

# ONLINE MONITORING OF RUSSIA'S ECONOMIC OUTLOOK

TRENDS AND CHALLENGES OF SOCIO-ECONOMIC DEVELOPMENT

**№ 6(24) April 2016**

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## MAIN TRENDS AND CONCLUSIONS

The crude oil price rally over recent weeks has deepened the “ruts of the road” the Russian economy is on, willingly or unwillingly. Almost 1.5 hike of oil prices has given a fresh impetus to discussions and forecasts as to the effect of the price rise on the state budget (as well as on the rouble exchange rate, revenues, and the economy as a whole). A similar impetus is certain to be given if oil prices face a reverse trend.

Also, almost all the economic measures in question are focused on taxpayers and amounts of taxes and levies to be paid to the budget; on compensation for budget shortfalls; as well as on recipients and amounts of state budget allocations.

This oil- and budget-focused model ignores measures that can, at least theoretically, help break through this vicious circle. Although oil and gas revenues may be said to losing grounds in Russia’s state budget, the mental, administrative and structural dependence on this model is maintained and has become even more apparent.

The future Urals crude price is a critical component of any forecast, at least for the foreseeable future. Our experts’ forecast for 2016/17 assumes the price to be respectively \$35/40 a barrel under the baseline scenario (\$50/55 a barrel under the best-case scenario). In this case, Russia’s GDP is expected to drop by 2% in 2016 and to remain unchanged in 2017 (the best-case scenario suggests a decline of 0.1% in 2016 and a growth of 0.8% in 2017).

Experts doubt the central bank will be able to reach the target inflation rate of 4% by the end of 2017, expecting inflation to drop to 5.8% (to 6.9% under the baseline scenario). At the same time, the central bank key rate is expected to decrease as early as Q2 2016, and both scenarios predict the key rate to be cut to 5.5–6.5% in 2017.

The experts expect Russia’s economic recession to stop in 2016, and the Russian economy to enter a zone of minor growth or stagnation in 2017. Forecast macroeconomic indicators for 2016 suggest that “the economic downturn, high inflation and high volatility of the Russian rouble will stop”.

A BOP analysis for Q1 2016 leads largely to similar conclusions. In particular, the rouble was supported by a massive slowdown of capital outflow in the private sector (4.5 times less the amount of capital outflow seen in Q1 2015). External payments of banks and companies dropped, and the amount due this year is 1.5 times less that in 2015. The Russian rouble may strengthen if prices of energy-carrying resources go up and western sanctions are lifted. However, should the rouble face a steady uptrend, the Bank of Russia is likely to start buying foreign currency to increase its international reserves.

However, one cannot but note, first, further decline of foreign direct investment. FDI in Q1 2016 stood at only \$900m (in the non-bank sector), almost three times less the amount recorded in Q1 2015, even though investment dropped considerably at that period. Second, the current account surplus saw drastic reduction to \$11.7bn in January–March 2016 compared with \$30bn in Q1 2015, that is, by 61%. This did not result in rouble’s depreciation

due to the decline in capital outflow and because of the effect of the other above-mentioned factors.

The decline in the current account surplus is a direct consequence of sharp plunge in the foreign trade balance (nearly twice as much as that seen in Q1 2015) driven by the fact that exports fell at faster pace than imports that declined more moderately. Also note that the past quarter supported the effect of rouble exchange rate moving synchronously with export volumes for more than straight two years.

Factors that influenced the decline in foreign trade turnover in recent 1.5–2 years include not only a sharp change in exchange rate ratios (leading to a decline in the hydrocarbons supply value and to lower purchases of appreciated imported goods) but also the introduction of a regime of sanctions and countersanctions.

Analyzing the effects of Russia's food ban in retaliation against western sanctions, the experts have concluded that the ban had limited effect on the countries that joined the western sanctions. In 2015, food supplies to Russia from these countries dropped substantially by 66% from 2013. The share of these supplies of Russia's food imports contracted from 44% to 24%. At the same time, total food exports from these countries fell as little as 7% (in value terms) because merchant flows were largely redirected to other countries.

