compensation payments – questionable in their own right – will reach inadequate amounts.

There are rather local but not less debated issues, such as a ban on exports of Russian crude oil and refined petroleum products to Ukraine (unless there is a special permission to do so), Belarus's intention to start an off-schedule and unnecessary repair of transit oil pipelines (in essence, to block Russian exports), deliveries of substandard Russian crude to Belarus's oil refineries, a temporal suspension of respective exports from Belarus to the EU and Ukraine.

Surely enough, these events can as well be interpreted in terms of conspiracy thinking, however, an accurate economic analysis is hardly possible here. Instead, such analysis is definitely needed following the introduction of a new revenue and expenditure calculation method in the economic theory and practice, whereby Rosstat released revised data for 2018/early 2019. Aside from other changes, there stand out a drastic rise of wages in earnings (last year's payroll is now Rb 10 trillion more than according to old data). The share of earnings in the “non-observed” sector was more than halved instantly. Whatever justified the adoption of the new method might be, it needs more arguments, at least because of its macroeconomic scope.

An analysis of the Q1-2019 balance of payments that relies on Q1-2019 BoP preliminary data from the Bank of Russia gives no evidence of major changes. It instead gives evidence of the previous year's uptrend in the current account balance (an increase of 9.3% from Q1 2018), which was driven largely by declined imports. An increase in the financial account deficit was led in particular by increased net capital exports from banks and enterprises. Foreign investment in OFZ bonds resumed growth on the back of improved conditions in emerging markets and lack of immediate threats of new sanctions.


Experts believe the Russian rouble has potential for strengthening if crude prices remain what they are now and exports increase marginally. This would contribute to further growth in the current account balance.

Experts from the Gaidar Institute have analyzed how to build a long-term forecast for the Russian financial sector. Three scenarios have been developed to devise three versions of the future and dynamics of the financial sector, namely a conservative (worst-case) scenario that focuses on drafting a consoli-

dated budget and assessing whether it can be executed under the most adverse conditions, a baseline (most likely) scenario that represents business-as-usual economic development under relatively favourable external conditions, but without undertaking structural reforms, a target scenario that builds on targets set forth in a Presidential Executive Order of May 2017 and expects GDP growth rates to increase 4% or higher, if reforms are undertaken. The future of the banking sector, substitution of foreign loans by state funding, exchange rate dynamics, a combination (competition between) of various financial instruments and more have been analysed from the perspective of the above scenarios.

Researchers from the Gaidar Institute have compared a national program of integrated rural development for 2020–2025 drafted by Minselkhoz (Russia's Ministry of Agriculture) with the ongoing federal target program of sustainable rural development (2014–2020). Within 6 years the new program spending is expected to increase seven times the ongoing program spending, mainly through a 13-fold rise of federal budget expenditure (the 2017 federal and regional expenditure were about equal). Additionally, the bulk of the money is expected to be allocated to projects initiated by rural municipalities, individuals and businesses, however, neither guidelines for application of funds, nor project support criteria are specified, and winners will be selected by a Minselkhoz commission. Our experts express strong criticism of this approach as well as the fact that rural settlements with high unemployment rate, low personal incomes and low fiscal capacity can hardly be eligible for any support, according to the draft program, which would just catalyze their decay. This reminds of a Soviet malpractice of “liquidation of villages with no prospects”.

Special emphasis is placed on the fact that municipalities lack both power and money to be able to develop their social and rural economic sectors. Furthermore, the draft national program does not even mention municipalities as main contractors, and the solution of all tasks rests with federal and regional authorities.

Noting a 0.2-year increase in 2018 life expectancy in Russia, our authors highlight high differentials in life expectancy by gender, where the gap between men and women was 10, 21 years, one of the widest gaps among European countries. The male death rate in Russia remains very high despite some positive changes, which among other things engenders a host of socio-economic problems. Although the gap is not viewed as a stand-alone issue within known national projects, it should be emphasized, according to experts, including in terms of accomplishing Vladimir Putin's goal of raising life expectancy to 78 years by 2024. Therefore they suggest, in particular, that spending under the 'Healthcare' national project should be analyzed, because it is questionable whether the spending is efficient to accomplish these goals. 

# 1. RUSSIA'S BALANCE OF PAYMENTS Q1 2019: ROUBLE HAS POTENTIAL FOR APPRECIATION

A.Bozhechkova, A.Lavrischeva, P.Trunin

*Russia's positive balance of trade increased in Q1 2019, compared to the previous years' same period, on the back of decline in imports (a major contributor to the increase) induced by rouble depreciation. BoP data show that residents invested more in foreign assets as well as the OFZ bond market became more appealing to non-residents. The Russian rouble has potential for further strengthening, although its depreciation cannot be ruled out if new external shocks occur.*

According to Q1-2019 BoP preliminary data from the Bank of Russia, Russia's Q1-2019 current account balance was recorded at \$32.8bn (adding 9.3% to the previous year's value).

The balance of trade in goods reached \$45.3bn, posting a 2.5% increase from the Q1-2018 value (Fig. 1), which was primarily driven by the decline in imports from \$57.4bn in Q1 2018 to \$55.9bn in Q1 2019.

