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TRENDS AND OUTLOOKS**

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The review “Russian economy in 2017. Trends and outlooks” has been published by the Gaidar Institute since 1991. This publication provides a detailed analysis of main trends in Russian economy, global trends in social and economic development. The paper contains 6 big sections that highlight different aspects of Russia's economic development, which allow to monitor all angles of ongoing events over a prolonged period: the socio-political issues and challenges; the monetary and budget spheres; financial markets and institutions; the real sector; social services; institutional changes. The paper employs a huge mass of statistical data that forms the basis of original computation and numerous charts confirming the conclusions.

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Social Sphere in Russia in 2017¹

The positive economic trends of 2017 – GDP growth, record-low inflation rate, revival of consumption and other – were estimated by most experts and analysts as evidence of the country's embarking on a positive economic trajectory and the year 2017 was generally regarded as the year of economic revival. However, such a conclusion would not be complete without assessment of households' well-being and other parameters which serve as indicators of the state of things in the social sphere. Economic processes have a decisive effect on the ongoing main social processes. In the past three years, an unstable and inconsistent economic situation in Russia could not but give rise to substantial changes in households' social and economic situation. At the same time, the entire number of factors which were not related to the macroeconomic and volatile dynamics, but justified by other processes preset by lengthy previous periods affected much the social sphere.

5.1. The situation of the household sector: households' incomes, consumer's market and labor market

5.1.1. Incomes and the rate of households' poverty and inequality

In 2017, households' real disposable cash income decreased by 1.7 percent as compared to the relevant period of 2016 with growth in real accrued wages and the real size of granted pensions amounting to 3.4 percent and 3.5 percent, respectively (*Fig. 1*).

It is noteworthy that in 2017 growth in the real size of pensions as compared to 2016 was largely justified by a lump-sum payment of RUB 5,000 to pensioners early in 2017.

Due to the economic crisis, a decrease in the real size of granted pensions and households' real cash incomes was observed in 2015–2016 and from 2014, respectively. In 2015, real wages fell substantially by 9 percent on the previous year, however, later they started to grow little by little. Despite a renewal of growth in the real size of pensions and real wages, real disposable cash incomes keep falling.

If the current situation is compared with the 2008–2009 crisis, it can be pointed out that a decrease in households' incomes and wages in real terms was short-lived then and a drop in real wages was more substantial than that in real incomes.

¹ Sections 5.1–5.4 are authored by experts of the Institute for Social Analysis and Forecasting RANEPa: Elena Avraamova, Alexandra Burdyak, Elena Grishina, Marina Eliseeva, Dmitry Loginov, Victor Lyashok, Tatiana Maleva, Nikita Mkrtchyan, Aleksandra Polyakova, and Yulia Florinskaya.

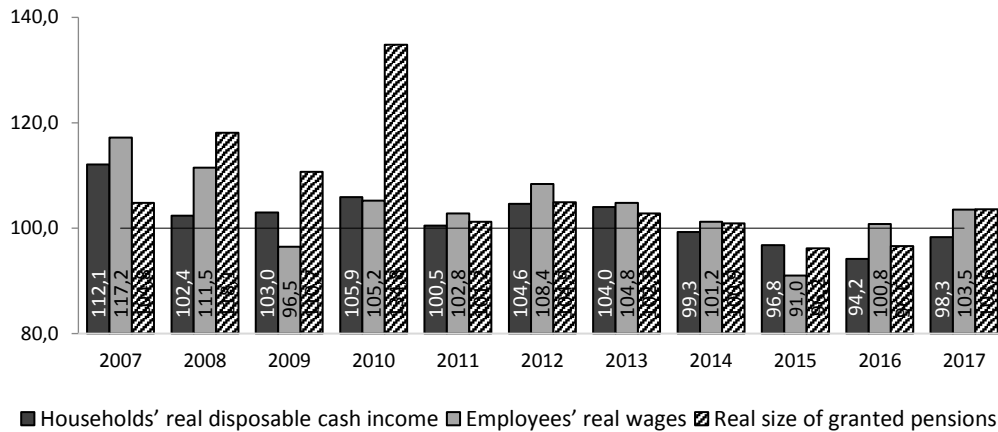
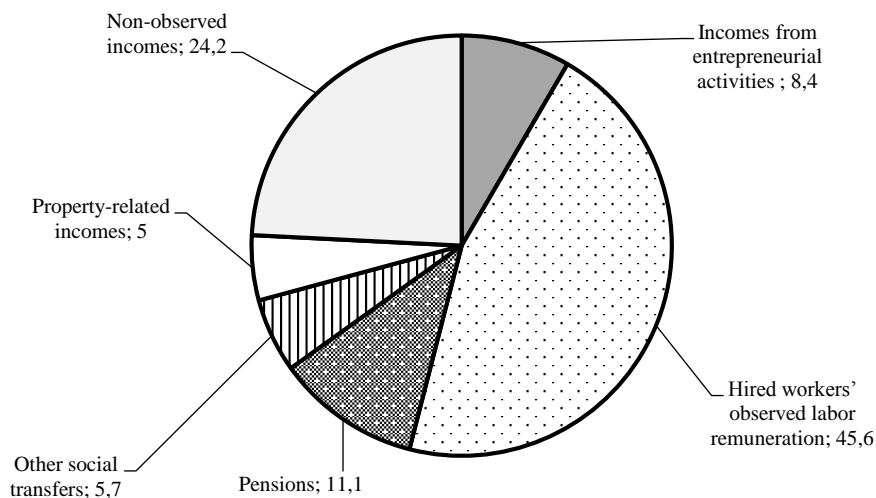


Fig. 1. Dynamics of households' real disposable cash income, real accrued wages and real size of granted pensions in 2007–2017, % change on the previous year

Source: The Rosstat

What is the factor behind the current difference in the dynamics of households' real cash incomes and that of real wages and pensions?

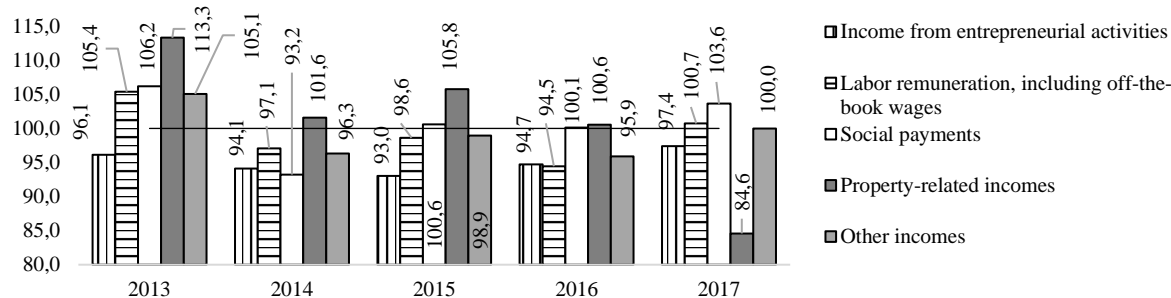
This can be explained by the fact that in H1 2017 in the cash income pattern the observed labor remuneration of hired workers and pensions accounted maximum for 60 percent of the overall volume of households' cash incomes (Fig. 2).



Note. The observed labor remuneration of hired workers is specified with military pay of servicemen taken into account.

Fig. 2. The pattern of households' cash incomes, H1 2017, %

Calculations show that individual components of households' cash incomes (incomes from entrepreneurial activities and property-related incomes) which account for over 13 percent of the total volume of cash incomes decreased in real terms in 2017 as compared to the previous year (Fig. 3).



Note. In accordance with the Rosstat's methods, property-related incomes include dividends, interests on deposits, yield on securities and return on investments.

Fig. 3. The dynamics of households' cash income components in real terms in 2013–2017, % change on the previous year

Source: The Rosstat

In 2017, reduction of property-related incomes as compared to the previous year can be explained by a lower rate of income on deposits: according to the data of the Central Bank of Russia the weighted average interest rate on deposits with a term of up to a year amounted to 5.27 percent in December 2017 against 6.5 percent in December 2016, while that on deposits with a term of over one year was equal to 6.39 percent in December 2017 against 7.57 percent in December 2016.¹

So, in 2014–2016 negative dynamics of most components of households' cash incomes in real terms, including the real volume of labor remuneration with off-the-book wages taken into account were observed.

In 2017, a decrease in the real volume of property-related incomes and incomes from entrepreneurial activities could have a negative effect on households' cash incomes and prevented their growth in real terms even amid growing real wages and pensions.

A reduction of households' real disposable cash incomes with growth in real terms in workers' observed wages could be brought about, among other things, by redistribution between the observed and non-observed labor remuneration in favor of the observed one, as well as vigor efforts taken by the tax authorities to fight illegal wages. In particular, if in 2015 growth in the individual income tax volume was lower than that in the volume of households' cash incomes, in 2016–2017 it was higher (*Fig. 4*) and the evidence of that was redistribution in favor of the transparent portion of the labor remuneration.

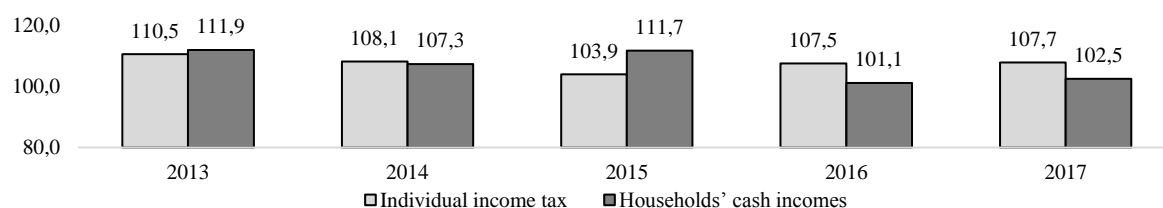


Fig. 4. Dynamics of households' cash incomes and the individual income tax (IIT) in nominal terms in 2014–2017, % change on the previous year

Source: The Rosstat and the Federal Treasury of the Russian Federation

¹ URL: http://www.cbr.ru/statistics/?PrId=int_rat

The pattern of households' cash incomes changes with the time: the share of social payments is growing (over 70 percent of the volume is made up by the pensions), while that of income from entrepreneurial activities is diminishing (Fig. 5).

Growth in the share of pensions in the pattern of households' cash incomes can be explained, in particular, by an increase in the share of people beyond the working age in the number of people who are over 15 years old. In the period from January 1, 2014 till January 1, 2017, the number of people aged over 15 years old grew from 28.0 percent to 30.1 percent.

