MONITORING OF RUSSIA'S ECONOMIC OUTLOOK:

TRENDS AND CHALLENGES OF SOCIO-ECONOMIC DEVELOPMENT

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TRENDS AND CHALLENGES OF SOCIO-ECONOMIC DEVELOPMENT

Increasingly frequent new predictions of another global crisis appear to be emotionally well-motivated, although they often lack a well-grounded validity. If the US-China tariff war continues, then estimated potential damages to the two world's biggest economies would make no sense: the global economy would come to face a nearly unpredictable restructuring, and the damages would go global indeed.

In this context, the markedly increasing potential of the Russian fiscal and monetary system can be viewed as a stabilizing, albeit local, factor. An anticipated fiscal surplus this year tends to 2% while extra revenues to Rb 3 trillion, with official projections for the next year showing even higher values. Against this backdrop, however, a VAT rate hike starts being viewed more and more as an unusual measure, and proposals to ease the budget rule start looking even more appealing. The VAT rate revision inspired by rising crude oil prices would, of course, awaken associations of the world's (and local) worst practices. Furthermore, raising the fiscal burden in the course of "highly lucrative" period for the state can hardly be qualified as a best practice, and even more so if the increasing burden, inter alia, comes into conflict with the strategic goal of maintaining stable prices in the local market.

Our experts' analysis of the Russian central bank's monetary policy suggests that a VAT rate hike scheduled for 2019 may add up to 1.5 p.p. to the inflation rate. Furthermore, prices will start rising this year (including because of heightened inflation expectations that increased from 7.8% in April to 9.8% in June) and may surpass the central bank's 4% target inflation rate in late 2018/early 2019. These and other risks (including weakly predictable exchange rates) may prompt the Russian central bank, which decided in June to keep the key interest rate unchanged, to opt out of its monetary policy easing or confine itself to a minimum key rate cut of 0.25 p.p..

Statistics suggest that Russia's foreign trade balance continued to bring foreign currency inflows and to ensure a relatively stable exchange rate of the Russian rouble. It follows from data for January–May 2018 that fuel exports increased 28% (in value terms) accounting for 64% of Russia's total exports. Our experts, however, point to the fact that supplies of other goods increased as well (by 26%), surpassing the pre-crisis level of 2013. According to the experts' estimates, the recovery of non-fuel exports suggests that the 2014–17 downturn is over. Imports increased 16%, the experts noted. The increase in the total value of imported products for the first time in recent years did not correlate with the dynamics of rouble real exchange rate – imports increased considerably, while the real exchange rate remained nearly unchanged.

Given the exchange rate dynamics (the nominal exchange rate in this particular case), the total amount of retail (individuals') bank deposits in the first five months of 2018 (rouble deposits and foreign currency deposits in rouble equivalent) increased as little as 1.3%. This was the lowest – for a comparable period of time – value in recent years, while there were no deposit inflows in

May 2018 (retail bank deposits nevertheless hit a record of Rb 26.9 trillion by the beginning of June).

However, an opposite situation unfolded in the consumer lending sector, according to the experts. Lending saw a fast-pace growth – individuals’ outstanding bank loans rose 7% during the period in question, hitting a high of Rb 13.5 trillion. Outstanding loans outpaced substantially retail (individuals’) bank deposits, and the debt-to-annual-personal-cash-income ratio increased as well (23.9% over June 2018), and it will surpass the pre-crisis high (25% in 2014) till this year’s end. All of the above lead to an expert conclusion that households are moving towards employing a credit-based consumption model, which is a reasonable enough thing to do amid stagnating incomes.

Overall, however, incomes stopped declining, and some industries increased wages, which probably also contributed to the recovery of the population of temporary migrants from a few CIS countries. The experts point to the fact that more and more migrants want to obtain legal status in the labour market, as evidenced by the number of issued labour registration documents. Migrants paid Rb 23.6bn to Russian regions’ budgets in the first five months of 2018 (Rb 18.8bn were paid in the same period of 2017).

As to long-term migration, the migration-induced population growth in Russia decelerated in January–April compared to previous years, totalling 57.1K persons. The growth offset by less than a half the natural decline of the Russian population resumed since 2016. Should the above trends continue, then the Russian population may be reduced as early as this year, for the first time since 2009, the experts concluded.

1. RUSSIA'S MONETARY POLICY: HIGHER INFLATION RISKS TO INCREASE

A.Bozhechkova, P.Trunin

The Bank of Russia decided in June to keep the key interest rate unchanged because of worsening geopolitical uncertainty, capital outflows from developing countries as a consequence of tighter US Fed's monetary policy, plans to raise the VAT rate, as well as prices adjustment to a weaker rouble. In the today's context, Russia's central bank may postpone its monetary policy easing until next year.

The Bank of Russia's Board of Directors decided on 15 June 2018 to keep the key interest rate unchanged at 7.25%. The transition to a neutral monetary policy started to slow later in April 2018 in the midst of Western sanctions against Russia, inducing capital outflows from the country and depreciation of the Russian rouble. The Board of Directors' decision was prompted by the emergence of new pro-inflation factors, namely a plan to hike in 2019 the value-added tax rate to 20% from the current 18%, as well as a drastic increase in petrol prices, and therefore Russia's central bank had to revise its inflation forecast trajectory.