The balance of trade increased, amid falling imports, as exports declined from \$101.7bn in Q1 2018 to \$101.2bn in Q1 2019. The decline was driven by falling average export prices of crude oil, refined petroleum products, ferrous and non-ferrous metals against a backdrop of stable physical volumes of exports, and the fall was not offset by price rise of natural gas, hard coal, fertilizers and other commodities.

Russia's Q1-2019 balance of trade in services remained almost unchanged (-\$6.6bn). While both exports and imports of services were smaller than what they were in Q1 2018, the former were smaller than the latter both in relative and absolute terms.

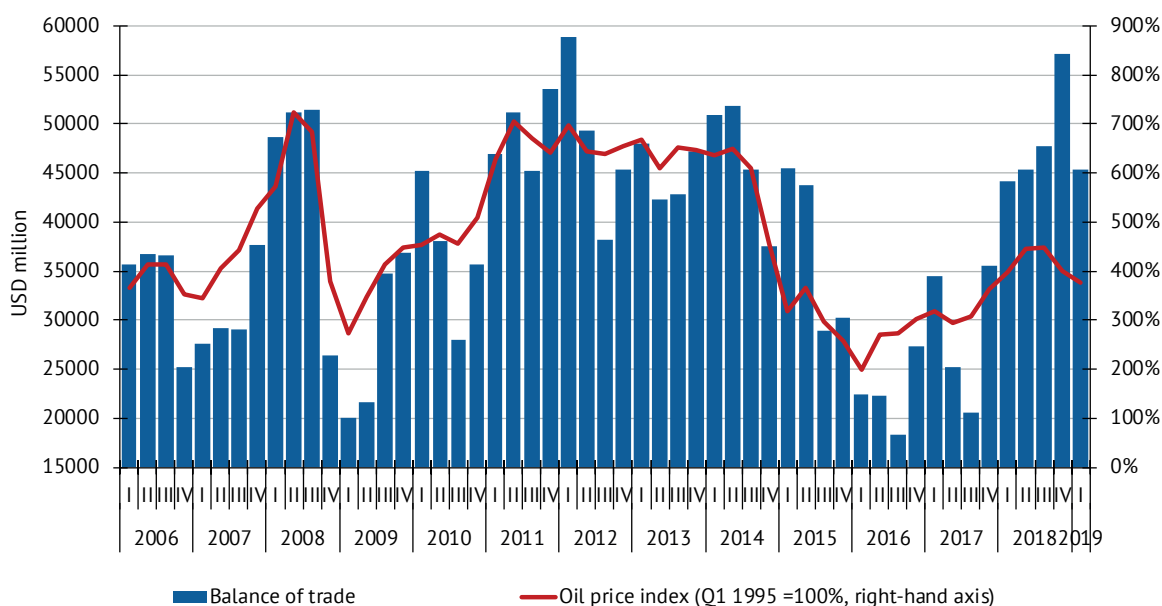


Fig. 1. Russia's balance of trade and oil price dynamics

Sources: Bank of Russia, IMF.

Table 1

## Prices of Russia's principal export commodities in Q1 2019, compared to Q1 2018

Commodity	Commodity's percent of exports in January-February 2019, %	Average export price in January-February 2019 (\$/tonne)	Average export price in January-February 2018 (\$/tonne)	Price change, %
Crude oil	27	432	461	-6.2
Refined petroleum products	17	455	470	-3.1
Natural gas*	14	238	202	+18.1
Ferrous metals	4.8	457	499	-8.4
Hard coal	3.8	87	79	+10.3
Liquefied natural gas (LNG)**	2.2	158	133	+19.0
Aluminium	1.9	1824	1820	+0.2
Fertilizers	1.8	266	230	+15.4
Copper	1.2	6052	6924	-12.6
Nickel	0.5	11886	13192	-9.9

\* the price is for billion cubic meters of natural gas

\*\* the price is for thousand cubic meters of LNG

Sources: Russia's Federal Customs Service, own calculations.

The investment income balance and the compensation of employees balance underwent minor changes. The former was up \$0.9bn (from -\$4.4bn to -\$3.5bn) and the latter increased \$0.2bn (from -\$0.7bn to -\$0.5bn) from Q1 2018.

Thus the balance of trade in services and the balance of trade in goods still remain the key factors that govern the current account balance in the Russian economy.

Russia's current account surplus increased alongside the rise to \$15.0bn in the financial account deficit in Q1 2019 (compared to \$12.4bn in Q1 2018). Net capital exports from banks and enterprises stood at \$25.2bn, 1.6 times the amount recorded in Q1 2018 (Fig. 2). That said, net capital exports from banks reached \$15.7bn vs. \$2.8bn in Q1 2018, on the back of growth in foreign assets (\$10.3bn compared to \$0.3bn in Q1 2018) and decline in external liabilities (-\$5.5bn compared to -\$2.5bn).

Net capital exports by enterprises stood at \$9.4bn (\$13.4bn in Q1 2018). Growth in foreign assets was the key contributor to the dynamics of enterprises' account balance with the rest of the world. For instance, non-bank sector's other foreign assets (which are recognized in this account primarily as loans and credits) increased \$10.1bn (\$4.5bn in Q1 2018), while other foreign liabilities were reduced by -\$2bn (-\$1bn in Q1 2018).