Furthermore, food products from the countries covered by Russia's food ban continue to be supplied to Russia via country members of the Eurasian Economic Union (EEU) that did not join Russia's countersanctions. This is evidenced by various statistics, including data of manifold increase (by 2–6 times) in supplies of such products from EU countries EC to EEU countries (except Russia) after the ban was imposed.

Both the decline in food imports and in traditional exports could be partly offset by boosting Russia's agricultural sector and by considerable growth of exports of agricultural produce. However, depopulation of working-age people in general and of rural labour force in particular is an obstacle to this. Additionally, certain possibilities that in this field could possibly be related to labour migration are likely to exhaust mainly because migration itself is shrinking.

As to long-term migrants, the number of arriving migrants is now growing at an extremely slow pace, whereas the number of departing migrants is growing at much faster pace (as a result, in 2015 the former outnumbered the latter by less than 250,000 persons). The number of temporary foreign workers in Russia reduced during the year. In absolute terms, in February 2016 the number reduced by 1.1 million persons over that seen in February 2015 due to both crisis developments in Russia's economy and to rouble's devaluation, and also due to difficulties in obtaining legal work permits for foreign workers. The experts have concluded in general that both the demographic and labour sources of migration are weakening, with the latter being related to migration within Russia, too, according to the experts. ●

## 1. FORECAST 2016–2017: RUSSIA'S ECONOMY TO ENTER A STABILIZATION ZONE

V.Averkiev, S.Drobyshevsky, M.Turuntseva, M.Khromov

*Developments that unfolded in Q1 2016, particularly the decline of crude oil prices down to a 12-year low, may result in worse-than-expected outcomes at 2016 year-end. Unlike the forecast that we made in January, we have revised down our 2016 baseline scenario for GDP growth rates from -1.4% to -2.0%. In recent two weeks the IMF and the World Bank have downgraded their forecasts for Russia's economy growth rates, too. At the same time, if oil prices in 2017 stay at \$40 a barrel, then output is expected to stabilize or even edge up. In other words, it is highly likely that Russia's economy will move out of a recession in 2016, and in 2017 Russia's output will enter a zone of positive growth rates. However, this is a stagnation rather than growth scenario due to uncertainty. Furthermore, the forecast dynamics of other key macroeconomic parameters in 2016 suggest that Russia's economy will stabilize and that the economic downturn, high inflation and high volatility of the Russian rouble will stop.*

The release of first assessments of the outcomes of Russia's economic development in 2015 and analysis thereof early in 2016 have revealed a picture that is largely negative. 2015 saw serious deterioration of nearly all the key macroeconomic indicators. In real terms, GDP dropped by 3.7%, investment by 8.4%, real disposable cash income by 3.9%, retail trade turnover by 9.7%. The annualized consumer price index stood at 12.9% in December 2015, and the 2015 average annual consumer prices were up by more than 15% from 2014. Accordingly, the average annual interest rate on rouble-denominated loans increased to 15.7% per annum in nominal terms, whereas in real terms it was as little as 0.5% per annum. The 2015 year-end monetary base remained unchanged, staying at Rb 11 trillion. The rouble money supply (M2) saw an annual increase of 11.5% to Rb 35.8 trillion.

The foreign trade in dollar terms saw a major decline over 2014: exports dropped by 30.9%, including a decline of 39.1% in oil and gas exports, and imports fell by 34.5%.

The rouble to US dollar nominal exchange rate in 2015 averaged 60.9 roubles per dollar, meaning that the rouble weakened by nearly 40% over the average annual value seen in 2014. On the other hand, the rouble's real effective exchange rate dropped in 2015 as little as 7.7% (Q4 2015 over Q4 2014) because the US dollar firmed up (at slower pace) against most of foreign currencies.

Like in January 2016,<sup>1</sup> we built two possible scenarios to look into prospects that Russia's economy may face in 2016–2017. The baseline scenario predicts the Urals crude annual average price to stay at \$35 a barrel in 2016 and at \$40 in 2017. With such oil prices, Russia's economy should not expect

<sup>1</sup> See Drobyshevsky S., Petrenko V., Turuntseva M., Khromov M. 2016-2017 forecast: Russia's recession continues // Online Monitoring of Russia's Economic Outlook. Socio-economic trends and challenges, 2016. No. 1(19), January.