As of end-June 2018, the inflation rate stood at 0.5% (0.6% in June 2017), reaching 2.3% on an annualized basis (4.4% y-o-y in June 2017), far below the 4% target rate (*Fig. 1*). However, the inflation rate in January–June 2018 turned out to be higher than a year earlier (2.2%). More so, given less than optimistic crop projections, prices in this year's second half may increase at a considerably faster pace than in 2017.

Inflation data from June suggest the accelerated price growth for nearly all the groups of goods and services. The deflation (-0.1%) in foodstuff products in May gave way to a price rise of 0.4% in June. Sugar prices saw the fastest growth (4.6%) within this group of products in response to higher sugar prices in the global market. Non-food prices increased at a rate of 0.4% in June 2018 over May 2018 (0.1% in June 2017 over May 2017). Petrol and tobacco products posted the fastest price growth over May 2018, 2.1% and 1.0%, respectively. Petrol prices started to rise substantially (+5.6%) back in April 2018. The increase stemmed primarily from higher crude oil prices amid a weakening rouble. There are plans to cut petrol excise duties in July in order to slow the price rise.

The cost of paid services for individuals rose in June by 0.7% over May 2018 (0.7% in June 2017 over May 2017). A marked seasonal contribution to the increase in the cost of services was made by health and leisure services (+7.1%), passenger transport services (+4.3%) and outbound tourism services (+1.9%). June saw the core inflation (an indicator excluding changes linked to seasonal and administrative factors) increase as well, posting 2.3% over June 2017 (2.0% in May 2018 over May 2017).

The dynamics of inflation expectations became an important argument for keeping the key rate unchanged, its median one-year ahead expected inflation rate increased rapidly over the last few months to 9.8% in June vs. 8.6%

in May and 7.8% in April 2018, as reported by InFOM's survey published by the Bank of Russia. Central bank's data based on an inflation expectations survey also show individuals' heightened inflation expectations – the inflation rate in June was estimated at 2.5% (2.2% in May). The economic agents' heightened inflation expectations were probably due to a unstable FX market as well as considerably increased petrol prices.

Consumer demand recovery continued to be an internal source of inflation risks. For instance, in January–May 2018, the nominal wages growth rate increased by an average of 11.5% over the same period of 2017 (6.8% in January–May 2017). In addition, the average monthly growth rate in the retail trade turnover in January–May 2018 was 2.4% compared to what it was in the same period of 2017 (-0.7% in January–May 2017 from January–May 2016).

Uncertainty in rouble's exchange rate movements was an external source of inflation risks. In May–June, the Russian rouble gained 0.6% against the US dollar to 63.1 roubles per dollar on the heels of substantial depreciation in April (down by 10.8% to 63.5 roubles). Note that the rouble's exchange rate remained unchanged despite high crude oil prices averaging $76.6 a barrel in May–June. One of the most commonly cited reasons for this is that Russia's Finance Ministry purchased foreign currency in the local FX market to a total of Rb 1.63 trillion (Rb 0.7 trillion in May–June 2018) over the past six months. In our view, however, the effect of the foreign currency purchases on the exchange rate is overestimated. For instance, excluding the sharp depreciation of the Russian rouble in April induced by Western sanctions against Russia, leading to an instant increase in the risk premium for Russian assets, the dynamics of rouble's nominal effective exchange rate was the same as that of the exchange rate of the national currencies of other developing countries that are currently employing an inflation targeting strategy (*Fig. 2*). In our view, the exchange rate was affected primarily by capital outflows from the majority of emerging markets in response to tighter monetary policies in a few developed countries.

Fig. 1. CPI growth rate in 2011–2018, percentage change over 12 months
Source: Rosstat.

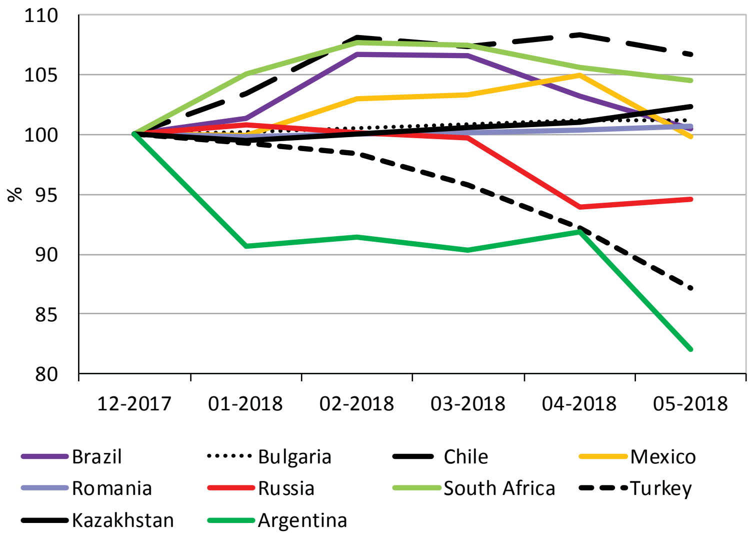


Fig. 2. Nominal effective exchange rate dynamics of currencies in selected developing countries (December 2017 = 100%)
Sources: BIS, The National Bank of the Republic of Kazakhstan.

At the same time, the Russian Finance Ministry's foreign currency purchases did drive up the foreign currency demand while weakening the rouble in the near term. However, the weak exchange rate stemmed from slower growth in imports, and the overall net FX inflows into this country through currency interventions and a positive current accounts balance did not see changes that could have been seen in the absence of interventions.

A further worsening of geopolitical tensions and increase in capital outflows from emerging markets can become factors pushing the rouble down, with its further depreciation if energy prices fall.