Outbound portfolio investments amounted to \$0.6bn (\$0.4bn in Q1 2018), whereas inbound portfolio investments reached merely \$0.3bn (\$1bn in Q1 2018). Enterprises' capital outflows of \$8.8bn (\$12.6bn in Q1 2018) in the form of foreign direct investment (FDI) were more than offset by \$11.5bn (\$6.4bn in Q1 2018) in inflows of non-residents' direct investments to Russia.

Investors' positive expectations in the absence of new serious sanctions and amid increased appeal of emerging markets spurred growth in foreign economic agents' investment in OFZ bonds. In Q1 2019, non-residents increased their investment in Russia's sovereign debt (\$7.5bn in Q1 2019 vs. \$4.1bn Q1 2018). As a result, the January-February period saw the non-residents' OFZ bond market share increase from 24.4% to 25.9%.

Russia raised its international reserves by \$18.6bn (\$19.3bn in Q1 2018) to \$487.8bn. This dynamics was governed primarily by MinFin's (Russia's Finance Ministry) purchases of foreign exchange of around Rb 801.3bn (Rb 700.3bn in

## 1. Russia's Balance of Payments Q1 2019: Rouble has potential for appreciation

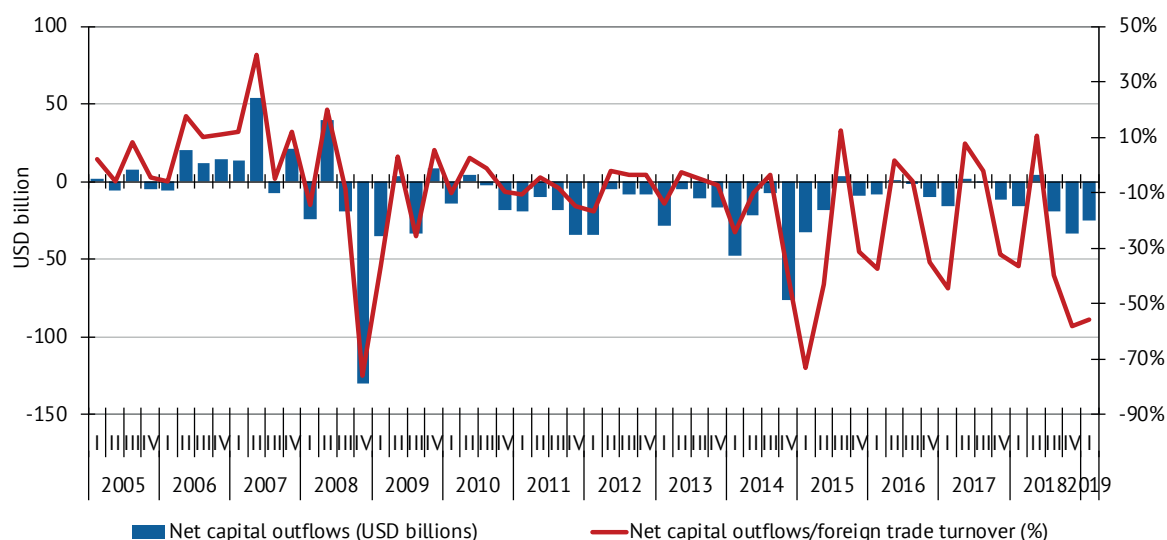


Fig. 2. Private sector's net capital outflows, 2005–2018

Sources: Bank of Russia, own calculations.

Q1 2018) in the domestic foreign exchange market in compliance with the fiscal rule in place.

In the period between January and March 2019, the Russian rouble gained 6.8% against the US dollar and was traded at 64.7 roubles per dollar, on the back of high crude prices, the absence of new anti-Russia sanctions, as well as higher global demand for assets in emerging economies on expectations that the US Fed may ease its monetary policy.

The Russian rouble has potential for further strengthening against major hard currencies. According to our estimates, the US dollar nominal exchange rate is estimated not more than 62 roubles per dollar, given the fundamental factors as they are now.<sup>1</sup>

If global crude prices remain at their current level (roughly at \$60 a barrel) and the rouble's nominal exchange rate is at around 65 roubles per dollar in 2019, then the rouble's real exchange rate is apparently expected to appreciate a bit, exports to see a marginal growth, as well as imports to be a bit smaller than in 2018, which would contribute to some growth in the current account balance. ■

1 Assessment of fundamentally substantiated rouble's real exchange rate // Russian Economic Developments. 2015. No. 2. P. 16–19.

## 2. RUSSIA'S FINANCIAL SECTOR: HOW TO BUILD A FORECAST

A.Vedev

*The issue of long-term forecasting for the Russian financial sector has come to the fore after the economy and the financial system have suffered substantial shocks in recent years. It is extremely important for economic agents to understand what the Russian financial system would be on the horizon. The effect of non-economic ("geopolitics") and technology (digital technologies) factors on the financial sector must be factored in when making forecast scenarios.*

It would be advisable that a long-term forecast for the financial sector should rely upon a set of socio-economic development scenarios proposed in 2014–2017 by Russia's Ministry of Economic Development. The logic for choosing the foregoing set is that it consists of a conservative scenario that involves negative external trends and assesses the state's ability to honour its social and other commitments, a baseline scenario that seems like the safest bet, and a target scenario that assesses conditions and the national economy's ability to meet mid-term targets set by the President of Russia.

**The conservative scenario** represents the worst-case or most likely negative scenario that focuses on drafting a consolidated budget and assessing whether it (including national programs) can be executed if the most adverse conditions occur.