better terms of foreign trade for the two ensuing years. The best-case scenario anticipates the Urals crude annual average price to rise to \$50 a barrel in 2016 and to edge up to \$55 a barrel in 2017. With such presuppositions, the baseline scenario anticipates the rouble to US dollar annual average exchange rate to stay at 68.1 roubles per dollar in 2016 and 63.3 roubles per dollar in 2017 while the best-case scenario suggests that the rouble will be traded at 65.8 roubles per dollar in 2016 and 59.7 roubles per dollar in 2017. The rouble's real effective exchange rate in 2016 is expected to increase 10.9% under the baseline scenario and 16.1% under the best-case scenario, and both scenarios suggest a minor decline in 2017 by 1% and 1.7% respectively.

In 2016 we expect real GDP to continue to fall under both scenarios: by 2% under the baseline scenario and by 0.1% under the best-case scenario. The fall is expected to stop in 2017, with GDP expected to grow by 0.8% under the best-case scenario and to remain unchanged under the baseline scenario. In nominal terms, Russia's economy is expected to continue to grow in 2016–2017 under both scenarios due to price growth driven by growth of the GDP deflator index.

The rest of the economic activity indicators are expected to behave in the same manner. The baseline scenario predicts in 2016 fixed investment in real terms to fall by 3.8%, retail trade turnover by 5.8%, real disposable income by 3.3%; in 2017 investment are forecast to fall further by 0.2% and trade turnover by 1%, with real disposable income expected to see a minor growth not higher than 0.1%. Households consumption is expected to grow at slower pace than the dynamics of households income due to expectations about further contraction in the consumer lending market and because households continue to follow a savings pattern.

The best-case scenario suggests that all the above-mentioned indicators will decline in 2016: investment is expected to fall by 1.8%, trade turnover by 4.8%, and income by 2.4%; however, a growth of 2.2% is anticipated in 2017; by 0.1% and 2% respectively. Inflation (on CPI inflation) in 2016 (in 2017) is expected to stay at 7.9% (6.7%) under the baseline scenario and at 6.8% (5.8%) under the best-case scenario. Hence, it is unlikely that Russia's central bank will reach the target inflation value (on CPI inflation) of 4% per annum by the end of 2017.

In 2016, the volume of foreign trade operations is expected to continue to shrink due to sinking average annual prices of crude oil, metals and other resource-based commodities of Russia's exports. The baseline scenario anticipates export and import volumes to stay at \$305.3bn and \$248.3bn respectively, with a minor growth in 2017 to \$324.6 and \$263.1bn respectively. The best-case scenario suggests the same dynamics of exports and imports: decline in 2016 to \$353.4bn and \$263.8bn respectively, and a minor growth in 2017 up to \$381.1bn and \$284.9bn respectively.

The forecast inflation dynamics predetermines high level of nominal interest rates in Russia's economy. The baseline scenario anticipates nominal interest rates on rouble-denominated loans to average 12.5% per annum (the real interest rate to average 4.2%) in 2016 and 10.9% (the real interest rate 4%) in 2017. The best-case scenario forecasts the nominal interest rate on loans to non-financial institutions to stay at 12% in 2016 and at 10.5% in 2017 (the real interest rate at 4.3% and 4.7% respectively). The level of real interest rates on loans is expected to continue to be high due to credit risks in real economy and a lack of serious enhancements in the quality of banks' credit

portfolios. At the same time, the Bank of Russia key rate will be cut as early as Q2 2016, and it is expected to stay at 8.0–8.5% under the baseline scenario and at 7.0–8.0% under the best-case scenario, and it is expected to reach 5.5–6.5% in 2017 under both scenarios.

Such dynamics of the Bank of Russia key rate suggests a strict monetary policy and moderate growth of money aggregates. The baseline scenario expects the money supply (M2) to grow by 9.6% and the monetary base by 10.9% in 2016; the best-case scenario predicts growth of 11.5% and 11.8% respectively. In 2017, M2 is expected to continue to grow by 14.2% under the baseline scenario and by 15.1% under the best-case scenario), while the monetary base is anticipated to increase 8.2% under the baseline scenario and 11.4% under the best-case scenario. Like in 2015, the Reserve Fund will remain the key source of money supply in 2016. In 2017 we anticipate the Bank of Russia to increase refinancing of the banking sector due to switching to using domestic loans to finance the federal budget.