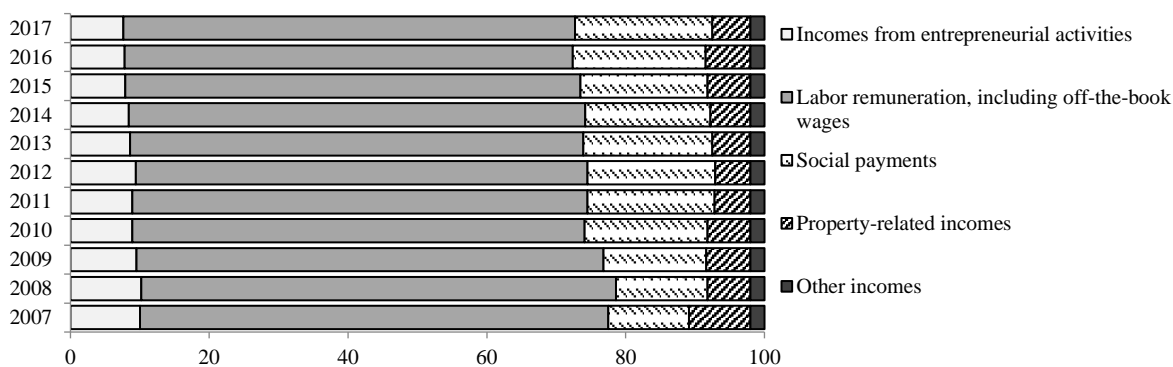


Fig. 5. The pattern of households' cash incomes, 2007–2017, %

Source: The Rosstat

According to the Rosstat's data, in January-September 2017 the rate of poverty stood at 13.8 percent which is below the level of the relevant period of 2015–2016, but higher than in 2012–2014 (Fig. 6).

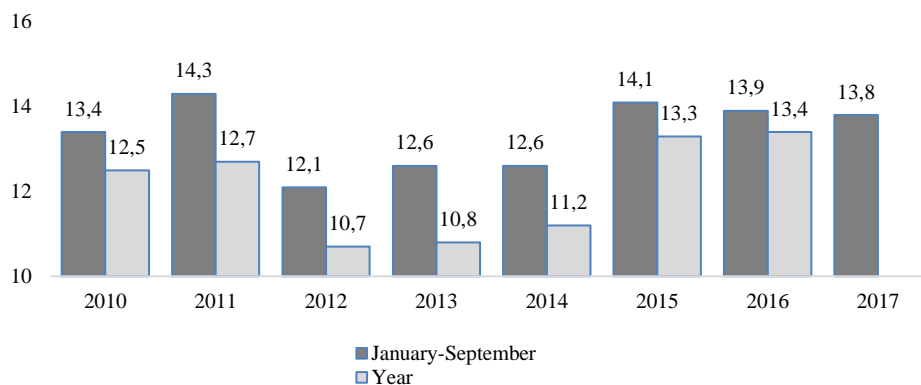


Fig. 6. The share of households with cash incomes below the minimum subsistence level nationwide in 2010–2017, % of the total number of the population

Source: The Rosstat

So, despite some decrease in the rate of poverty in January-September 2017 as compared to the relevant period of 2015 and 2016, the goal of attaining the pre-crisis level of poverty is still far from being achieved and requires efforts to be made to prevent households' real cash incomes from falling and promote more substantial growth in wages, pensions and social payments.

For instance, during the 2008-2010 crisis the measures taken by the Government to increase the minimum monthly pay, unemployment benefits and pensions prevented the rate of poverty from growing and helped reduce the share of low-income people to 10.7 percent by 2012.

In Q3 2017, correlation of households' cash incomes and pensions with the minimum subsistence level amounted to 305 percent and 152 percent, respectively, that is, a decrease compared to the level seen in Q3 2010–2016.¹ Despite the fact that in Q3 2017 wages increased somewhat (from 316 percent to 338 percent) against the minimum subsistence level as compared to Q3 2015, they failed yet to achieve the level seen in the same period of 2010–2014.

So, as a result of the economic crisis the level of households' cash incomes, wages and pensions decreased considerably against the minimum subsistence level and that is the evidence of worsening of households' financial situation.

In Q4 2017, the level of the subjective poverty rate (the share of individuals who estimate their financial situation as “bad” or “very bad”) amounted to 24.9 percent, which is below the level seen in the same period of 1998–2016 (*Fig. 7*).

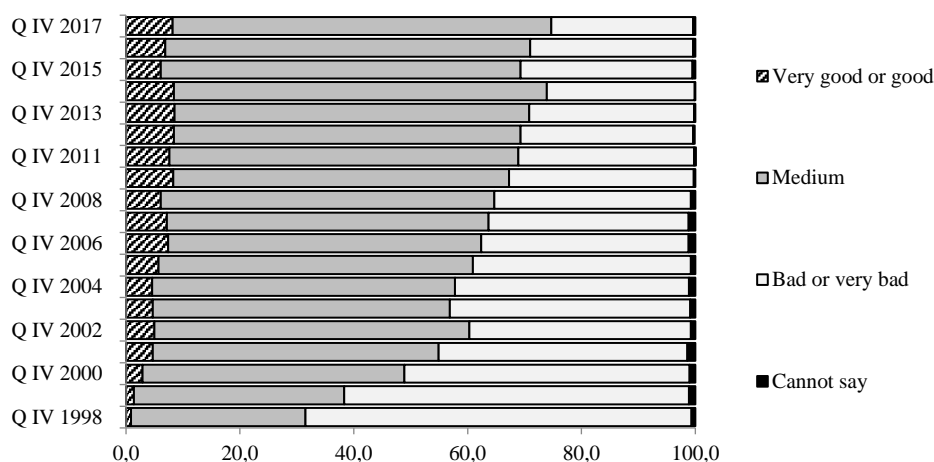


Fig. 7. Estimation by households of their current financial situation, Q4 1998–2017, %

Source: The Rosstat

In 2017, the level of income differentiation was below that seen in 2006–2015 (*Fig. 8*).

The analysis has shown that recovery growth in the observed labor remuneration in real terms is so far unable to overcome the negative trend of households' declining real cash incomes due to reduction of other cash income components in real terms. Apart from that, mixed dynamics of households' real incomes and wages can be explained by modification of the pattern of households' cash incomes and redistribution between the observed and non-observed labor remuneration in favor of the observed one on the back of vigor efforts by tax authorities to uncover “shadow” schemes of labor remuneration.

¹ An exception is only Q3 2015 when the correlation between the size of pensions and the minimum subsistence level for pensioners amounted to 152 percent, too.

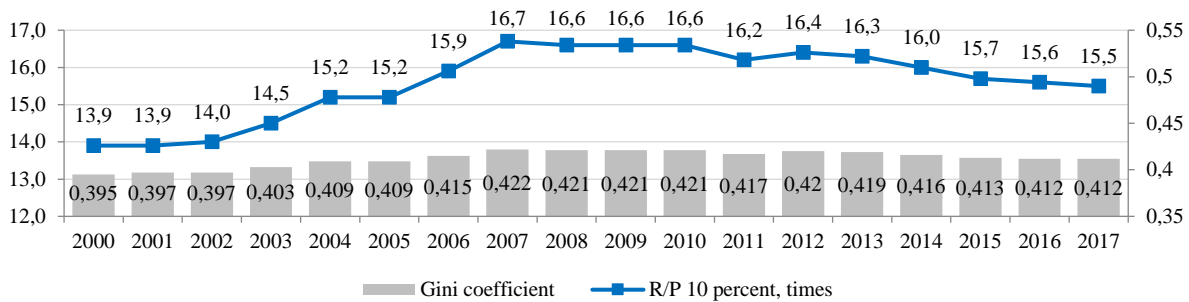


Fig. 8. The level of income inequality, 2000–2017

Source: The Rosstat

Despite a somewhat decrease in the poverty rate in January-September 2017 as compared to the level seen in 2015-2016 and gradual recovery of households' consumption in 2017, the goal of reducing the rate of poverty to the pre-crisis level and restoring households' financial situation are far from being achieved and require active efforts to be taken to prevent households' real cash incomes from falling and promote substantially growth in wages and social payments.

5.1.2. Retail trade turnover and consumer price index

The analysis of retail trade dynamics is crucially important for comprehension of households' social and economic situation. In January-December 2017, the retail trade turnover amounted to RUB 29.8 trillion (101.2 percent as compared to the relevant period of the previous year in comparative prices). As seen from Fig. 9, the trade turnover value has surpassed for the first time since the pre-crisis period (that is from 2014) the edge of growth of 100 percent, though it is still short of that index value.

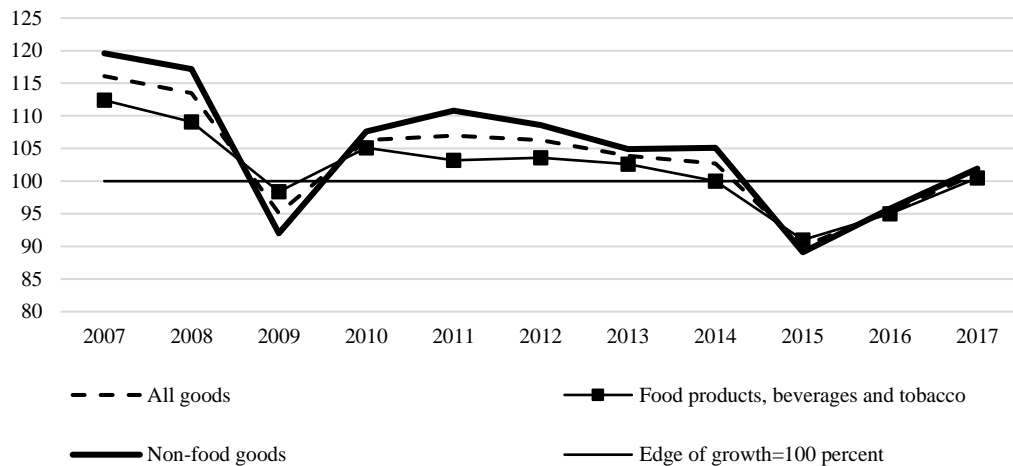


Fig. 9. The dynamics of retail trade in food products, beverages and tobacco, as well as non-food products in January-October, % change on the relevant period of the previous year in comparative prices

Source: The Rosstat

Growth in the non-food product turnover in comparative prices amounted to 3.4 percent. The food product turnover, including beverages and tobacco happened to be higher than the edge of growth (102.8%). It is noteworthy that in previous years the non-food product turnover in comparative prices used to be higher than that of food products, beverages and tobacco. An exception is two pre-crisis years: 2009 and 2015. However, in January-October the retail trade turnover fell by 16.7 percent, including a decrease of 13 percent and 19.8 percent in sales of food products and non-food products, respectively, as compared to the pre-crisis year 2014.