**The baseline scenario** represents the most likely and business-as-usual scenario for the economy under relatively favourable external conditions, but without undertaking structural reforms.

Lastly, **the target scenario** that builds on the targets set forth in the Presidential Executive Order 'Concerning National Goals and Strategic Objectives of the Russian Federation through to 2024' of May 2017 expects GDP growth rates to increase 4% or higher, if reforms are undertaken and conditions for growth are created.

Note that the above three scenarios contain sets of key macro-indicators that can underlie studies of developments that may take place in the financial sector.

The main forecast scenarios factor in that anti-Russia sanctions policy and Russia's economic countermeasures will continue to be applied and there will be no new geopolitical and economic shocks in the medium term. The forecast builds on the assumption that macroeconomic and financial stability will continue and the previously assumed social and foreign policy commitments will be honoured.

The main forecast scenarios rest on a single assumption of 3.7% growth in the global economy in 2017–2019 and gradual slowdown in annual growth to 3% by 2035. The slowdown will result from stronger resource constraints, including the exhaustion of the effect of rapid increase in the working-age population in developing countries and the effect of catch-up growth in technological production level in countries with demographic boom.

The foregoing scenarios determine key macroeconomic parameters. Yet, various developments may take place in the financial sector within the scenarios.



## 2. Russia's financial sector: How to build a forecast

*The following is a list of possible developments in Russia's financial sector.*

### **1. Growth rates in nominal GDP and bank assets/liabilities.**

Russia's banking system in view of the financial crisis has entered a new stage as well. The stage includes the following factors and conditions for development:

- the banking system is shut off from borrowing in overseas capital markets, there are restrictions on external debt refinancing;
- the external debt is substituted by the internal debt to, above all, the state;
- there is deficit of internal resources and appreciation of liabilities raised in the domestic market;
- there is an increase in centralized credits in the banking system's liabilities;
- the influence of state subsidies to the non-financial sector via the banking system is on the rise;
- lending risks and interest rates on loans are on the rise;
- there is a weakening demand for loans on the part of the non-financial sector and a plunge of growth rates in corporate lending.

Throughout the crisis stage, banking sector's lending activity is on the slide amid growing state's influence on the banking system. In light of falling business profits and real personal income, the non-financial sector will see its savings decline along with a simultaneous increase in the cost of borrowing in the banking system.

As a result, the banking system will approach the ground zero of economic buoyancy with relatively expensive liabilities and high interest rates on loans. High inflation and devaluation expectations will determine non-financial sector's "short term" investment in the banking system. Substitution of foreign loans by state loans will contribute to a longer term of liabilities available in the banking system. However, this "long money" goes (and will go) primarily to state-run banks.

### **2. Bank loans to deposits ratio in non-financial sector: a gap present or absent.**

External conditions is a factor necessary for economic growth recovery. However, the steadiness and quality of growth will depend on solving structural problems. Needless to say, economic growth, not to mention investment-driven growth, is in need of bank loans. And domestic savings will not be enough. This raises the question of choosing an economic policy agenda: whether to keep up the deficit so that high growth rates could be retained or to reduce the deficit with a view to ensuring financial stability.

### **3. Ruble's exchange rate dynamics: neutral, weakening, strengthening exchange rate.**


The target scenario of the long-term social and economic development forecast rests on the assumption that the balance of trade will increase, which may become a factor contributing to a stronger exchange rate, unless the increase in the balance of trade is accompanied by increased capital outflows.

In this respect, the following are the options that can be considered within the long-term development scenarios:

- the exchange rate will remain stable, as initially assumed in the target scenario;

- capital outflows from Russia are fixed, according to the 2010–2013 period of a relatively big balance of trade, and the exchange rate is determined according to the balance of payments;
- the amount of foreign-currency purchases through tapping into the National Wealth Fund is described in the scenario where the need for such operations is limited, capital outflows are fixed, and the exchange rate is determined according to the balance of payments.

#### **4. Competition between debt instruments.**

Institutional agents' savings in the economy are allocated among various financial instruments. There are many factors such as key macro indicators, financial sector' state parameters, risks, expectations, etc. that influence allocation decisions. However, intensive development of one of such instruments can have a depressive effect on the others. For example, elevation of inflation and devaluation expectations can lead to higher demand for instruments that are denominated in foreign currency (including foreign currency in cash). In addition, a growth in the size of purchases of foreign currency in cash and non-residents' securities can spur gross capital outflows from Russia, thus reducing financial resources in the national economy. 

### 3. STATE PROGRAM OF INTEGRATED DEVELOPMENT OF RURAL TERRITORIES: PROJECT ANALYSIS

V.Uzun

*Agriculture Ministry of Russia has developed a draft of the State program of integrated development of rural territories (SP IDRT) for 2020–2025<sup>1</sup>. Fundamental difference of the new program from the current Federal Target Program “Sustainable development of rural areas for 2014–2017 and the period up to 2020” is in upsurge of required budget allocations and drastic change in the ways of their distribution.*

Appropriations on the ongoing program during last 6 years amounted to Rb 191.4 billion, the new program envisages to appropriate during 6 years to come Rb 1,376 billion (7.2-fold more). It is planned to increase appropriations mostly from the federal budget: from Rb 79 billion to Rb 1,057 billion (13.4-fold). Appropriations from the consolidated budgets of the subjects of the Russian Federation will grow by 1.4-fold, and allocations from extra-budgetary sources will increase by 5.2-fold. In 2017, appropriations from the federal and regional budgets were nearly equal, however, now the federal budget is supposed to allocate on the rural development ten times more than the regional budgets (Table 1).