Baseline forecast (Urals: 2015=51, 2016=35, 2017=40)	2015				2016				2017	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	year	
	actual	actual	actual	actual	forecast	forecast	forecast	forecast	forecast	
<b>Urals crude</b>	52.0	61.4	49.3	41.8	51.1	32.0	35.0	38.0	35.0	40.0
<b>GDP</b>										
roubles in billions	18.210	19.284	21.294	22.016	80.804	18.643	20.405	23.804	84.506	91.243
physical volume index as a percentage change over the previous year	97.2	95.5	96.3	96.2	96.3	97.6	99.2	98.7	98.0	100.0
Deflator	109.3	107.0	108.4	106.4	107.7	105.6	107.7	109.6	106.7	107.9
<b>Fixed investment</b>										
physical volume index	95.2	91.2	87.0	93.6	91.6	94.9	95.9	96.5	96.2	99.8
<b>Retail sales turnover</b>										
as a percentage change over the previous year	93.6	90.8	90.4	86.5	90.3	94.0	94.2	95.4	94.2	99.0
<b>Real disposable cash income</b>										
as a percentage change over the previous year	98.1	95.6	95.1	95.7	96.1	93.1	98.4	97.6	96.7	100.1
<b>Exports</b>										
dollars in billions	101.3	104.2	91.6	92.1	389.2	68.8	77.2	82.3	305.3	324.6
<i>Including</i>										
Exports of goods	89.6	91.1	78.4	80.4	339.6	59.3	66.9	72.3	264.9	286.4
<i>Exports of oil and gas</i>	54.2	54.9	45.8	43.1	198.0	31.5	31.2	33.1	125.7	135.6
<i>Other exports</i>	35.4	36.2	32.6	37.3	141.5	27.9	35.7	39.3	139.4	150.8
Exports of services	11.7	13.1	13.2	11.7	49.7	9.5	10.3	10.0	40.4	38.2
<b>Imports</b>										



Baseline forecast (Urals: 2015=51, 2016=35, 2017=40)	2015				2016				2017	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	year	
	actual	actual	actual	actual	forecast	forecast	forecast	forecast	forecast	
<b>Urals crude</b>										
dollars in billions	52.0	61.4	49.3	41.8	51.1	32.0	35.0	38.0	35.0	40.0
<i>Including</i>	65.0	70.6	75.4	69.8	280.9	52.1	61.8	68.2	248.3	263.1
Imports of goods	45.0	48.0	50.1	51.0	194.1	37.8	42.9	50.0	176.2	191.7
Imports of services	20.1	22.6	25.3	18.8	86.8	14.3	18.9	18.2	72.1	71.4
<b>CPI</b>										
as a percentage change over the previous period	107.4	101.0	101.7	102.3	112.9	102.1	101.7	102.2	107.9	106.7
<b>Period-average rate on rouble-denominated loans, % per annum</b>										
real interest rate	1.5	0.8	-1.2	0.7	0.5	5.1	4.0	4.0	4.2	4.0
nominal interest rate	18.6	16.2	14.3	13.7	15.7	12.9	12.5	12.3	12.5	10.9
<b>Dollar-Rouble exchange rate</b>										
average nominal for the period	62.2	52.6	62.8	65.9	60.9	74.9	69.5	62.0	68.1	63.3
<b>Rouble's real effective exchange rate</b>										
At period-end, as a percentage change over the previous period- end	-10.8	20.3	-13.7	-0.3	-7.7	-10.0	8.3	7.6	10.9	-1.0
<b>Monetary base</b>										
roubles in trillions	9.7	9.7	9.8	11.0	11.0	10.3	10.7	12.2	12.2	13.2
<b>Money aggregate M2</b>										
At period end, roubles in trillions	31.6	32.5	33.0	35.8	35.8	35.3	36.4	39.2	39.2	44.8
growth, as a percentage change over the previous period	-1.5	2.7	1.4	8.7	11.5	-1.5	3.3	6.1	9.6	14.2