Early in 2017, the turnover of both the components of the retail trade kept falling in monthly terms as compared to the relevant period of the previous year in comparative prices. However, starting from April, the non-food product turnover, as well as the turnover as a whole surpassed the edge of growth. Starting from July, the turnover of food products, beverages and tobacco saw positive dynamics (*Fig. 10*).

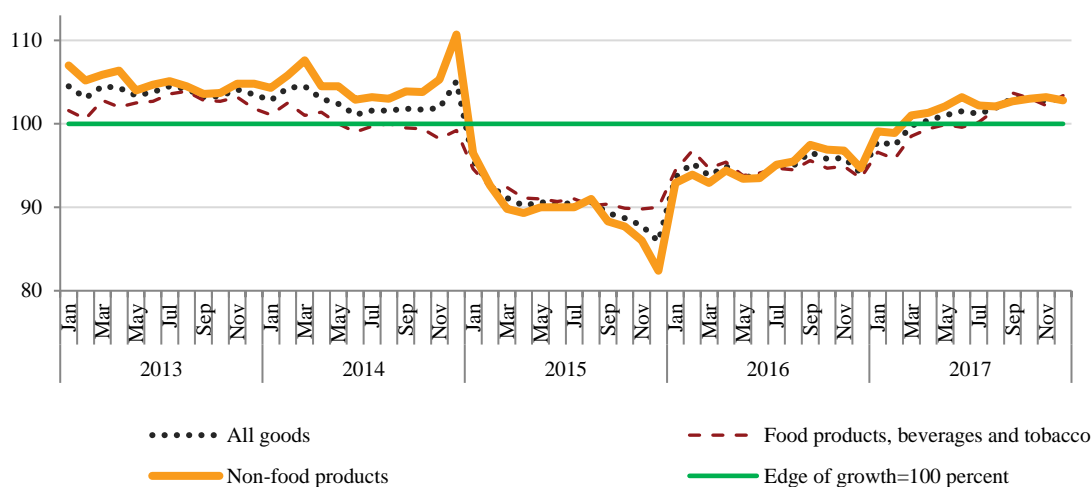


Fig. 10. Monthly dynamics of the retail trade turnover and components thereof in comparative prices, % change on the relevant month of the previous year

Source: The Rosstat

In 2017 the consumer price index stood at the level of 103.7 percent as compared to the previous year, including 103 percent, 104 percent and 104.2 percent as regards food products, non-food products and services, respectively. As seen from *Fig. 11*, in 2017 the rate of inflation kept falling as in 2016. In the period under review, the highest growth rates of prices of food products were observed in 2014 and 2015, however, starting from 2016 the index of consumer prices of food products was the lowest. Apart from that, 2014 and 2015 saw the lowest growth rates of prices on services, but by 2017 their growth rates became virtually equal to those of appreciation of non-food products.

Generally, in 2017 the inflation rate turned out to be the lowest in the entire period under review (2007–2017); the index of the rate of inflation in 2012 was almost similar to that of the year 2017, though the inflation rate in 2012 was at the level of over 1 percent higher than the values of the current year depending on the category of goods and services. It is to be noted that the rate of inflation happened to be somewhat lower than the target level of 4 percent.

The dynamics of the consumer price index (December on December) saw higher growth in prices of services in the period under review (4.4 percent) than that in prices of food products (1.1 percent) and non-food products (2.8 percent).

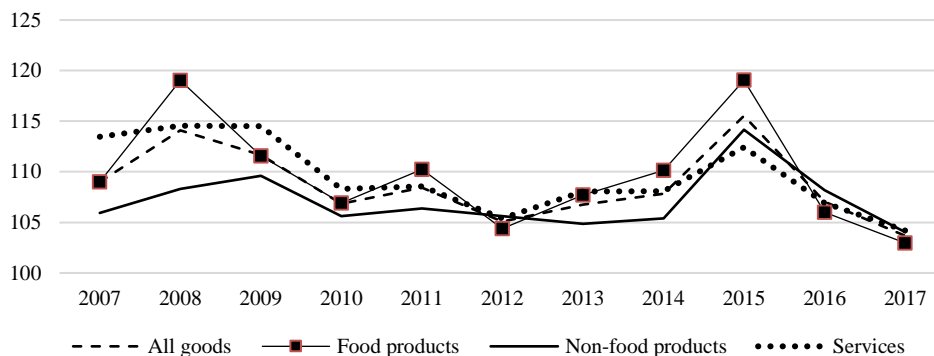


Fig. 11. The overall index of consumer prices, % change on the previous year

Source: The Rosstat

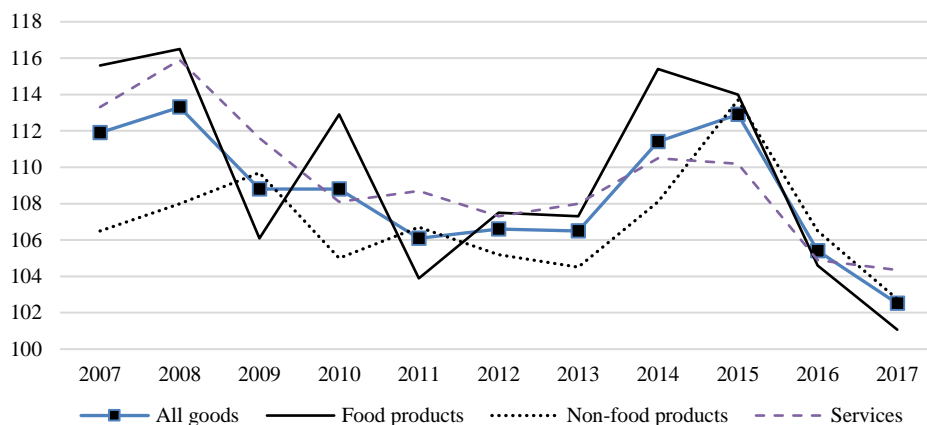


Fig. 12. The overall index of consumer prices, indices of prices of food products, but not of non-food products and services for a year, December on December of the previous year, %

Source: The Rosstat.

With a 3.7 percent inflation rate officially calculated by the Rosstat, household surveys showed that according to the opinion of the median consumer the inflation rate fell to 10 percent by December 2017, while in December 2016 – February 2017 it was equal to about 15 percent. Also, it is to be noted that the median consumer expects further growth of 8.7 percent a year in prices: both the indicators – the observed and expected rates of inflation – hit the record-low values during three years of observations. However, over a half of the respondents (57 percent in H2)¹ believed that at the end of 2017 the rate of inflation would be much higher than 4 percent declared by the Central Bank of the Russian Federation and as we can see their expectations based on their own subjective perceptions of consumer price rises materialized. Non-food products and services mentioned by respondents more often than other and which prices were growing at a higher rate included the following: housing and public utility services, gasoline,

¹ Based on the results of the POF survey of 2,000 people. Source: Change in Inflationary Expectations and Consumer Sentiments Based on Household Surveys. OOO “inFOM”. December 2017 / Central Bank of the Russian Federation. URL: http://www.cbr.ru/collection/collection/file/3739/fom_17_12.pdf

pharmaceuticals and medicines. According to respondents, the leaders as regards price rises were meat, poultry, dairy products, cheese, sausages, fish, seafood, fruits and vegetables.

As seen from the Rosstat's surveys, the share of those who expect considerable growth in prices in the near future decreased from 41.4 percent of the population in Q1 2017 to 36.8 percent in Q4 2017. Late in 2014 – early in 2015, the share of such estimates amounted to 2/3 of the respondents. It is noteworthy that 12 percent of the respondents believed that prices would remain approximately at the same level and 48.7 percent of the respondents (the data on Q4 2017) expected them to grow somewhat in future. In the above-mentioned research by the Public Opinion Foundation (POF), the issue of price modification concerns the next month and forthcoming 12 months and despite the initially different correlation between the pessimistic and optimistic expectations, the dynamics of comparative indices points to the growing share of respondents who believes that prices will go down. So, embarking on the trajectory of a low real inflation rate and promise to stick to the policy of maintaining low growth rates of prices in future have not changed much consumers' inflationary expectations.

The consumer confidence index measured by the Rosstat on the basis of survey of 5,100 persons in all the regions of the Russian Federation¹ in Q3 2017 rose by 3 percentage points on the previous quarter and amounted to -11 percent, while in Q4 2017 it remained at the same level. After hitting the record-low of -32 percent in Q1 2015 and subsequently falling to -30 percent in Q1 2016, the value of the consumer confidence index at the end of 2017 gradually recovered to the level seen late in 2013 and early in 2014.

5.1.3. Consumer lending

In 2017, households were granted RUB 9.2 trillion worth of loans, that is, 5 percent more than in 2013, the most favorable year for consumer lending among all the previous years. So, the volume of lending to individuals have already attained the pre-crisis level (growth of 5.2 percent by 2013), however, with the rate of inflation in real terms taken into account, it failed to do so (*Fig. 13*).

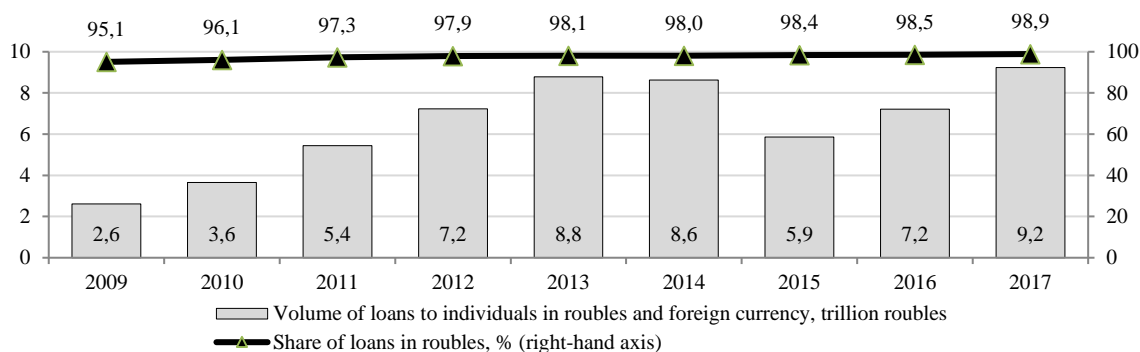


Fig. 13. Volumes of loans extended to individuals in 2009–2017 and the share of loans extended in roubles

Source: The Central Bank of the Russian Federation

¹ Households' Consumer Expectations / The Rosstat. –URL: http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/population/level/#

Most borrowers take loans in roubles; the share of loans in the national currency increased from 95 percent to 99 percent in the period under review. So, foreign currency loans accounted for 1.1 percent of the volume of loans extended to individuals in 2017.