Table 1

Appropriations on of the ongoing FTP SDRA and the new program IDRT (Rb billion)

Years	Total	Including		
		Federal budget	Regional budget	Extra-budgetary sources funds
Ongoing FTP SDRA				
2014	38.1	10.2	16.7	11.1
2015	31.7	12.2	12.0	7.5
2016	31.7	12.1	13.0	6.6
2017	35.8	14.9	14.5	6.5
2018*	25.0	13.6	6.1	5.3
2019*	29.1	15.9	7.1	6.1
Total 6 years	191.4	78.9	69.4	43.1
Draft of new State program IDRT				
2020	100.0	74.8	8.3	16.9
2021	208.4	160.6	14.1	33.6
2022	250.0	193.1	16.1	40.7
2023	261.0	201.0	17.2	42.7
2024	272.4	209.3	18.3	44.9
2025	284.4	217.9	19.5	47.0
Total 6 years	1376.2	1056.7	93.7	225.8

\*According to the Resolution of the RF Government of 15.07.2013, No. 598.

1 [https://regulation.gov.ru/Entities/Npa\\_Text](https://regulation.gov.ru/Entities/Npa_Text) (22.03.2019).

The draft project indicates three principal targets of the State program:

- raising proportion of the average monthly disposable resources of rural and urban households from 68% in 2018 to 75% by 2025;
- raising the share of dwellings equipped with all amenities;
- retention of no fewer 2900 rural settlements with the population of up to 500 persons.

The draft project envisages implementation of three subprograms (they are called departmental targeted programs) aimed at reaching above mentioned targets:

- *analytical, normative, and methodical provision of integrated development of the rural territories.* Subprogram envisaged reaching all indicators set by the State program at 100%, proactive participation of the citizens, organizations, and municipalities in the implementation of the projects of integrated development of territories in 14.5 thousand rural settlements;
- *integrated development of rural territories.* Expected commissioning (acquisition) of dwellings for the citizens residing in rural areas (5,561.9 thousand square m during 6 years) and achieving mentioned above target 2;
- *contemporary look of rural territories.* Subprogram ensures achievement of stated above targets 1 and 3.

In addition to targets, subprograms, and measures the draft project provides 20 targeted indicators. Some of them correspond to program's targets, subprograms, and set measures. Meanwhile, part of the targeted indicators is nowhere near linked to them, certain indicators are determined for certain years.

The draft project lacks a unified table with a list of measures and their support resources. *Table 2* provides all measures and planes financing for the implementation.

Table 2

Financing of measures set in the draft of State program IDRT, Rb million

	2020–2025		2020	2021	2022	2023	2024	2025
	Rb million	% to total						
RTP "Federal measures on integrated development of rural territories"	207331	15.1	31391	34479	30061	33460	37067	40872
Preferential rural mortgage	73727	5.4	5729	8098	10665	13421	16356	19459
Commissioning of social dwellings	28947	2.1	6579	6579	3947	3947	3947	3947
Improvement of living conditions of rural residents	6015	0.4	1504	1504	752	752	752	752
Development of gasification in rural areas	2998	0.2	1463	1535	0	0	0	0
Development of water supply in rural areas	3212	0.2	1576	1635	0	0	0	0
Commissioning of hard-surface motorways to socially significant facilities in rural settlements, production facilities and agricultural produce processing facilities	90008	6.5	13476	14028	14632	15275	15948	16649
Implementation of projects of complex site buildup for compact housing development in rural areas	2034	0.1	999	1035	0	0	0	0
Promotion and popularization of achievements in the sphere of development of rural areas	390	0.0	65	65	65	65	65	65
II. RTP "Modern look of rural territories"	1168639	84.9	68507	173889	219878	227477	235352	243535
III. RTP "Analytical? Normative, methodic provision of integrated development of rural territories"	239	0.0	102	32	27	27	27	27
Total according to Project's passport	1376209	100	100000	208400	249965	260964	272446	284434

### 3. State program of integrated development of rural territories: project analysis

The program envisages implementation of three groups of measures. But, undoubtedly, an accent is made on the implementation of pilot projects of rural municipalities, individuals and their groups, and business. The Program envisages to appropriate around Rb 1.2 trillion or 85% of its total funds for this measure. To note, the EU program of rural development allocates 6–7% of funds on the same measure. According to this data, on average one rural settlement implementing pilot project will receive around Rb 60 million. This is a rather large amount even for big a big rural area. Meanwhile, spending guidelines have not been defined. Criteria of support have not been determined. For comparison, the US program of rural development includes 7 guidelines, 60 measures with volumes of financing and rules for selecting participants for each of them.

Recognition of pilot projects as major measure of SP IDRT is aimed at promoting rural residents' activity. Distribution of funds is planned to be on a competitive basis. Selection of winners will be done by the commission of the RF Ministry of Agriculture. Such procedure entails risks of corruption and unjustified distribution. Bureaucrats are unlikely to process and adequately assess an array of initiative of citizens and organizations.