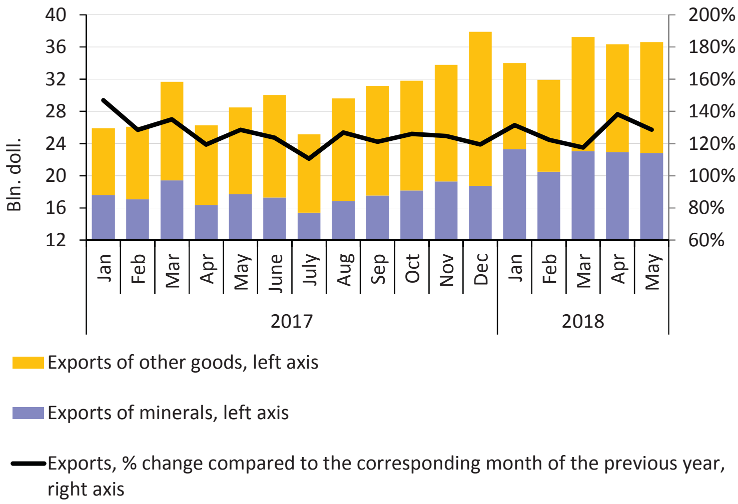
Lastly, raising the VAT rate in 2019 will have a substantial pro-inflation effect. We estimate that this measure can add up to 1.5 p.p. to the inflation rate. Furthermore, prices would start rising as early as this year over heightened inflation expectations (as well as consumption) and may surpass the central bank's 4% target inflation rate in late 2018/early 2019. Therefore, considering the above-described context, this year the Bank of Russia may just as well opt out of its monetary policy easing or confine itself to a minimum key rate cut of 0.25 p.p..

2. EXPORTS GROWTH IN JANUARY–MAY 2018: NOT BY FUEL ALONE

A.Knobel, A.Firanchuk

During the first five months of 2018 Russian fuel exports grew by 28%. Exports of other goods moved up by 26%, surpassing the pre-crisis level of 2013. Imports went up by 16%, for the first time in five years its dynamics did not correspond to the dynamics of the exchange rate: imported goods have significantly increased in value terms while the real effective ruble-dollar exchange rate has barely gained any new positions.

Exports in January–May 2017 grew significantly against the same period of the previous year (*Fig. 1*). In value terms, exports constituted $176.16 billion (127% against January–May 2017 and 83% against January–May 2013). Fuel exports as well as exports of other goods have demonstrated simultaneous positive dynamics. Fuel exports hit $112.7 billion (128% and 75% respectively) while exports of other goods – $63.5 billion (126% and 104% respectively). The recovery of Russian non-fuel exports to the pre-crisis level proves that the 2014–2017 slump has been overcome. The share of fuel in the overall exports in the first five months of 2018 came to 64.0%.

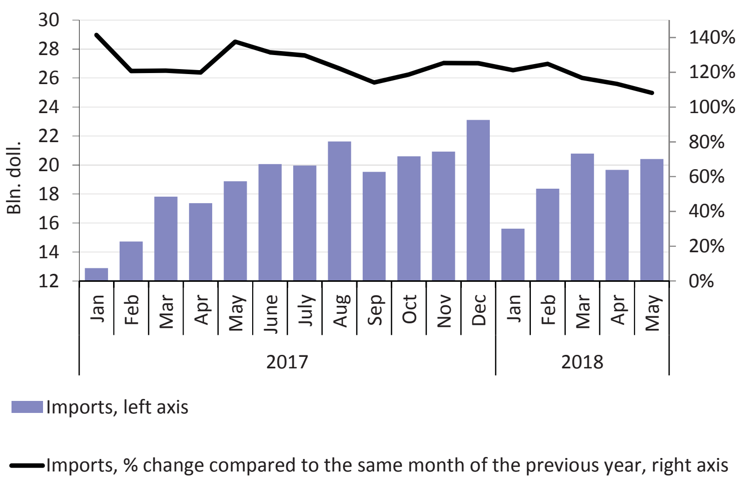


Note. Preliminary FTS data.

Fig. 1. The dynamics of Russian exports in 2017–2018

Source: own calculations based on the Russian FTS data.

Imports in January–May 2018 have also significantly risen against the same period of the previous year (*Fig. 2*). In January–May imports hit $94.8 billion (116% against January–May 2018 and 77% against January–May 2013).



Note. Provisional FTS data.

Fig. 2. The dynamics of Russian imports in 2017–2018

Source: own calculations based on the Russian FTS data.

Structure and volumes of exports for January–April 2018 are shown in *Table 1*. Exports grew by 15–35% (current dollar rate) compared to the same period of the previous year in every integrated commodity groups, marked by the FTS[1], except "rawhide" (-7%) group. Exports of such commodity groups as "food and agricultural products", "textile", "wood substance", "metals", and "other goods (minus the secret group)" were noted to be higher against the pre-crisis level.

High technology part of Russian exports is concentrated in commodity group "machinery, equipment, and means of transport". Exports of the given commodity group (not taking into the account secret positions increased by 23%, up to $5.89 billion. The biggest subgroup "nuclear reactors" went up 12%, to $2.35 billion, coming close to the pre-crisis levels (in January–April 2013 this indicator constituted $2.47 billion).