The peak growth rates of lending to individuals were observed in 2011 when households were granted 50 percent more funds (in roubles and foreign currency) in loans than a year before. Then, growth rates started to slow down and the volumes of loans extended in 2014 turned out to be almost the same as a year before, while the year 2015 saw a decrease of 32 percent on the previous year (*Fig. 14*). In the past two years, growth rates of 23 percent–28 percent a year made up for that drop. At the same time, in 2015–2017 households’ cash incomes in real terms did not virtually change.

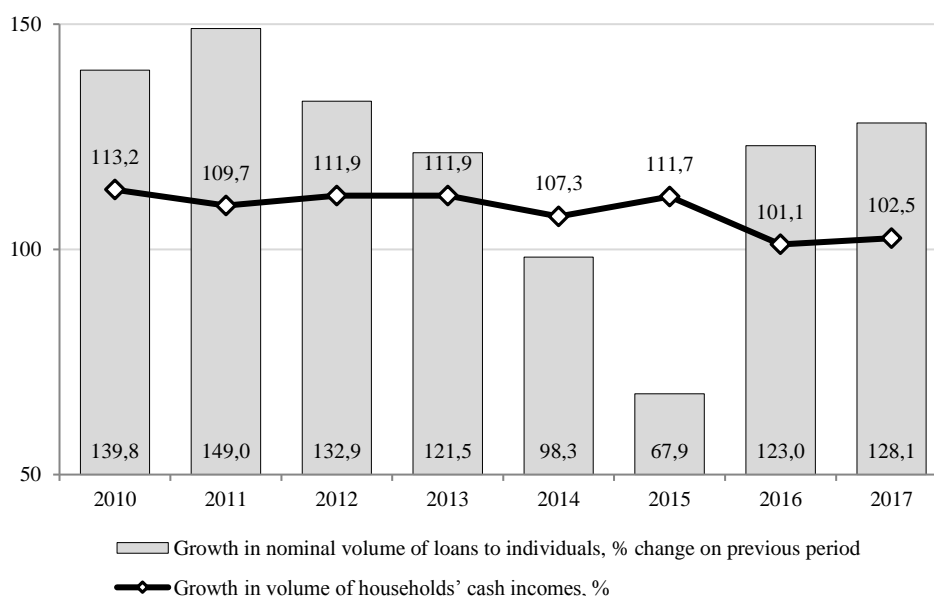


Fig. 14. Growth in the nominal volume of loans to individuals and growth in the volume of households’ cash incomes, % on the previous year

Source: The Central Bank of the Russian Federation; the Rosstat.

Shrinkage of the influx of new borrowers could not, but affect the volume of households’ debts on loans to banks: at the year-end 2015 the volume of debt fell to RUB 10.6 trillion. Late in 2017, borrowers owed banks RUB 12.1 trillion, a record-high sum throughout the entire period of observations. So, in nominal terms (without price rises taken into account) individuals’ debts to banks became record-high at the year-end 2017. The share of rouble loans in individuals’ overall debt to banks rose from 88.9 percent of the debt on all the loans in roubles and foreign currency in 2009 to 99.2 percent in 2017 (*Fig. 15*). Consequently, the share of loans in foreign currency decreased to 0.8 percent of the overall debt, thus demonstrating weak correlation between consumer lending and the current exchange rate of foreign currencies.

Households’ debt on loans increased by 7.4% in nominal terms as compared to the pre-crisis year 2013. The problem related to overdue consumer loan payments whose share grew to 8.1 percent in 2015 was gradually smoothed over with new loans being extended; the share of problem debts decreased to 7.0 percent of households’ debt on loans at the year-end 2017.

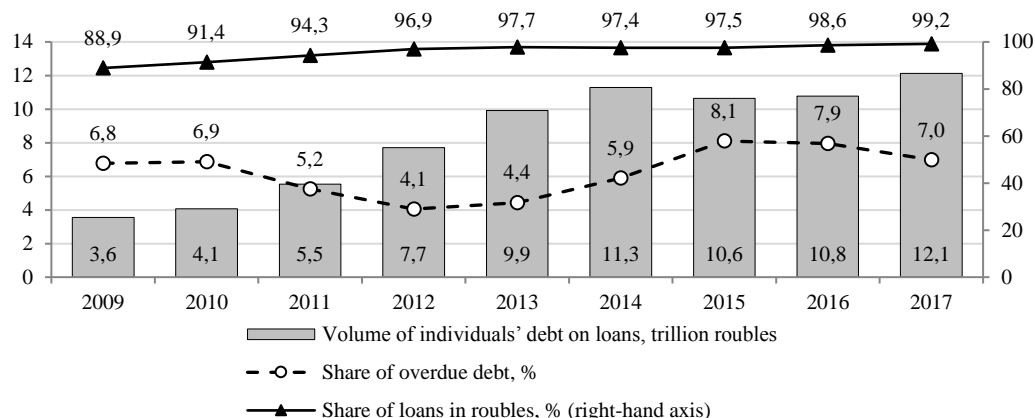


Fig. 15. The volume of individuals' debt on loans in 2009–2017, trillion roubles, the share of the overdue debt and the share of debt on loans in roubles, %

Source: The Central Bank of the Russian Federation

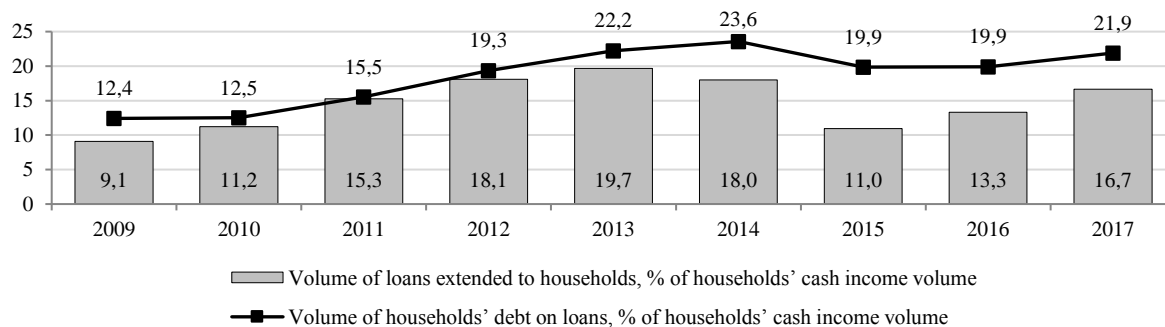


Fig. 16. Growth in the volume of individuals' debt on loans in January-September 2009-2017 as a whole, % change on the relevant index of the previous year

Source: The Central Bank of the Russian Federation, The Rosstat.

Amid households' stagnating cash incomes in nominal roubles (without the rate of inflation taken into account) in the past two years, consumer lending undoubtedly saw positive dynamics. However, in 2017 the volume of loans to individuals amounted to about 17 percent of households' cash incomes, that is, less than in 2012 (Fig. 16), while households' overall debt on loans, to 22 percent of households' annual income which failed to recover to the level of the pre-crisis year 2013, too.

5.2. Labor market

In 2017, the labor market saw positive dynamics as regards some indicators and negative ones as regards other. A workforce reduction forecasted by experts long ago began this year (Fig. 17). After attaining the record-high number in 2007, the number of workforce stabilized at the level of 75.4 million – 75.8 million people (with residents of the Crimea not taken into account), but within 12 months of 2017 it fell by 0.5 million people, that is, nearly 1 percent of all the economically active population. Workforce is an acyclic indicator which does not react to economic growth or slump. The current dynamics can be explained completely by demographic factors: reduction of the number of working age people, exit from the labor

market of generations born in the 1950s and incoming of small cohorts of people born late in the 1990s. As seen from the forecasts, with the current level of economic activities maintained among the population the workforce may decrease by 10 percent to 70 million people in the next decade.¹ So, it is expected that employers will be facing more often problems related to workforce shortages.

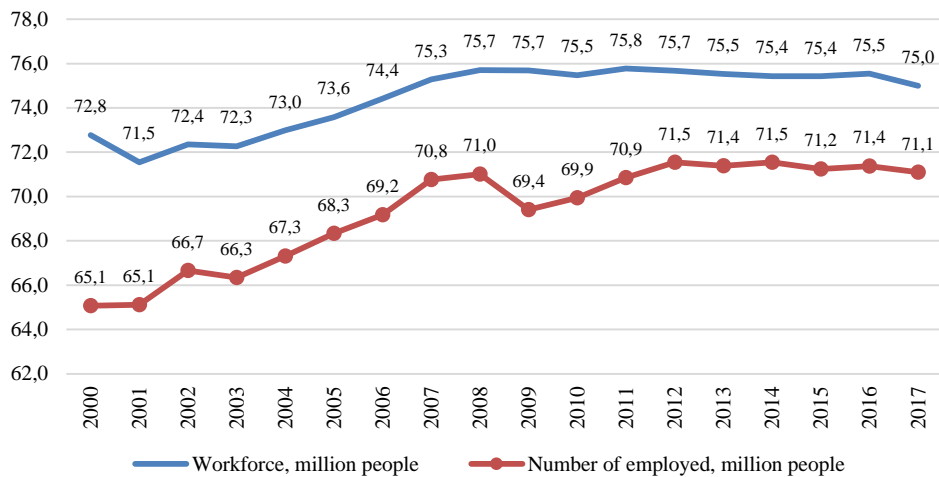


Fig. 17. The number of the workforce and the employed (without residents of the Crimea taken into account), million people

Source: The Rosstat

A decrease in the workforce took place on the back of reduction both of the number of the employed and unemployed. In 2017, the number of the employed fell by 251,000 persons. It is to be noted that it is comparable with the situation of 2015 when this indicator fell by 293,000 persons. However, if in 2015 a decrease in the number of the employed was primarily related to shrinking demand on labor due to economic recession, at present it can be justified by demographic processes.

At the same time, the number of the unemployed decreased by 276,000 persons. In 2017, the average rate of unemployment (under the ILO's methods) amounted to 5.2 percent. The registered unemployment fell to its historic low of 1.1 percent. A gradual decrease in the value of the above indicators is related both to upgrading of the economic situation in Russia and decline of the natural rate of unemployment. Proceeding from the dynamics of the past five years, it can be stated that full employment was observed in Russia in the 2010s and it was not affected even by the economic recession of 2015–2016.