Best-case forecast (Urals: 2015=51, 2016=50, 2017=55)	2015				2016				2017	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	year	
	<i>actual</i>	<i>actual</i>	<i>actual</i>	<i>actual</i>	<i>forecast</i>	<i>forecast</i>	<i>forecast</i>	<i>forecast</i>	<i>forecast</i>	
<b>Urals</b>	52.0	61.4	49.3	41.8	32.0	55.0	55.9	57.1	50.0	55.0
<b>GDP</b>										
roubles in billions	18,210	19,284	21,294	22,016	18,340	21,008	22,406	24,666	86,419	93,953
physical volume index as a percentage change over the previous year	97.2	95.5	96.3	96.2	97.9	102.5	98.7	100.4	99.9	100.8
Deflator	109.3	107.0	108.4	106.4	103.5	107.3	107.6	111.8	107.0	107.9
<b>Fixed investment</b>										
physical volume index	95.2	91.2	87.0	93.6	94.9	97.0	99.2	99.7	98.2	102.2
<b>Retail sales turnover</b>										
as a percentage change over the previous year	93.6	90.8	90.4	86.5	94.0	95.4	94.3	96.9	95.2	100.1
<b>Real disposable cash income</b>										
as a percentage change over the previous year	98.1	95.6	95.1	95.7	93.1	99.0	99.0	99.2	97.6	102.0
<b>Exports</b>										
dollars in billions	101.3	104.2	91.6	92.1	68.8	89.4	94.3	100.9	353.4	381.1
<i>Including</i>										
Exports of goods	89.6	91.1	78.4	80.4	59.3	78.3	82.4	89.5	309.5	337.2
<i>Exports of oil and gas</i>	54.2	54.9	45.8	43.1	31.5	42.6	46.0	50.2	170.3	186.6
<i>Other exports</i>	35.4	36.2	32.6	37.3	27.9	35.7	36.4	39.2	139.2	150.6
Exports of services	11.7	13.1	13.2	11.7	9.5	11.0	11.9	11.5	43.9	43.9
<b>Imports</b>										
dollars in billions	65.0	70.6	75.4	69.8	52.1	66.4	71.3	74.0	263.8	284.9

Best-case forecast (Urals: 2015=51, 2016=50, 2017=55)	2015				2016				2017	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	year	
	actual	actual	actual	actual	forecast	forecast	forecast	forecast	forecast	
<b>Urals</b>	52.0	61.4	49.3	41.8	51.1	32.0	55.0	57.1	50.0	55.0
<i>Including</i>										
Imports of goods	45.0	48.0	50.1	51.0	194.1	37.8	46.7	54.9	189.2	208.9
Imports of services	20.1	22.6	25.3	18.8	86.8	14.3	19.6	19.1	74.5	75.9
<b>CPI</b>										
as a percentage change over the previous period	107.4	101.0	101.7	102.3	112.9	102.1	101.3	102.1	106.8	105.8
<b>Period-average rate on rouble-denominated loans, % per annum</b>										
real interest rate	1.5	0.8	-1.2	0.7	0.5	5.1	4.1	4.2	4.3	4.7
nominal interest rate	18.6	16.2	14.3	13.7	15.7	12.9	12.2	11.4	12.0	10.5
<b>Dollar-Rouble exchange rate</b>										
average nominal for the period	62.2	52.6	62.8	65.9	60.9	74.9	69.5	58.3	65.8	59.7
<b>Rouble's real effective exchange rate</b>										
At period-end, as a percentage change over the previous period-end	-10.8	20.3	-13.7	-0.3	-7.7	-10.0	7.9	4.7	16.1	-1.7
<b>Monetary base</b>										
roubles in trillions	9.7	9.7	9.8	11.0	11.0	10.3	10.7	12.3	12.3	13.7
<b>Money aggregate M2</b>										
At period end, roubles in trillions.	31.6	32.5	33.0	35.8	35.8	35.3	37.1	39.9	39.9	46.0
growth, as a percentage change over the previous period	-1.5	2.7	1.4	8.7	11.5	-1.5	5.2	6.3	11.5	15.1