Significant growth was noted in the following groups: "instruments and optics" (32%), "Electrical machinery and equipment" (49%), "vessels, boats" (62%), "railroad service" (increase by 2.2 fold). All those groups have surpassed the pre-crisis levels. In commodity group "machinery, equipment, and means of transport" only one subgroup continued to decrease – "vehicles for land transport, except railroad transportation" (-7%). Export volumes of the given commodity group in January–April 2018 constituted $892 billion, which is 2.4-fold lower against the same indicator seen in January–April 2013.

Table 1

RUSSIAN EXPORTS BY COMMODITY GROUPS

Name	Volume of export in January–April, billion dollars			Export growth in January–April 2018 compared January–April 2017, %	Share of the commodity group, %
	2013	2017	2018		
Food and agricultural products (except for textile)	4081	5805	7364	27	5.3
Mineral products	122659	70735	90873	28	65.1
Chemicals, rubber	9986	7223	8413	16	6.0
Rawhide, furs and articles thereof	248	111	103	-7	0.07
Wood, pulp and paper products	3367	3537	4365	23	3.1
Textile, textile products and footwear	215	306	351	15	0.25
Precious metals and precious stones and articles thereof	3833	3134	3727	19	2.7
Metals and metal products	13603	11319	14868	31	10.7
machinery, equipment, and means of transport (without secret commodity group), including:	6739	4792	5891	23	4.2
Nuclear reactors, boilers, equipment and mechanical devices; turbines, internal-combustion engine; household appliances	2469	2103	2349	12	1.7
Electrical machinery and equipment, spare parts	1336	981	1464	49	1.0
Railroad transportation and their components; track equipment and railroad tooling	226	160	347	117	0.2
vehicles for land transport, except railroad transportation and their components	2122	955	892	-7	0.6
vessels, boats and floating constructions	104	196	316	62	0.2
Optical instruments and devices	484	398	524	32	0.4
Other goods (without secret commodity group)	609	692	790	14	0,6
Secret commodity group*	3657	1798	2842	58	2.0
Exports, total	168621	109266	139535	28	100

* The secret commodity group mainly consists of "aircrafts and their components", "weapons and ammunition", "tanks and other mobile fighting transport". Such commodity group in the FTS aggregate statistics is included in "automobiles, equipment, means of transport" and "other products".

Source: own calculations based on the data released by the FTS.

1 Volumes of the secret commodity group are noted separately on the table.

Price influence: exports in value and physical volumes.

Table 2 demonstrates exports shifts in prices, physical and value volumes. As a year earlier, regarding the majority of large export commodity groups ***raw materials and products of lower and medium degrees of processing,*** there was saw a rise in export prices (23 commodity items out of 25). Only three commodity items have decreased in terms of value: rubber (12%), ferrous-based alloys (5%) and potassium fertilizer (18%). The rest of 22 commodity items increased widely (from 6 to 97%) in value terms.

Exports of goods and products of lower and medium degrees of processing is following export prices[1] dynamic. For 16 commodity items export prices grew as well as in terms of physical volumes of deliveries, only for two there is a decrease of both indicators. Seven commodity items were noted to have decreasing volumes of delivery along with increasing export prices: for six – the price effect have surpassed the effect of decreasing physical volumes of delivery, and only in one case the negative effect of decreasing volumes of deliveries was of higher value, then the effect of the price increase.

Growth of **mineral raw materials** exports (by 28%, *Table 1*) was triggered by an increase in export prices and growth (in case of oil products – conservation) of the physical export volumes. Export prices and volumes of deliveries of three commodity items, which constitute 58% of Russian exports, had the following dynamics: crude oil price increased by 25%, quantity of deliveries grew by 4%, oil products grew by 23%, the delivery volumes decreased by 1%, natural (piped) gas – price growth and volume growth by 20% and 10%, respectively. It should be noted a sharp rise in exports of liquefied gas triggered by commencement of deliveries from the "Yamal SPG" plant[2].

Exports of ***food products and agricultural raw materials*** grew by 17%. The growth is due to 60% increase in value and physical volumes of grain exports (wheat and meslin), which account for one third of exports of food products and agricultural goods.

Export growth of ***chemical products*** (by 16%) turned out to be less than average (28%). That is owing to the fall in export prices on synthetic rubber (by 9%), as well as differently directed dynamics of exports of fertilizers. Despite the growth of export prices on fertilizers (by 8–13%), exports of potassium fertilizers decreased by 27%. Total value of exports of fertilizers have moved up by 12%, while the total tonnage has remained unchanged.

Price growth for ***woodwork and paper products*** came to 15–49% and differently directed dynamic of exports (from down 7% to up 10%) have triggered the exports growth by 23%. Furthermore, exports of all commodity items in monetary terms up from 7% to 54%.

Exports of ***metals*** grew by 31% in value terms on the back of the price hike from 13% to 39% on the main types of metals and fabricated metal products except ferrous alloys which have lost 3% of their price. Dynamics of exports was non-homogeneous: from up 40% (cast iron) to down 12% (flat rolled products).

Exports of highly processed goods (***machinery, equipment and means of transport***) up 23%. For five out of seven commodity items price change was correlated with physical volumes of deliveries: three items (LCD-TV, railroad

1 Similar situation was noted a year earlier, see A. Knobel, A. Firanchuk, Russian exports Q1 2017 // Russian economic developments 2017. No.7. P. 11–18.

2 In more detail, see: A. Knobel, A. Firanchuk. Russian exports to EU in 2017 // Russian economic developments. 2018. No. 5. P. 12–17.