According to the preliminary data of the Rosstat, in 2017 wages increased by 3.5 percent in real terms and amounted on average to RUB 39,144 (Fig. 18). In the first three quarters of 2017, growth rates of wages were insignificant, but they sped up considerably in Q4 2017. However, labor remuneration is still far from its pre-crisis value: by December of the previous year it amounted to 96 percent of the value seen in the relevant period of 2013. With the current growth rates maintained, it will require a year to achieve the pre-crisis level.

¹ V.E. Gimpelson, A.A. Zudina. Labor Market Demographic Problems// The Demoscope Weekly. 2017. No. 729–730. URL: <http://demoscope.ru/weekly/2017/0729/tema01.php>

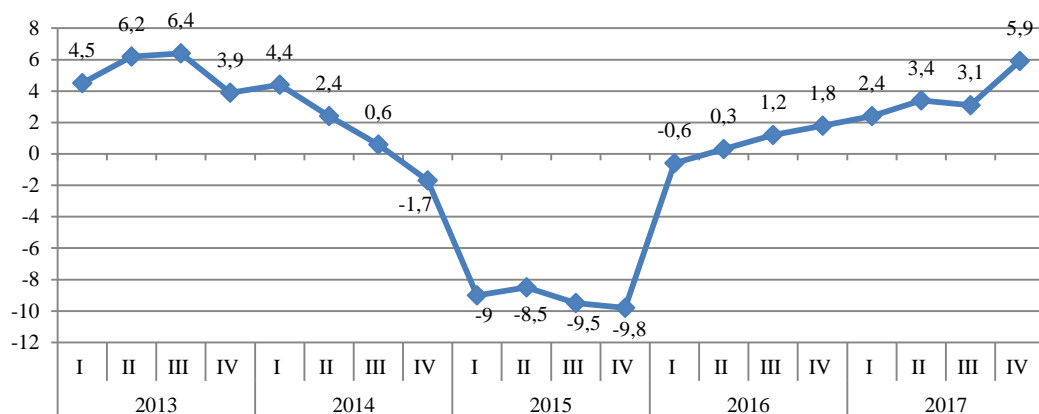


Fig. 18. Growth in real wages as compared to the relevant index of the previous year, %

Source: The Rosstat

Sectorial differences in labor remuneration still exist: wages grow at a high rate in the agrarian sector, mining and manufacturing (particularly, in the printing industry, the textile industry, as well as the pharmaceutical industry, production of petrochemicals and motor vehicle manufacturing) and at a lower rate in public administration. Growth rates of wages in education and healthcare sped up by the year-end which fact can be explained by fulfillment of May Executive Orders of the President.

According to business surveys, the situation on the labor market has stabilized. The Russian economic barometer points to growth in loading of the available workforce. The indicator in question is based on estimates of executive managers of enterprises in different industrial sectors where 100 means the normal monthly level. After a short-term drop in 2015, recovery processes began and by the mid-2017 this indicator virtually attained its pre-crisis maximum. This evidence underpins the statement that full employment has been achieved on the Russian labor market.

Not surprisingly, in such a situation employers start utilizing their employees more intensely and the average number of working hours per worker is growing. In 2017, this indicator increased to 1759 hours a year which is the local maximum in the past decade.

In 2017, some evidence of a change in long-term trends of employment in the informal sector emerged. From the beginning of the crisis the share of those unofficially employed has been decreasing, however, it is related to the reduction of the number of those who do extra work in that sector (Fig. 19). In Russia, secondary employment is not normally permanent and falls considerably during a crisis. So, in analyzing the phenomenon of employment in the informal sector it is important to take first into account those who are permanently employed there. The share of the latter kept growing at a constant rate in 2013–2016. However, in the first three quarters of 2017 that share fell by 0.7 percentage points as compared to the same period of 2016; the share of all the employed there, including those who have an extra job in the informal sector decreased by 1.5 percentage points. So, in 2017 a decrease in the number of the employed took place primarily in the informal sector, while the number of the employed in the formal sector remained more or less the same.

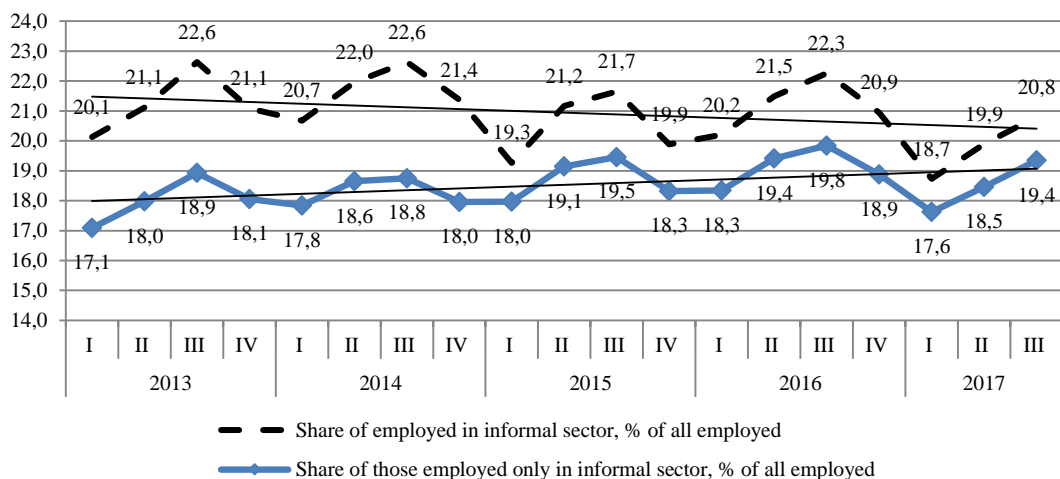


Fig. 19. The share of the employed in the informal sector

Source: The Rosstat

What factor is behind the reduction of the informal sector on the labor market from the beginning of 2017? In 2016, the informal sector saw a substantial decrease in wages, while in the formal sector, particularly, at large and mid-sized enterprises wages kept growing. In our view, a dramatic drop in labor remuneration in the informal sector is the main factor behind the outflow of workforce therefrom.

Proceeding from the data of the Rosstat, it can be stated that the labor market has overcome crisis developments of 2015–2016, which were fairly moderate and “not quite critical ones”. The rate of unemployment returned to the level of the year 2014, while the average number of working hours even exceeded the pre-crisis level. The last repercussion of the latest economic slump was the low level of wages as compared to the pre-crisis one. However, it is believed that reduction of the workforce is going to lead to a higher competition for it among employers and, consequently, promote growth in wages. According to the available data for 2017, the outflow of the employed started in the informal sector where the level of wages was substantially lower and kept falling as opposed to positive dynamics in the formal sector (particularly, at mid-sized and large enterprises).

5.3. Households’ social well-being

The analysis of households’ opinions and estimates as regards dynamics and prospects of this country’s development, their own financial situation, as well as activities to upgrade or preserve the attained level of well-being was based on the data of the Online Monitoring of Households’ Social Well-Being carried out by the Institute for Social and Economic Analysis, RANEPA since 2015.¹ Within a year, eight waves of the sociological survey are carried out by

¹ “The Online Monitoring of the Socioeconomic Situation of the Population in Russia” is published on the RANEPA’s Web-site¹, as well as in a series of articles of the *Economic Development of Russia* journal: E.M. Avraamova, A.Ya. Burdyak, V. Yu. Lyashok. *The Social Trends and Economic Situation of the Russian Population (based on the results of a regular online monitoring by the Institute for Social Analysis and Forecasting, RANEPA)* // The Economic Development of Russia. 2017. No. 3. – pp. 82–89; E.M. Avraamova, E.E. Grishina, T.M. Maleva, A.G. Polyakova. *The Socioeconomic Situation of the Population: Analysis of Current Trends* (based

means of personal questionnaire surveying of a comparable sample which is representative for the adult population. The sample includes 1600 respondents in each wave. Detailed results can be found in the Institute’s annual reports.¹

5.3.1. Assessment of changes in the economic situation

In 2017, sentiments about the economic situation in the country became much less critical. The opinion that the economic situation stabilized and no shocks should be expected started to prevail. For the first time in the entire period of observations (2015-2017), this opinion was shared by more than a half of the households (*Fig. 20*).

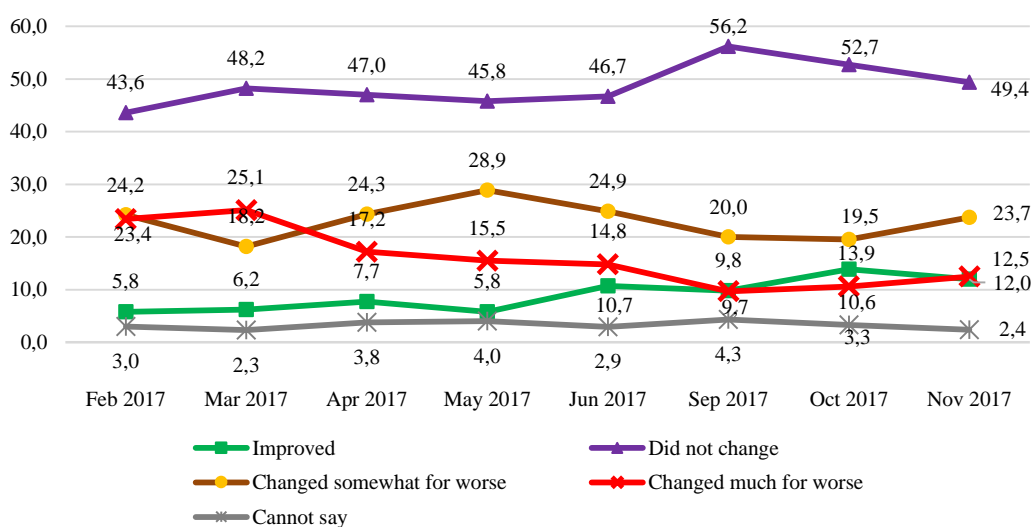


Fig. 20. Distribution of answers to the question: “How did the economic situation change in the past year?”, %

If the entire series of observation is analyzed (*Fig. 21*), it appears that this opinion started to be shared by most people not at once, but after they passed through the period of a high economic discomfort early in 2015 and domination of negative estimates of the situation early in 2016.

The estimates of the economic situation changed: the number of those who thought that the economic situation changed much for the worse was gradually declining from H2 2016, while the share of those who estimated the situation as getting stable started to grow. Until that, the share of negative estimates fluctuated around maximum values with the historic-maximum achieved in 2016. However, only few could see improvement of the economic situation, though this share of the population amounted to 12 percent by the year-end 2017.

on the results of a regular Online Monitoring by the Institute for Social Analysis and Forecasting) //The Economic Development of Russia. 2017. No. 2. – pp. 46–57.