Moreover, the project envisages, other things equal, to give preference to settlements which boast of work places and with higher proportion of co-financing from extra-budgetary sources. This means that settlements with high unemployment level, low income of the population, low budget provision will be losing and as a result their degradation will accelerate. Such approach is fraught with repetition of the Soviet saga regarding liquidation of unpromising villages.


Competitive system envisages support of strong and enterprising given that they are in need of alternative – getting rid of legislative and administrative restrictions. The weak are in need of the state funds. The new policy can be oriented towards the big business initiatives. And the latter will come up with proposals on building agricultural settlements and their development at the expense of the State program. Won't it be for that end designated by the project 39 sites envisaged for comprehensive development?

In order to support population of all rural areas and villages it is expedient to analyze socially fair scenario of funds distribution. For example, fund for pilot projects can be divided among all rural settlements proportionally to the number of residents. Subsidies in per capita terms will amount to around Rb 30 thousand. Each rural area and municipality should get the right to choose pilot projects on the assumption of their local needs, however their cost should not exceed an earmark for the given settlement. When a rural settlement has 1,000 residents, it will receive the right to draft pilot projects amounting to Rb 30 million. Rural settlement should develop a business-plan on each pilot project with its onwards analysis at the regional level. There is no sense in sending these projects for approval to Moscow, small villages are not visible from the capitol. Such algorithm is more fair than competitive distribution of funds. It will promote increase in activity of the rural population especially in small settlements and corruption will be cut to a minimum.

Another policy scenario can be developed on the basis of defining specific targets and to achieve that the state undertakes to finance them totally or partially in all rural settlements with certain number of residents (let us assume no less than 20–50 persons). In present-day circumstances such tasks can be: access to internet, rural streets lighting, hard-surface roads, subsidizing the replacement of not retaining heat windows and doors for modern glazing units,

replacement of stove heating with continuous heating, installation of network or independent power, water and gas supply, heating boilers, septic installation and replacement of latrines with modern toilets.

It should be noted that social facilities in rural territories as well as the rural economy are the responsibility of municipalities. However, the latter have no authority nor financial means to resolve those tasks. The new State program they even are not mentioned as principal agents, resolution of all tasks is entrusted with the federal and regional administrative bodies.

In present-day circumstances education, healthcare, culture, motorways, gas supply, etc. can and should be financed via national projects. Special program of rural territories development is necessary to give momentum to the development of rural economy, ensure employment and raise income of rural residents. When population will have high income, municipalities will receive tax receipts and the village will get a chance for self-development without hoping just for subsidies from above. 

## 4. LIFE EXPECTANCY: GENDER DIFFERENTIATION

R.Khasanova

*According to preliminary data released by Rosstat, in 2018 life expectancy for Russian population increased by 0.2 year and came to 72.84 years. One of the acute demographic problems in Russia is high differentiation of life expectancy by gender which is due to low life expectancy for males. In 2018, the difference between male and female life expectancy constituted 10.21 years, which is one of the highest indicators among European countries.*

Life expectancy for Russian population in 2018 constituted 72.84 years<sup>1</sup>. During the year the indicator rose by 0.2 year mostly due to the reduction of the female mortality rate. Life expectancy at birth for male came to 67.77 years, and for female – 77.87 years.

Despite significant positive changes male mortality rate in Russia remains very high. This, in its turn, provides many problems: widowhood and orphanhood, loneliness and poverty of elderly (poverty risks among lonesome are higher than among married couples), decrease of labor potential, significant government expenses on social programs, etc.

The gender gap in life expectancy was decreasing in the period from 2005 up to 2017 from 13.55 years to 10.1 years. However, according to preliminary data for 2018<sup>2</sup>, the indicator rose in the past year by 0.1 year and amounted to 10.2 years. Regional differentiation of this indicator in 2017 ranged from 12 years (Magadan and Bryansk regions, and Udmurt Republic) to 5.5 years (Republic of Dagestan, Ingushetia, and Chechen Republic).

According to latest data released by Eurostat for 2017, the gender gap in life expectancy in Russia (10.13 years) exceeded data of any other country surveyed by this statistical agency. Close indicators were registered in Lithuania (9.9 years) and Latvia (9.8 years). The smallest gender gap in life expectancy demonstrate Netherlands, Island, and Sweden (3.2 years).

Reduction of the gender gap in life expectancy is not viewed as immediate aim of national projects, herewith implementation of measures is assumed which promote decrease of mortality rate both for men and women. A target was set up to reach by 2024 life expectancy to stand at 78 years, in other words by then life expectancy should increase by 5.26 years. National project “Healthcare” envisages measures to reduce mortality rate of the entire population across directions: “Control of cardiovascular diseases”, “Control of oncological diseases”, national project “Safe and qualitative motorways” envisage realization of measures aimed at reducing mortality rate from road accidents. With a mind to better understand the features of gender mortality and mortality factors, let us analyze which factors have contributed to the increase of male and female life expectancy during previous 6 years.