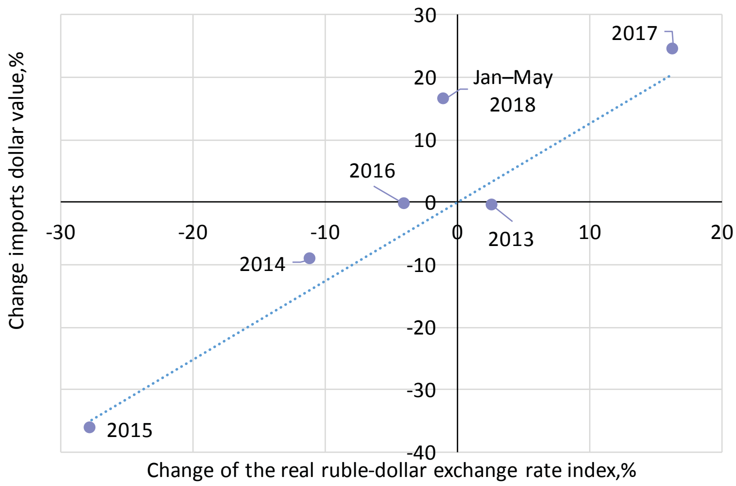
Table 2

PRICE CHANGE AND VOLUMES OF DELIVERIES OF MAIN EXPORT PRODUCTS
IN JANUARY–APRIL 2018 RELATIVE TO THE SAME PERIOD OF THE PREVIOUS YEAR, %

Customs Commodity Code	Name of position	Cost		Price change	Change of physical volume	Change of value	Share of exports in Jan–Apr 2018
		Jan–Apr 2017	Jan–Apr 2018				
Food products:							
1001	Grain and meslin, dollars/tons	180	181	0	60	60	1,7
Fuel:							
2701	Fossil coal , USD per ton	75	80	8	17	26	3.4
2709	Crude oil, USD per ton	368	462	25	4	30	28
2710	Petroleum products, dollar/tons	387	477	23	–1	22	18
2711110000	Natural condensed gas, USD per cubic meter	119	133	12	76	97	1.1
2711210000	Natural gas, USD per thousand cubic meters	171	206	20	10	32	12
Chemical products:							
3102	Mineral and nitrogen fertilizers, USD per ton	184	199	8	5	14	0.6
3104	Mineral and potash fertilizers, USD per ton	184	207	13	-27	-18	0.3
3105	Mineral and mixed fertilizers, USD per ton	257	281	10	16	28	0.8
2814100000	Arid ammonia, USD per ton	224	270	21	47	78	0.3
4002	Synthetic rubber, USD per ton	1 795	1 629	-9	-3	-12	0.4
Timber and wood products:							
4403	Rough timber, USD per cubic meter	77	88	15	-7	7	0.4
4407	Sawn timber, USD per ton	208	240	15	4	20	1.0
4412	Plywood, USD per cubic meter	420	502	19	10	31	0.3
4702-4704	Wood pulp, USD per ton	471	703	49	3	54	0.4
4801	News print, USD per ton	410	483	18	-1	17	0.1
Metals and metal products:							
72	Iron, USD per ton	431	501	16	14	32	5
72 (except 7201-7204)	Ferrous materials (except cast iron, ferrous alloys, wastes and scrap), USD per ton	454	563	24	4	29	4
7201	Cast iron, USD per ton	313	353	13	40	58	0.5
7202	Ferrous alloys, USD per ton	1 728	1 682	-3	-2	-5	0.3
7207	Semi-finished products from carbon steel, USD per ton	396	500	26	11	40	1.9
7208-7212	Flat-rolled products of carbon steel , USD per ton	503	608	21	-12	6	1.2
7403	Refined copper, USD per ton	5 633	6 859	22	20	47	1.1
7502	Raw nickel, USD per ton	9 625	13 404	39	-7	29	0.4
7601	Raw aluminum, USD per ton	1 695	1 926	14	-7	6	1.4
Machinery, equipment and means of transportation:							
840130	Fuel elements, thousand USD per unit	479	378	-21	29	2	0.21
8411123009	Gas turbines with draught of over 44 кN, but no more than 132 кN, thousand USD per unit	4 179	3 842	-8	-45	-49	0.10
8450111100	Household washing machines, USD per unit	162	173	6	-10	-4	0.04
85287240	LCD-TV, USD per unit	342	353	3	7	11	0.03
860692	Open-top railroad cars , USD per unit	23.9	31.4	31	108	173	0.06
8703231940	Automobiles with engine size over 1500 cc, but not more than 1800 cc, USD per unit	8.48	9.13	8	56	68	0.11
8704229108	Other trucks, full mass of 5–20 tons, USD per unit	35.2	32.5	-8	-40	-44	0.02

Source: own calculations based on the FTS data.

cars, and automobiles) have shown growth of both indicators while two items have demonstrated a decrease (gas turbines, trucks). Volatility of export prices (from down 21% on nuclear fuel elements to up 31% on railroad cars) was lower, than volatility of delivery volumes that were in the range of twofold decrease (45% on gas turbines) to more than a twofold growth (108% on rail cars). Most considerable price change – 31% growth of the export prices on railroad cars – probably, was due to the dynamics of the global metal prices.



Note. May 2018 – preliminary FTS data.

Fig. 3. Dynamic of Russian imports and real ruble exchange rate in 2013–2018

Source: own calculations based on the FTS and the Bank of Russia.