¹ 2014–2015: The Economic Crisis – Social Dimension. Edited by *T.M. Maleva*. Scientific Report – Moscow. The Delo Publishers, 2016. – p. 112.; 2016: The Socioeconomic Situation of the Population: The Ongoing Crisis or A New Reality? Edited by *T.M. Maleva*. Scientific Report – Moscow. The Delo Publishers, 2017. – p. 102 .

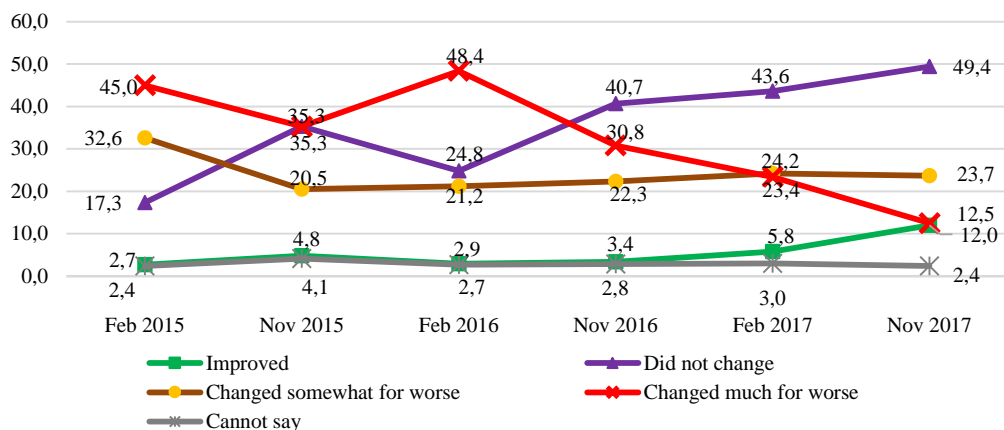


Fig. 21. Assessment of changes in the country's economic situation, %

Changes in the estimates of the prospects of the economic development are not that unambiguous. Despite the prevailing opinion that no substantial changes should be expected in either way, in H2 2017 about 1/3 of the households believed that changes for the worse could occur within the next two-three years or even further. At the same time, in 2017 the number of those who expected improvement of the situation increased somewhat to amount to 17%. There is still a fairly high degree of uncertainty in assessment of the prospects of economic development as it is seen from the considerable share of those who “cannot say”; however, it is to be noted that the share of such estimates decreased (Fig. 22).

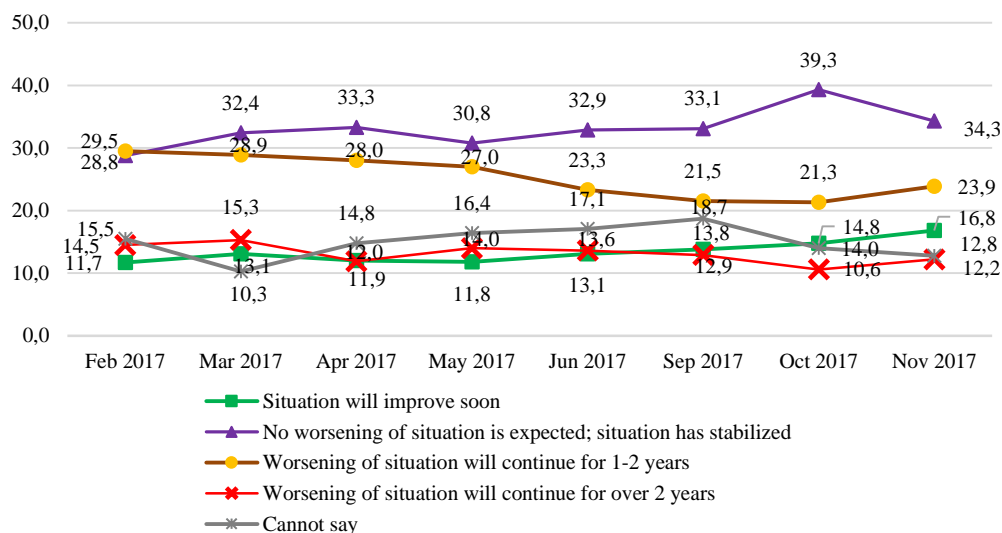


Fig. 22. Assessment of the prospects of the country's economic development, %

Generally, proceeding from the data of 2017 the following two large groups of the population can be singled out: a larger group is made up of optimists who believe that the crisis is over, while a smaller one, of pessimists who think it is still going on. Representatives of these two groups differ much by age: the younger the respondents, the more positive estimates they make about the prospects of economic development. Other social and economic factors, such as the standard of education and the type of settlement where respondents reside do not have such a strong effect on individuals' ideas about the prospects of economic development.

Throughout the entire period of observations, the dynamics of economic development estimates are moving towards moderation which suggests stabilization of the economic situation without any particular evidence of positive development amid high uncertainty.

Estimates of the effect of negative economic developments on the population changed the least during the period of observations (*Fig. 23*). The fact that the number of those whom the crisis affected in no way increased within a year by 7 percent and nearly three times over as compared to the beginning of 2015 (by the end of 2017 the size of the relevant group virtually amounted to 17 percent) can be attributed to positive changes in the social well-being. Simultaneously, in the past year the share of those affected by crisis phenomena decreased.

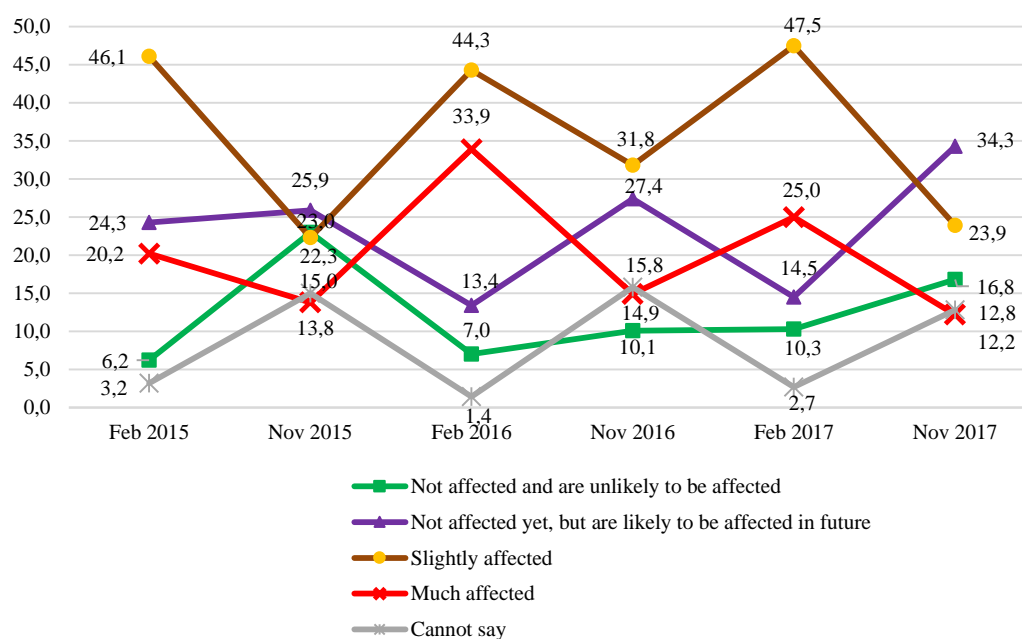


Fig. 23. Estimation of the effect of crisis phenomena on households' economic situation, % of those who selected the relevant answer

Generally, despite the positive dynamics of households' involvement in the crisis situation, the share of those who believe that they were affected one way or another by the crisis remains high.

5.3.2. Households' adaptive behavior

At first, households reacted to crisis developments in the economy by cutting expenditures on goods and services and even refusing to buy some of them. It is to be noted that regardless of their financial standing and social status most Russians started to tighten their belts. Then, households (about 1/3) started to use actively their personal subsidiary plots (PSP); this is the most traditional form of a response to a crisis.

At the same time, in 2017 popular adaptive strategies which can be divided into active and passive ones were formed (*Table 1*).

Table 1

**Households' adaptive behavior, % of those who carry out a relevant strategy,
November 2017 (it was admissible to give several types of answers)**

Types of adaptive behavior	Sorts of adaptive behavior	Forms of adaptive behavior	Number of respondents
Active adaptation	Activation of investment strategies	Purchasing of foreign currency	7.6
		Purchasing of securities	1.6
		Formation of savings	17.6
	Activation of labor strategies	Search for additional job	4.4
		Search for one-time earnings	13.1
		Search for regular earnings	8.2
	Investments in human capital	Investments in education	4.7
Investments in health		24.6	
Passive adaptation	Activation of PSP	Intensification of work on personal subsidiary plot	29.3

Though the passive strategy related to utilization of PSP still prevails, other strategies emerged: activation of financial strategies of one or several forms is typical of 22 percent of the households; labor strategies are carried out by 20% of the Russians, while investments in human capital are common to 26 percent of the households.

The choice of a type of the adaptive strategy depends on the level of education and age of a person. The level of education has a substantial effect on utilization of financial strategies: the higher the level of education the more often this type of adaptation is used. Also, among people with a higher education degree there are more individuals who carry out labor adaptive strategies or invest in development of human capital that creates competitive advantages for its owners. However, utilization of PSP does not depend on the level of education: this type of activities is equally carried out by representatives of all education groups.

There is difference in adaptive behavior of the three enlarged age groups. As regards younger people, they engage more in financial strategies and investments in human capital by means of consumption of educational services; middle-aged people utilize more labor strategies and PSP, while elder people put to use PSP and make investments in human capital through consumption of medical services.

Based on the data received, it is feasible to make up the following breakdown of the adaptive behavior:

- Lack of adaptive behavior: 42.1 percent;
- Active adaptive behavior (one or several types): 29.5 percent;
- Active adaptive behavior, additional utilization of PSP: 18.1 percent;
- Activation of PSP without other types of adaptive behavior: 10.3 percent.

As seen from the data of *Table 2*, personal efforts of an adaptive nature have an effect on households' situation during the crisis.