1 Information on socio-economic situation in Russia. URL: [http://www.gks.ru/free\\_doc/doc\\_2018/info/oper-12-2018.pdf](http://www.gks.ru/free_doc/doc_2018/info/oper-12-2018.pdf)

2 URL: [http://www.gks.ru/free\\_doc/doc\\_2018/info/oper-12-2018.pdf](http://www.gks.ru/free_doc/doc_2018/info/oper-12-2018.pdf)

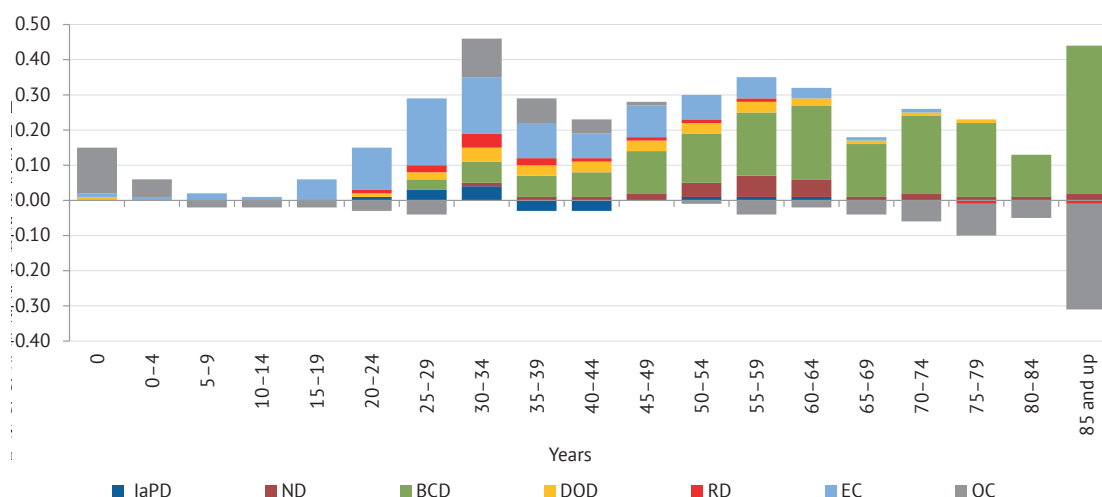


Fig. 1. Share of main mortality causes and certain age groups for life expectancy change at birth for male, 2011–2017, years\*

\* Hereinafter: (ИПБ) IaPD – infectious and parasitic diseases, (НО) ND – neoplastic diseases, (БСК) BCD – blood circulation diseases, (БОП) DOD – diseases of organs of digestion, (БОД) RD – respiratory diseases, (ВП) EC – external causes, (ПП) OC – other causes.

Source: own calculation based on data released by Rosstat.

During 2011–2017<sup>1</sup> male life expectancy increased by 3.5 years and the female one – by 2 years (2.9 years on the whole). Decrease of mortality rate from blood circulation diseases has significantly contributed to the increase of male life expectancy. Owing to this fact, male life expectancy has grown by 2 years. And decrease of male mortality rate from external factors has increased male life expectancy by another year. Decline of mortality from respiratory diseases has added 0.3 years and from tumors – 0.26 years. Reduction of mortality from organs of digestion has insignificantly contributed to the indicator growth (0.11 years), and infectious and parasitic diseases (0.05 years). Increase of male life expectancy could have been higher had it not been for the negative impact of mortality growth from other causes<sup>2</sup> (-0.33 years).

Decrease of male mortality from blood circulation diseases was observed among elderly working ages and advanced ages. Working ages registered decline of mortality from external causes, respiratory diseases and organs of digestion diseases. Male mortality from tumors has decreased insignificantly among ages of 45 years and above.

During 2011–2017 life expectancy increased by 2 years for females. This growth was significantly affected by decrease of death from blood circulation diseases (by 2.9 years), however, simultaneously the female life expectancy was badly affected by death from other causes (-1.9 years). Decrease of mortality rate from external causes secured life expectancy growth for women by 0.4 years, from neoplastic diseases – by 0.2 years, from respiratory diseases – by 0.12 years. Increase of female life expectancy was mainly due to decrease of mortality from blood circulation diseases observed among elderly working ages and advanced ages (Fig. 2). Decrease of mortality rate in the oldest age group

1 Similar term (6 years) is set in the Presidential Decree No. 204 of 07.05.2018 to achieve the target with regard to increasing life expectancy to 78 years (2018–2024).

2 To other causes of death pertain all other causes except infectious and parasitic diseases, tumors, blood circulation diseases, respiratory organs diseases, diseases of organs of digestion, external causes.



## 4. Life expectancy: gender differentiation

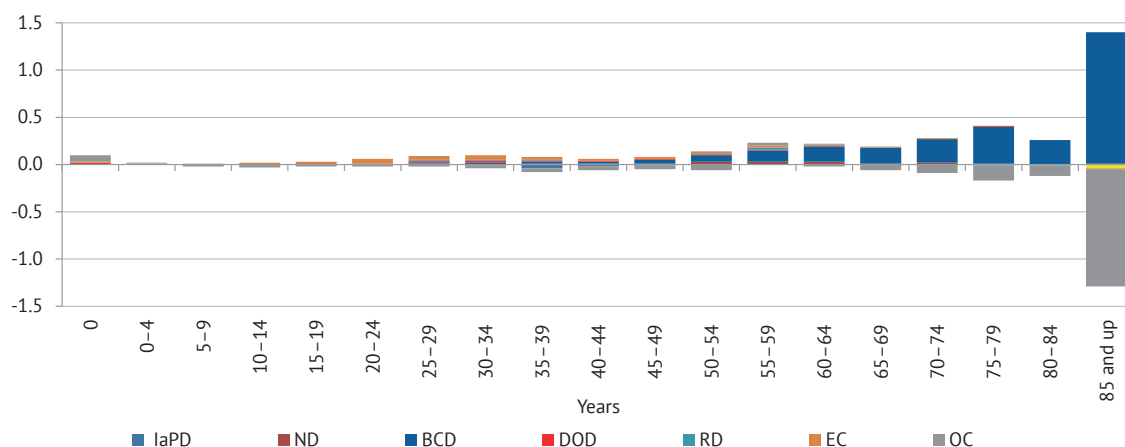


Fig. 2. Share of mortality causes and certain age groups in life expectancy change at birth for females, 2011–2017, years

Source: own calculations based on data released by Rosstat.