Exchange rate and volumes of imports

Sustainable correlation between the real ruble-dollar exchange rate (against the corresponding month of 2013) and the imports in value terms (in dollar terms to the corresponding month of 2013) was observed during previous years. In January 2014 – December 2017, the correlation coefficient for monthly data constituted 0.93[1]. In considering annual changes (*Fig. 3*) correlation comes to 0.98 for 2013–2017. On average, the change of the real ruble exchange rate by 10% (comparing to the previous year) corresponded to imports dynamics by 12.5%. However, the first five months of 2018 do not follow that pattern (*Fig. 3*): imports have notably grown (by 16.4%) along with sustainable correlation of the real ruble-dollar exchange rate (-1% against January–May 2017).

It can be explained by the fact that the growth dynamics of wellbeing in Russia lately coincided with the ruble exchange rate dynamics because both indicators depended on global prices for primary goods. However, current global price increase on primary goods has not resulted in the ruble exchange rate growth, having positive effect on GDP dynamic, which in it's turn led to imports rise.

Tit-for-tat measures regarding the US introduction of additional tariffs.

The Resolution of the Russian government of May 6, 2018 calls for the retaliation of additional tariffs on Russian products (cast iron and aluminum) imposed by the US. Russia introduces new (increased) import tariffs on some means of heavy-duty transport, building and highway machinery, oil and gas equipment, metalworking tools and tools for hard rock drilling, fiber optics to the tune of 25–40%. For most items, new import tariff is 30%.

Total delivery volume of those products from the US (in accordance with enclosure to the government resolution) constituted $346 million in 2017, or 2.8% of the overall Russian imports from the US. New, average weighted (according to trade in 2017) new tariff rate on goods covered by this measure,

1 In more detail see: A. Knobel, A. Firanchuk. Russian foreign trade in 2017 // Russian economic developments. 2018. No. 3. P. 6–13

will grow to 30.2% from previous level of 4.7%. Therefore, if we assume, that the previous year's volume of deliveries is going to remain stable, then the tariff dues will rise to $88 million. This estimate coincides with the one given by the Minister of economic development Maxim Oreshkin ($87.6 million).

Out of $346 million of the imports from the US, the most significant place was taken by tip-trucks ($126.3 million), earthmovers ($35.4 million) and other dozer shovels. Those commodity items saw import tariff growth from 5% to 30%. Besides, imports of fiber optics ($22.2 million) was quite significant, for which import tariff was raised from 3% to 30%.

3. HOUSEHOLD FINAL CONSUMPTION EXPENDITURE ON THE WAY TO THE CONSUMER LENDING MODEL

M.Khromov

For the first five months of 2018, household savings moved up merely by 1.3% which is the bottom low for the last several years. Meanwhile, retail lending has been demonstrating an upward trend. The public borrows significantly more than deposits.

For January–May 2018, retail deposits increased by over Rb 700 billion (or 2.8%) in the nominal terms. As of July 1 2018, their volume hit the record high Rb 29.9 trillion. This indicator is a composite of growing volume of ruble deposits by over Rb 600 billion and contraction of foreign currency deposits by $ 4.6 billion (-4.9%). Truth to be told, due to the devaluation of the Russian national currency the ruble equivalent of deposits denominated in foreign currency went up from the beginning of the year by Rb 128 billion (or 2.4%).

In the context of changed exchange rates, retail deposits dynamic for the first five months 2018 was moderate and growth came to Rb 330 billion (1.3%). This was the lowest retail deposits growth rate reported for the corresponding period of the year commencing from 2014 when outflow of retail deposits was observed.

What is more, in May 2018 arrested growth of retail deposits was reported. Their nominal volume contracted over the month by Rb 7 billion. Growth of ruble deposits registered in May (by Rb 33 billion) failed to offset the decrease of foreign currency deposits (by $0.7 billion or by Rb 39 billion). This was the first over several year contraction of retail deposits reported in May. This month is actually characteristic of seasonal slowdown of deposits inflow which is due to increased spending during the holidays. However, the last time retail deposit volume contracted in May 2013.

Thus, 2018 demonstrate the worst results related to retail savings reported for the last several years.

The opposite picture was observed on the retail lending market. For the first five months 2018, retail bank debt moved up by Rb 883 billion (7.1%). In the nominal terms, it already exceeds indicators registered during the boom year 2012–2013, although in terms of credit portfolio growth rates the current dynamic is lagging behind the peaks of 2012 by more than two-fold.

As a result, the total volume of the retail debt has hit Rb 13.5 trillion which is another all-time high. The ration of the retail debt to the annual cash income has not so far peaked the pre-crisis maximum – in late 2014 this indicator came to 25% and at the May 2018-end result constituted 23.9%. However, the current ratio between cash income and debt growth demonstrates that this indicator maximum can be updated later in the year.

All in all, the dynamic of both the public savings and retail lending demonstrates the households' transition to the consumer lending model. For 5 months 2018, the excess of loan debt growth over deposits growth constituted Rb 553 billion or 3% of the household final consumption expenditure[1]. The nominal expenditure growth has for a long period been lagging behind the nominal household cash income growth. For example, in January–May 2018, the household cash income went up by 4.0% in the nominal terms compared with the same period 2017, and the nominal value of consumption expenditure – by 5.2%. In this context, noted above slowdown of the savings growth and increased lending growth represents natural reaction of the public which strive to maintain a certain living standard in the wake of stagnating cash income.

Till later in the year, the public will be sticking to the consumer lending model. At December 2017-end results, total household bank deposits exceeded the credit exposure. Although, before December during 2017 and especially in H2, the inflow of retail deposits stayed behind the amount of credit exposure. Over 2017 in a whole, retail deposits growth in the amount of Rb 900 billion has exceeded the credit exposure, meanwhile, in January–November 2017 loan growth exceeded deposits growth.