Table 2

**The effect of crisis developments on respondents' situation depending
on their adaptive efforts, November 2017, % by line**

Adaptive efforts	Question: Was household affected by economic crisis?			
	Not affected and is unlikely to be affected	May be affected in future	Slightly affected	Much affected
Lack of adaptive behavior	17.5	20.0	40.7	21.8
Active adaptive behavior	19.0	15.6	47.4	18.0
Active adaptive behavior supplemented by utilization of PSP	10.8	13.9	54.1	21.2
Activation of PSP without other types of adaptive behavior	4.3	20.1	47.6	28.0

So, the largest share of those who were not affected by negative economic developments is concentrated among representatives of the group which demonstrated active adaptive behavior.

In this group, the share of those who were much affected by the crisis is the smallest one. At the same time, those who demonstrated an active adaptive behavior are not free of fears for the future because they understand risks related to financial and economic activities. A lack of adaptive behavior is typical of the two opposite groups of households: those who were not virtually affected by the crisis and those who had either no adaptive resources or the minimum amount of them.

5.3.3. Social expectations

As was shown above, with a high uncertainty in estimates the economic prospects of this country are perceived by most people as stable, though without a development impulse. The same perceptions were formed in respect of a personal economic situation: changes for the better and for the worse are expected by comparable and small groups of respondents; it is to be noted that negative estimates prevail (*Fig. 24*).

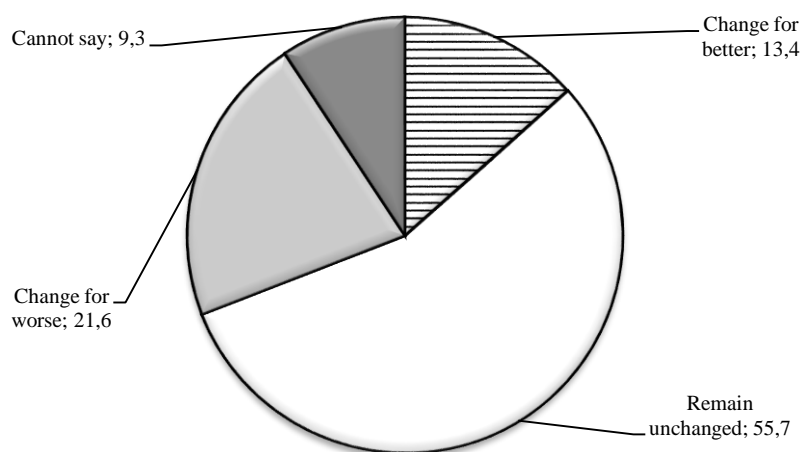


Fig. 24. Distribution of answers to the question: “How is your family’s financial situation likely to change next year?”, % of those who selected the relevant answer, November 2017

Changes for the better are expected more by people with higher education, while changes for the worse, by those who have no vocational training (*Table 3*).

Table 3

The expected dynamics of financial standing, by educational groups, % by line, November 2017

Level of education	Expected dynamics of financial standing			
	Change for better	Stable	Change for worse	Cannot say
General secondary education	11.9	52.1	24.3	11.7
Elementary / secondary vocational training	12.7	58.1	21.3	7.9
Higher education	15.7	55.4	19.7	9.2

Younger people usually have more social optimism than other age groups: one young Russian in four believes that his/her financial standing will change for the better, while among middle-aged people only one person in ten expects it (*Table 4*).

Table 4

**The expected dynamics of financial standing, by age groups, % by line,
|November 2017**

Age	Expected dynamics of financial standing			
	Change for better	Stable	Change for worse	Cannot say
Under 35 years old	17.8	56.0	18.4	7.8
35 – 60 years old	12.4	53.9	23.9	9.8
Over 60 years old	9.1	59.5	21.1	10.3

As seen from the data of *Table 5*, the existing situation in the economy will reproduce and even intensify further the existing inequality because according to expectations of representatives of different income groups the worse-off will be getting poorer, while the better-off, richer.

Table 5

**The expected dynamics of financial standing, by material status groups,
% by line, November 2017**

Material status	Expected dynamics of financial standing			
	Change for the better	Stable	Change for the worse	Cannot say
Low	5.6	44.7	41.2	8.5
Medium	13.0	60.0	16.4	10.6
Above average	23.8	63.2	5.1	7.9

It is to be noted that efforts in terms of active forms of adaptive behavior promote substantially life chances, but do not necessarily guarantee a higher living standard (*Table 6*). So, among those who carry out active adaptive strategies one in five expects his/her material status to change for the better, while less than 20 percent, for the worse.

Table 6

**The expected dynamics of financial standing depending on adaptive efforts,
% by line, November 2017**

Adaptive efforts	Expected dynamics of financial standing			
	Change for better	Stable	Change for worse	Cannot say
Lack of adaptive behavior	9.3	60.4	20.3	10.0
Active adaptive behavior	20.5	51.7	18.2	9.6
Active adaptive behavior supplemented by utilization of PSP	15.5	52.1	26.2	6.2
Activation of PSP without other types of adaptive behavior	5.4	55.1	28.7	10.8

Summing up the above, it is noteworthy that the perception of the economic situation became much less critical in 2017. A Half of the households believes that the situation has stabilized and does not expect any shocks. At the same time, about 1/3 of the Russians thinks that the economic situation may change for the worse within two-three years or more.

In the past year, the share of those who believe that they were affected by negative economic developments (both slightly or much) decreased by 10 percent. The existing economic situation will reproduce if not intensify inequality because according to expectations of representatives of different income groups the worse-off will be getting poorer, while the better-off, richer.

Though the passive strategy of adaptation with utilization of PSP still prevails, other strategies emerged as well, for example, activation of financial strategies of one or several forms is typical of 22% of households, labor strategies are carried out by 20% of the Russians, while investments in human capital are made by 26% of the households.

Personal efforts of an adaptive nature have an effect on households' situation during the crisis. So, the largest share of those who were not affected by negative economic developments is concentrated among representatives of the group which demonstrated active adaptive behavior. In this group, the share of those who were much affected by the crisis is the smallest one. At the same time, those who demonstrated an active adaptive behavior are not free of fears for the future because they probably understand risks related to financial and economic activities. A lack of adaptive behavior is typical of the two opposite groups of households: those who were not virtually affected by the crisis and those who had either no adaptive resources or the minimum amount thereof.

5.4. Migration processes

5.4.1. The long-term migration

Russia's population keeps growing on the back of the international migration, but in 2017 the extent of this growth was lower than in 2011–2016. According to the data of the year-end 2017 migration growth amounted to 211,900 persons. It is sufficient enough to make up for the renewed natural decline of the population, but population growth will be insignificant.

In 2016–2017, the quarterly dynamics of migration indices became smoother as compared to the previous years (*Fig. 25*): this is the effect of adaptation both to new migration accounting methods and some stabilization in Ukraine wherefrom the migration in 2014–2015 led to dramatic growth in the number of arrivals.

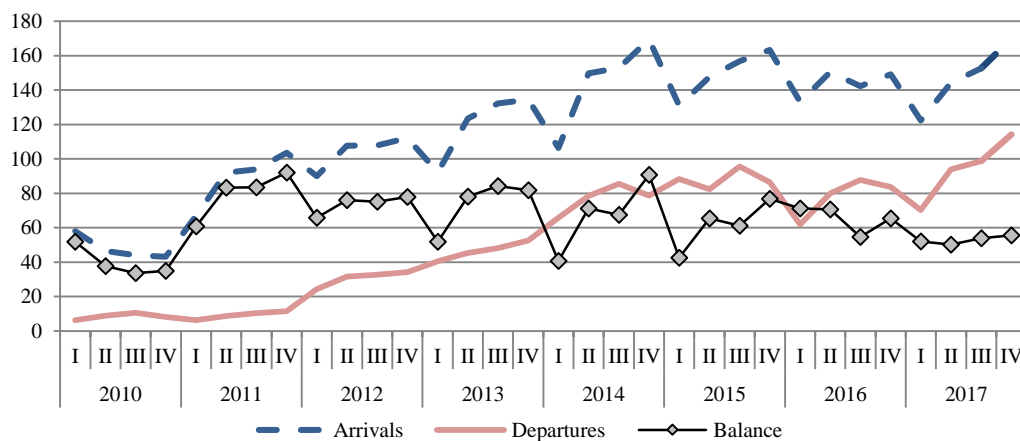


Fig. 25. The long-term international migration to Russia in 2010–2017, quarterly data, thousand persons

Source: The Rosstat.

Ukraine remains Russia's main migration donor, but its role in the overall migration growth is declining as compared to 2015–2016. As compared to the data on 2016, the number of those who came from Ukraine to Russia decreased by 15.8 percent, while the number of those who left increased by 72.4 percent; as a result, migration growth fell by nearly 60 percent.

Migration growth with Uzbekistan failed to recover to the level seen in 2012–2013, while that with Tajikistan resulted in that country's becoming Russia's second largest migration partner (*Table 7*).

Apart from Tajikistan, migration growth was observed with Belarus, Kirgizia, Armenia and Turkmenistan, but in absolute terms the indicators on all the above countries, except for Belarus, failed to surpass the values seen in 2012–2013. A gradual decrease in migration growth with Moldova for a number of years is probably the evidence of a stepwise exit of that country from Russia’s “migration orbit” and a greater reorientation of migration from Moldova to the EU countries.

In 2017, migration growth of 45 percent with far abroad countries was facilitated by Georgia and Abkhazia. The Russian statistics does not take into sufficient account departures from Russia to far abroad countries; there are great discrepancies between the Russian statistical data and those of recipient countries.¹

Table 7

Growth (decline) in migration of Russia’s population with foreign countries, 2012-2017, thousand persons

	2012	2013	2014	2015	2016	2017
International migration, total	294.9	295.9	280.3	245.9	261.9	211.9
With CIS countries	268.4	274.9	270.2	237.8	255.3	203.4
including:						
Azerbaijan	18.1	17.2	12.4	10.7	10.4	8.6
Armenia	32.0	32.2	24.0	20.6	12.0	14.0
Belarus	10.2	3.7	6.8	4.9	2.1	11.8
Kazakhstan	36.7	40.1	40.8	34.8	37.1	32.7
Kirgizia	24.1	19.8	15.3	10.0	11.0	19.4
Moldova	18.6	20.6	17.6	17.4	14.4	9.6
Tajikistan	31.4	33.6	19.4	11.4	27.3	34.6
Turkmenistan	3.9	3.8	2.6	2.3	2.4	2.9
Uzbekistan	56.3	67.3	37.1	-20.4	19.7	22.2
Ukraine	37.0	36.4	94.4	146.1	118.8	47.7
With other countries	26.5	21.0	10.1	8.2	6.7	8.4

Source: The Rosstat.