85 years and older was accompanied by increased mortality from other causes in those groups. Female mortality from external causes has been demonstrating a downturn in working age group.

Thus, during 6 years increase of projected life expectancy at birth for both sexes was mainly due to decrease of mortality from blood circulation system and external causes. In 2011–2017, gender gap decrease for projected life expectancy was due to decline of male mortality. Male and female mortality for 2011–2018 decreased, life expectancy gender gap has decreased by 1.36 years (11.57 years in 2011, and 10.21 years in 2018).

High premature mortality rate from blood circulation diseases and its long term negative dynamics is one of main reasons for Russia lagging behind the developed countries with respect to life expectancy. As was mentioned above, decrease of mortality from this cause gave momentum to the projected life expectancy growth for males and females in 2011–2017 (by 2 years for males, and by 2.9 years for females; adjusted to negative or positive effect from other mortality causes).

Tumors are ranked second on the list of mortality causes. However, over last 6 years the share of mortality decrease from this cause in the growth of the projected life expectancy indicator constituted merely 0.26 years for males and 0.2 years for females. This reflects the fact that mortality from other causes and first of all from blood circulation diseases has been declining faster than from tumors. It is also credible that those avoiding death from blood circulation disease die from tumors. Low rates of mortality decrease from tumors has been observed in all developed countries.


Within this context efficiency of the national project “Healthcare” spending and its impact on the increase of life expectancy causes raise considerable doubts. At present merely 3.5% (Rb 75.2 billion<sup>1</sup>) of funds allocated for the project are aimed at reducing mortality from blood circulation diseases (46% of all deaths in 2018), and 56% (Rb 969 billion) are aimed to fight against oncology (16% of all deaths). External causes (+1 year of life expectancy for males and +0.4 years for life expectancy for women in 2011–2017, decrease of mortality of employable population) have been determined fragmentarily (decline of mor-

1 Volume of federal projects financing from the budget funds over the period 2019–2024.

tality from road accidents). However, mortality from road accidents represents a small part of deaths from external causes (10%). Apart from that there are suicides (13%), murders (6%), injuries of undetermined intent (28%), etc. Mortality causes left unmarked which can be totally prevented by improving quality and accessibility of healthcare system. Among these, except some forms of cancer and blood circulation diseases, are individual diseases of organs of digestion, respiratory organs, infectious and parasitic diseases<sup>1</sup>.

Experience of the previous years demonstrates that some mortality indicators were falling solely during the federal program life (for example, mortality from physiological disorders and conduct disorders in 2008–2012 and mortality from diabetes in 2007–2012) and demonstrated upward trend after the program termination. Certain mortality indicators have been reduced “against” other (reduction of mortality from circulatory system and indicator’s growth from other causes in advanced ages). Mortality has been consistently growing from AIDS.

Integral indicator of the healthcare system efficiency can be averted mortality rate (that one which can be avoided thanks to timely diagnosis, high-quality medical aid and a healthy lifestyle of the population). Over 2011–2017, decrease of mortality from preventable causes secured increase of projected life expectancy for females by 2.3 years, and for males by 1.6 years (adjusted for negative or positive effect of other mortality causes). Insignificant decrease of male mortality from preventable causes hampered significantly reduce gender life expectancy in 2011–2017.

To raise life expectancy to 78 years by 2024 and decrease the gender gap it is necessary to direct financing primarily to mortality reduction a) from those causes, which are easily preventable; b) from causes whose reduction provided the highest increase in life expectancy during previous years; c) from causes, which determine high mortality among male population. In this context a significant part of the national project “Healthcare” guidelines to our opinion needs to be revised in order to increase its efficiency. Distribution of funds within the national project is desirable to change in favor of fighting against preventable mortality causes in order to obtain required results by 2024. 

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1 Cancer of prostate gland, cancer of other male genital organs, Hodgkin disease, non-Hodgkin lymphoma, leukemia, chronic rheumatic heart diseases, high blood pressure, stomach ulcer, duodenal ulcer, hernia, appendicitis, hernias, cholelithiasis, cholecystitis, certain infectious and parasitic diseases, respiratory diseases, complications of pregnancy, childbirth and postpartum.

## AUTHORS

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

**Alexei Vedev**, leading researcher, Financial Research Department, Gaidar Institute; Head of the Structural Research Department, IAES, RANEPA

**Anastasia Lavrischeva**, post-graduate, RANEPA

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

**Vasily Uzun**, principal researcher, Agricultural Policy Department, Gaidar Institute; main researcher, Center for Agro-food Policy, IAES, RANEPA

**Ramilya Khasanova**, senior researcher, Laboratory of Demographic and Migration studies, INSAP, RANEPA