In view of this fact, until later in the year, the net household deposits will most likely be less than in 2017. That is why, sustainability of the banking sector will largely depend on the alternative sources of raising funds – corporate clients and the state.

1 Total turnover of the retail trade, spending on paid services and public catering.

4. MIGRATION PROCESSES: RUSSIA'S POPULATION MAY SHRINK

N.Mkrtchyan, Yu.Florinskaya

As migration growth in Russia's population keeps falling, Russia may face a renewed reduction of its population as early as this year amid the natural decline in the population. This situation is driven by a decreased migration growth from Ukraine amid a weak recovery of the migration inflow from Central Asian countries. Migrants' payments to Russian regions' budgets keep growing.

The Long-Term Migration

According to the data on January–April 2018, Russia's population growth was equal to 57,000 people, a decrease compared both to the relevant period of the previous year (64,900) and a number of the past few years. In the first four months of this year, growth at the expense of the international migration made up only for 47.1% of the population's natural decline which resumed from 2016. If migration trends and natural movement trends do not change for the better, Russia's population may start shrinking as early as this year for the first time since 2009.

A continued decrease in migration growth of Russia's population took place on the back of the growing number of departures from the country: it is much higher than the number of arrivals. It is noteworthy that in 2018 Russia's migration growth with various CIS sates has increased as compared to the previous years (*Table 1*), however it has dramatically fallen with Ukraine to the values seen early in the 2010s. This situation can probably be explained by the fact that the situation in the east of Ukraine is currently suspended and a large-scale forced migration to Russia came to a halt. In the past few years, the huge growth in the migration inflow was from Tajikistan which became Russia's largest migration donor, having surpassed not only Ukraine, but also Kazakhstan and Uzbekistan.

Table 1

GROWTH IN RUSSIA'S POPULATION ON THE BACK OF THE INTERNATIONAL MIGRATION, THOUSAND PERSONS, JANUARY–APRIL 2016–2018

	2016	2017	2018
International migration, total	71.2	64.9	57.1
including:			
With the CIS states	67.9	63.7	54.9
Azerbaijan	2.5	1.9	3.0
Armenia	2.0	2.4	4.9
Belarus	0.5	3.3	3.5
Kazakhstan	8.9	10.2	10.4
Kirgizia	4.4	4.1	4.8
Moldova	3.6	2.1	3.0
Tajikistan	5.6	8.5	12.1
Turkmenistan	0.4	0.7	1.0
Uzbekistan	4.7	3.1	4.8
Ukraine	35.3	27.3	7.4
With far abroad countries	3.3	1.2	2.2

Source: Information on Russia's Social and Economic Situation, 2017–2018 issues.

The migration growth with far abroad countries remains small. It is underpinned by India, Georgia, Turkey, Vietnam and Afghanistan, while a decrease in the migration is still evident with western countries, including Germany, the US and Canada. A decline in the migration is observed with North Korea, too.

January–April 2018 saw a 4.2% increase in the number of statistically registered displacements in Russia's internal migration as compared to the relevant period of 2017. Such fluctuations of the index are not a new trend because it has fluctuated within that range for the past few years after a 100% dramatic growth in 2011–2013 caused by the modification of the methods of migration accounting from January 2011.

The list of the centers of gravity of the migration has remained unchanged for the past few years with Moscow, the Moscow Region, St. Petersburg, the Leningrad Region and the Krasnodar Territory being among the leaders. According to the data of 2017, the three-fourth of migration growth of the above centers was underpinned by Russia's internal migration. In addition, a sustainable migration growth was observed in the Kaluga Region, the Voronezh Region, the Kaliningrad Region, Sevastopol, Tatarstan, the Tyumen Region and the Novosibirsk Region. However, migration growth in those regions, except for Sevastopol and the Tyumen Region, took place mainly on the back of the international migration.

Most Russian regions lose their population as a result of migration, primarily, the North Caucasian Federal District, the Privolzhsky Federal District, the Siberian Federal District and Far Eastern Federal District. For instance, in January–April 2016 5,100 persons migrated from the Far Eastern Federal District and though it is less than in 2017 the goal of stopping the population outflow is still far from being achieved.

The Temporary Migration

In 2018, as in the past two years, the total number of foreigners staying in the territory of the Russian Federation for various purposes is getting down. Note that it is a smooth decrease without any dramatic falls; intra-annual trends (including a spring-summer upsurge of the index) still prevail (*Fig. 1*).

As of 1 June 2018, 9.63m foreigners arrived in the Russian Federation (9.24m foreigners as of 1 January).

The share of foreign nationals who arrived from CIS states remains unchanged 86% (8.29m as of 1 June 2018). As regards the number of such migrants, Central Asian states are rated the first, while Ukraine, the second. Note that the number of migrants from the former is twice as large as from the latter (*Table 2*).