So, in 2017 it became clear that migration growth may decrease with time and fail to facilitate progress in attaining the target value (300,000 persons by 2025) envisaged by the Guidelines for Demographic Policy of the Russian Federation in the Period till 2025. In the past few years, Russia has not obtained any serious reserves to promote population growth. The inflow of migrants from the main donor countries is unstable, while beyond the post-Soviet space there is none. Amid a renewal of the natural decline of the population and possible aggravation of it in future, a decrease in the migration inflow may result in the overall reduction of Russia’s population in years to come.

In the past few years, the number of in-country migrants in Russia stabilized. In 2017, it increased by 53,200 persons (1.3%) as compared to 2016. A more than two-fold growth in the number of in-country displacements as a result of changes in accounting methods introduced in 2011 has exhausted.

At present, no substantial changes in the internal migration indicators are expected as a result of adaptation of accounting methods to new rules and exhaustion of the majority of timing² and other effects related to introduction thereof.

¹ Russia’s Demographic Challenges. An analytical report prepared by the Center for Strategic Research. November 2017. M. 2017

² These include, for example, an increase in migration growth in 2011 on the back of quick growth in the number of arrivals with a delay in growth in departures, as well as decline in Russia’s population in exchange with Uzbekistan in 2015. In the in-country migration, a delay in departures is probably related to growth in the overflow

The number of regions with positive migration growth decreased from 36 in 2016 to 28 in 2017 because of reduction of migration growth based on the international migration which made up for the outflow of the population in most regions to main superregional centers of attraction of the population. Such centers of attraction remain unchanged: Moscow and the Moscow Regions – the leaders – are followed by large centers, such as St. Petersburg, the Leningrad Region and the Krasnodar Territory. Apart from them, in January-August 2017 substantial migration growth was observed in the Republic of Crimea, the city of Sevastopol, the Tyumen Region, the Novosibirsk Region, the Voronezh Region and the Kaliningrad Region.

At the same time, a decline of the migration was registered in most regions of the Far Eastern Federal Okrug, the Siberian Federal Okrug, the North Caucasian Federal Okrug and Privolzhsky Federal Okrug. The migration outflow from the eastern part of the country is still going on (*Fig. 26*). But if in the previous year the main outflow took place in the regions of the Far Eastern Federal Okrug, in 2017 the Siberian Federal Okrug became the leader in absolute terms. Expectations that the population outflow from the Far East is going to stop¹ have failed to materialize again.

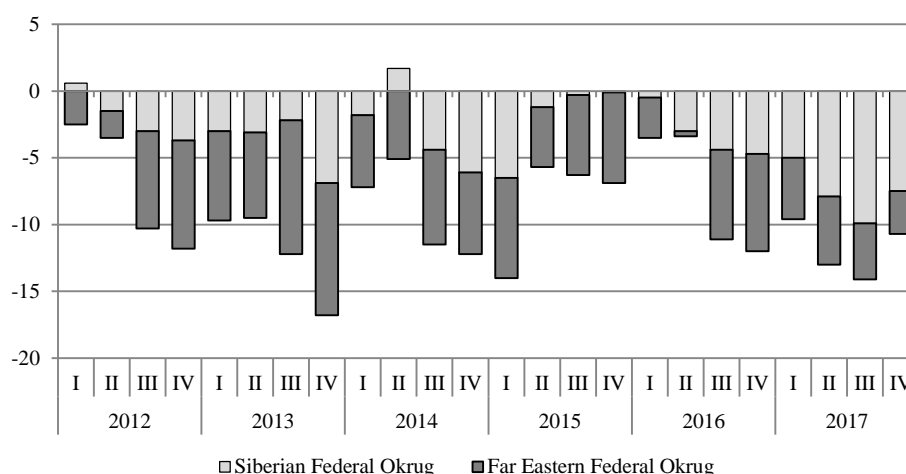


Fig. 26. Migration growth (decline) of the population of the Siberian Federal Okrug and the Far Eastern Federal Okrug in 2012–2017, quarterly data, thousand persons

Source: The Rosstat.

The “new stability” of migration volumes after 2011–2012 in Russia (the previous one took place in the 2000s) shows that volumes of the long-term internal migration do not react either to crisis developments in the economy or economic growth. The lines of migration remain unchanged, too. Among the centers of attraction of migrants, the top three leaders are still the same, while centers of the second order saw insignificant changes.

of the population between different parts of the country and growth in migration decline of the rural population in 2011-2014 with a subsequent return of the net migration index to the level of the previous decade.

¹ Trutnev told about the factors behind ceasing of the outflow of the population from the Far Eastern Federal Okrug / RIA Novosti. June 12.,2016; Trutnev: Population Outflow from the Far East Decreased Four Times Over / Ekho Moskv. June 09, 2017.

5.4.2. The temporary migration

The results of the temporary migration in 2017 explicitly suggest that there was no radical turning point in the trends. Despite the fact that the beginning of the year was quite “promising”, in summer and autumn the number of arriving migrants failed to attain the index value seen in 2016, to say nothing of 2013–2015. As of the year-end, 9.2 million foreigners arrived in the Russian Federation, that is, 4 percent and 17 percent less than in 2016 and 2014, respectively.

The main donors – CIS states – of the temporary migration to Russia remain the same. Late in December, 7.9 million of CIS nationals stayed in the territory of the Russian Federation (*Table 8*), or 86% of the entire number of foreigners who arrived in the Russian Federation.

Table 8

Arrivals of foreign nationals from CIS states in the Russian Federation as of the specified date, persons

	04.12.14	31.12.15	31.12.16	31.12.17
Azerbaijan	598646	528790	531085	610287
Armenia	499084	474527	459878	476799
Belarus	506759	648895	713446	660903
Kazakhstan	581516	642808	573572	494145
Kirgizia	554808	552207	592063	625204
Moldova	586069	498698	489669	393181
Tajikistan	1052822	870226	872509	943872
Uzbekistan	2275290	1819140	1511344	1657335
Ukraine	2476199	2537246	2443047	2012064
CIS, total	9131193	8572537	8186613	7873790

Source: The Main Department for Internal Migration of the Ministry of the Interior of the Russian Federation, the Central Database for Accounting of Foreign Nationals.

The main trends of the past few years are as follows: the number of arrivals of foreigners from the member-states of the Eurasian Economic Union is high (particularly, there is explicit growth in the number of arrivals of Kirgiz nationals after Kirgizia joined the Eurasian Economic Union); a migration decline in 2015–2016 gave way to growth in the number of migrants from Azerbaijan, Uzbekistan and Tajikistan in 2017, however, the migration for Uzbekistan and Tajikistan failed to return so far to the record-high volume seen in 2014; there is a reduction of the number of foreigners from Moldova and Ukraine (the number of Ukrainian nationals in the territory of the Russian Federation have not returned yet to normal volumes prevailing prior to 2014, that is, before the developments in the South-East of Ukraine).

There is no renewal of the temporary migration to the previous volumes in the segment of arrivals of foreigners from far-abroad developed countries (*Table 9*). A decrease in the number of foreigners from these countries started from summer 2014 and has never stopped, while small fluctuations are not worth to be accounted for. As compared to the pre-crisis year 2013, the temporary migration index fell 2.6 times over, while in respect of individual countries (the US, Spain and the UK), 5 to 7 times over.

As of the year-end, 3.61 million of foreign nationals arrived in Russia for the purpose “to work on hire” (including 3.47 million of labor migrants from CIS states and 139,000 migrants from far-abroad countries), which number is higher than in 2016 (3.55 million), but lower than in 2015 (3.78 million) as of the same date. It means that the continued decrease in the temporary migration volumes is probably not accompanied by further reduction of such a category of migrants who “officially”¹ declared to be labor migrants. The one-time number of such migrants

¹ If the “work on hire” purpose of visit is not specified in the migration card at arrival, it will be impossible for a migrant afterwards to receive work permit documents and conclude an official labor contract with an employer.

has fluctuated at the level of 4 million persons for three years running; this figure is added about 0.5-1 million of illegal labor migrants who come to Russia with other purposes, for example, a private trip, but work on hire instead.

Table 9

Arrivals of foreign nationals from some far-abroad countries to the Russian Federation as of the specified date, persons

	13.11.13	05.11.14	01.11.15	01.11.16	01.11.17	2017/2013, %
Germany	352335	244662	122131	115425	111792	32
Spain	77200	45935	15864	15579	14337	19
Italy	77193	53649	30489	28244	24388	32
UK	174061	111275	38637	29142	23944	14
Finland	108312	77665	46513	99065	73715	68
France	65559	53382	35968	29268	26963	41
EU as a whole	1177829	850513	481567	516368	448566	38
USA	220086	142405	50638	52840	44370	20

Source: The Main Department for Internal Migration of the Ministry of the Interior of the Russian Federation, the Central Database for Accounting of Foreign Nationals.

More and more labor migrants seek to legalize themselves. As of December 31, 2017, in Russia 1.7 million migrants had valid work permit documents (patents or licenses to work) and another million of labor migrants came from the member-states of the Eurasian Economic Union, that is, they had a title to get an official employment without any work permit documents. So, nearly 75 percent of labor migrants could potentially work legally in Russia.

Within 12 months of 2017, migrants were issued 1.8 million permit documents which is more than in 2016, but still less than in 2015 and, particularly, in 2014 (Table 10).

Table 10

Execution of work permit documents in the Russian Federation in 2014–2017, persons

	12 months of 2014	12 months of 2015	12 months of 2016	12 months of 2017
Work permits for foreign nationals (FN)*	1334899	177175	133215	139595
Inclu	Work permits for skilled workers (SW)*	158644	22099	14775
	Work permits for high-skilled workers (HSW)	34225	41829	25469
Patents**	2379374	1779796	1492203	1658119
Total	3714273	1956971	1625418	1797714

* From January 1, 2015 work permits are issued only to foreign nationals from countries with a visa regime.

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

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

Migrants' monthly payments for patents are becoming an important item of revenues of regional budgets: the tax amount received for 12 months of 2017 was equal to RUB 51 billion (RUB 45 billion for the same period of 2016 and RUB 33 billion in 2015). A larger amount of those payments is made by migrants from Uzbekistan and Tajikistan: in 2017 86 percent of patents were issued to migrants from these countries (82 percent in 2016). As per the results of the year-end 2017, there was no growth in the Russian labor market segment related to foreign labor. A transfer of migrants from the informal sector to legal employment is going on, but the extent thereof is not very high; it is not the evidence of promotion of economic opportunities for migrants, but a factor of gradual adaptation to new conditions. Employment in Russia attracts mainly migrants from the Central Asia and, to a smaller extent, high-skilled migrants

from other countries (Ukraine, Moldova and far-abroad countries) who can select other countries to go to apart from Russia.