## 2. FOREIGN CURRENCY AND RUSSIAN RUBLE: WHAT DOES THE BALANCE OF PAYMENTS TELL US?

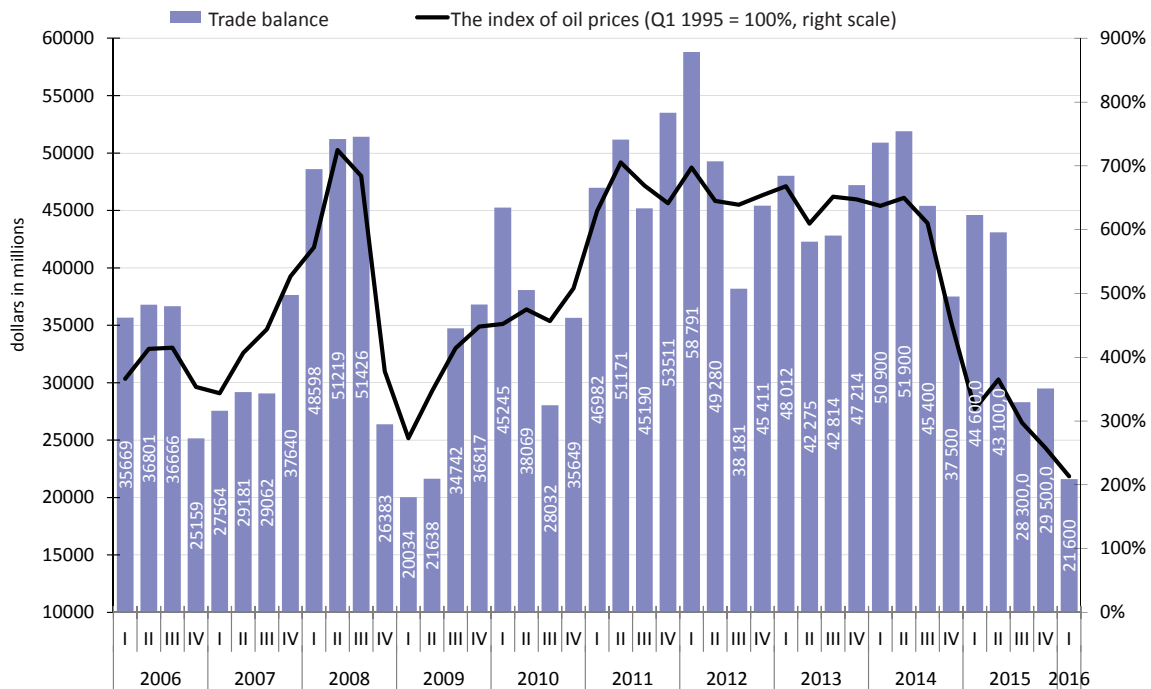
A.Bozhechkova, P.Trunin

The BOP (Balance of Payments) statistics for Q1 2016 show considerable shrinkage of the current account surplus due to a decline in exports while imports saw their decline rate slow down. At the same time, the private sector saw capital outflow decrease strongly. As a result, even though the trade balance dropped, the rouble did not depreciate. Moreover, the rouble exchange rate rebounded to levels seen in the fall of 2015 as crude prices went up.

According to the Bank of Russia's preliminary assessment of the BOP in January–March 2016, the current account balance stood positive at \$11.7bn, declining by 61% (by \$18.3bn) from Q1 2015. This considerable shrinkage resulted from a decline in the trade balance because exports declined at faster pace than imports of goods and services.

In Q1 2016, exports of goods were down by 34.3% from Q1 2015 (from \$90.2bn to \$59.3bn), including exports of crude oil (by 38.3% to \$14.0bn), natural gas (by 30.7% to \$7.9bn), due to falling global prices of energy-carrying resources. However, imports of goods at the same period dropped by only 15.4% (from \$44.7bn to \$37.8bn) due to a weakening rouble and aggregate demand. As a result, positive trade balance was down 52.5% (from \$45.5bn to \$21.6bn) (Fig. 1).

The dynamics of the rest of the current account items prevented positive balance from declining. For example, the service balance deficit in Q1 2016



Sources: Bank of Russia, Gaidar Institute's own calculation.

Fig. 1. Russia's trade balance and global oil price index in 2006–2015

stood at \$4.7bn, declining (in absolute value) by 43.4% from Q1 2015. Imports of services dropped by 28.5% to \$14.3bn mainly because the Russians cut their international travel costs, and exports of services fell by 18.8% to \$9.5bn.