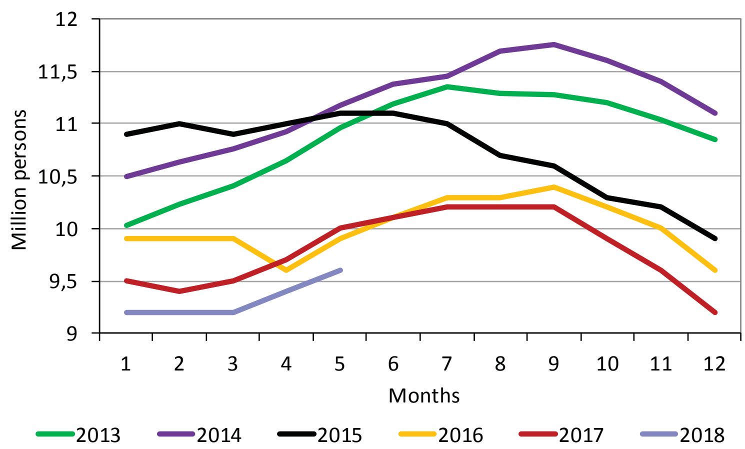


Fig. 1. Arrivals of foreign nationals in the Russian Federation as of the month end, million persons, 2013–2018

Source: The RF Federal Migration Service and the Central Database of Accounting of Foreign Nationals and Stateless Persons (CDAFNSP).

As per the data of 2018, growth potential of the temporary migration from member-states of the Eurasian Economic Union is depleted. The only exception is Kirgizia where from the migration keeps growing. As regards the number of its nationals in the Russian Federation, Kirgizia is now rated the fourth. The number of migrants – nationals of Tajikistan and Azerbaijan – has almost recovered completely as compared to 2014. The volume of the migration from Uzbekistan keeps growing, but fails to achieve its previous volumes. At the same time, the number of migrants from Moldova and Ukraine is falling.

Table 2

ARRIVALS OF FOREIGN NATIONALS FROM CIS STATES
TO THE RUSSIAN FEDERATION AS OF THE SPECIFIED DATE, PERSONS

	02.06.2014	01.06.2015	01.06.2016	01.06.2017	01.06.2018
Azerbaijan	603706	548870	491851	536660	607736
Armenia	509223	522757	508774	507068	504835
Belarus	415656	551886	711193	676082	617633
Kazakhstan	567096	664099	555435	552900	459257
Kirgizia	545502	505882	565127	622899	638735
Moldova	584423	545963	497412	430750	375568
Tajikistan	1170825	999774	981353	1067247	1123954
Uzbekistan	2580929	2148143	1798943	1923388	2017830
Ukraine	1638641	2582053	2385404	2246058	1941449
CIS, total	8616001	9069427	8495492	8563052	8286997

Source: The RF Federal Migration Service and the Central Database of Accounting of Foreign Nationals and Stateless Persons (CDAFNSP).

The downward trend of the number of temporary migrants from developed western countries is not overcome yet: this index has fallen on average by $^2/_3$ as compared to 2014 (*Table 3*). All the types of migration for various purposes, primarily, tourism and business trips decreased.

Table 3

ARRIVALS OF FOREIGN NATIONALS FROM THE EU AND THE US
TO THE RUSSIAN FEDERATION AS OF THE SPECIFIED DATE, PERSONS

	04.05.2014	01.06.2015	01.06.2016	01.06.2017	01.06.2018
The EU as a whole	1166725	778843	453334	453733	393369
Germany	348266	229336	93815	103321	96033
Spain	76669	42838	12280	14029	13086
Italy	75429	51631	25546	25141	22470
The UK	177840	107140	25941	24065	20146
Finland	105989	59142	82809	79025	59112
France	65701	48706	28959	29337	27481
The US	219667	137480	44604	43267	38734

Source: The RF Federal Migration Service and the Central Database of Accounting of Foreign Nationals and Stateless Persons (CDAFNSP).

As of 1 June, 4.2m labor migrants officially came to the Russian Federation to work on hire (as many as a year before as of the same date). Over 96% of migrants of this category came from CIS states. The number of labor migrants from Kirgizia, Uzbekistan and Belarus has somewhat increased as compared to the previous year, while that from Ukraine and Moldova has largely diminished; as regards other countries the index did not change much.

By 1 June 2018, labor migrants were issued 1.85m valid permit documents for employment (work permits and patents), while another 1.1m persons had the title to work without such documents (nationals from the EEU member-states). Generally, minimum 69% of all the labor migrants could get an official employment (an increase of 5% as compared to the beginning of summer 2017).

As seen from the data on the number of officially issued documents within a year, more and more migrants seek to get legalized on Russia's labor market (*Table 4*). The total number of such documents has surpassed that seen in 2016 and 2017 and approached the level of 2015, though it is still short of the 2014 level. With the main migration rules as regards legalization remaining unchanged for at least three years, migrants, probably, get adapted to them despite the fact that the pay is still low in the migration labor sector.

Table 4

LABOR PERMIT DOCUMENTS ISSUED TO MIGRANTS IN THE RUSSIAN FEDERATION, JANUARY–MAY, PERSONS

		2014	2015	2016	2017	2018
Work permits for foreign nationals*		562030	80856	55616	54458	45915
Including:	Work permits for skilled workers*	26739	7329	5254	6074	7428
	Work permits for high-skilled workers	12335	14368	13017	9402	9978
Patents**		1025478	856482	661235	732985	805129
Total		1587508	937338	716851	787443	851044

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

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

Source: The RF Federal Migration Service, 1-RD form.

Within five months of 2018, migrants paid Rb 23.6bn to Russian regions' budgets (advance tax payments for patents) compared to Rb 18.8bn in the relevant period of 2017. From year to year, the contribution of migrants from Uzbekistan and Tajikistan to such payments is growing (this year 89% of patents were issued to migrants from these two countries compared to 82% and 86% in 2016 and 2017, respectively).

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