The compensation of employees balance dropped by 46.7% to -\$0.8bn (-\$1.5bn in Q1 2015). The investment income balance deficit was down 29.2% from the same period of 2015 (from -\$4.8bn to -\$3.4bn) due to decline in costs of servicing external debts that were reduced. Investment income receivable dropped by 23.9% (from \$8.8bn to \$6.7bn) due to shrinkage of foreign assets held by the private sector, that were used to meet external obligations. The income payable by non-financial enterprises declined by 28.2% (\$7.9bn). However, the situation in the banking sector was characterized by an increase in income receivable from \$1.1bn in Q1 2015 to \$2.5bn in Q1 2016.

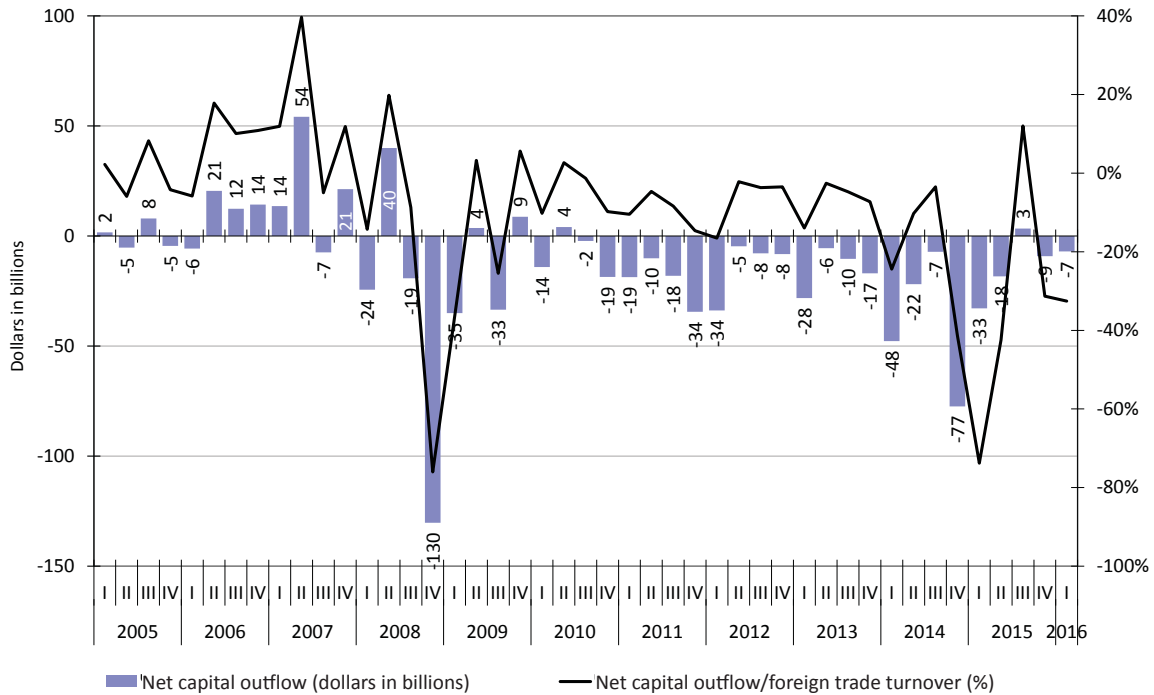
The decline of BOP current account surplus was attended by a comparable shrinkage of financial account deficit that stood at \$7.5bn in Q1 2016 (versus \$37.5bn in Q1 2015 and \$13.0bn in Q4 2015). In M3 2016 Russian economic agents' obligations owed to foreign economic agents dropped by \$11.8bn, whereas in Q1 2015 foreign obligations decreased by \$38.7bn. In particular, in Q1 2016 banks reduced their external obligations by \$8.0bn (by \$24.5bn in Q1 2015) by making repayments on previously accumulated debts. The non-bank sector reduced their external obligations by \$1.3bn (by \$7.3bn in Q1 2015). While in Q1 2015 foreign direct investment to the non-bank sector amounted to \$2.8bn, in Q1 2016 they were down to \$0.9bn. Indebtedness under the item 'credits and loans' rose by \$0.1bn, whereas it shrank by \$7.0bn in Q1 2015.

Note that in 2016 economic agents are due to pay \$80bn (\$120bn in 2015). Next peak repayments that are due in June and in Q4 2016 will temporally push down the rouble exchange rate.

The BOP statistics show that economic agents used foreign assets to meet their obligations. Foreign assets held by residents (foreign economic agents' obligations owed to Russian economic agents) dropped by \$4.3bn in January–March 2016 (a decline of \$1.2bn in Q1 2015). Foreign assets held by the banking sector contracted by \$7.8bn (a growth of \$10.3bn in Q1 2015). Foreign assets held by the banking sector shrank partly due to banks' payments due on foreign currency loans received from the Bank of Russia. In the period between January and March 2016, foreign currency liquidity received by credit institutions from the Bank of Russia dropped by Rb 5.6bn. Capital exports from other sectors decreased by 57.8% to \$3.8bn, of which direct and portfolio investment abroad amounted to \$3.7bn and \$0.2bn, respectively (\$4.8bn and \$1.1bn respectively in Q1 2015). Overall, net capital exports in the private sector stood at \$7bn, that is, more than 4.5 times below the value seen in Q1 2015 (*Fig. 2*).

The BOP statistics show that in Q1 2016 international reserves assets increased \$2.6bn because the banking sector redeemed their outstanding foreign currency loans received from the regulator.

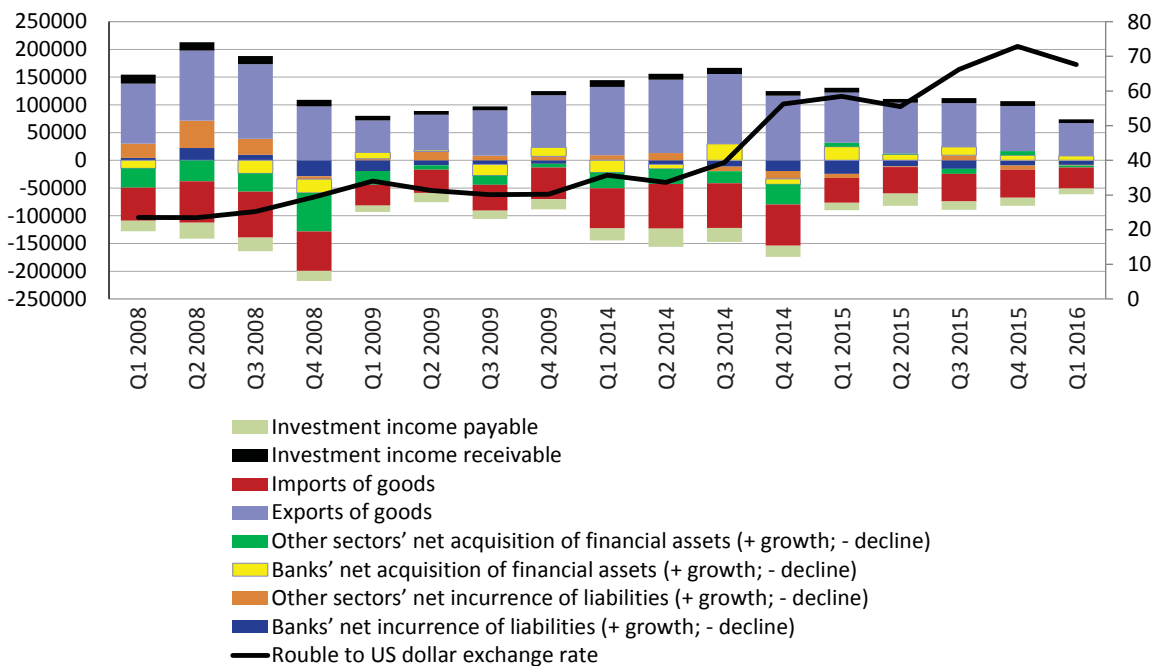
Thus, the positive trade balance contributed much less to foreign currency inflow to Russia in Q1 2016 than in Q1 2015 because exports of goods declined at faster rate than imports. Investment income receivable as well as exports of services continued to be primary source of demand for foreign currency. However, the upward effect of foreign currency inflow via these chan-



Sources: Bank of Russia, Gaidar Institute's own calculation.

Figure 2. Net capital outflow in private sector, 2005–2016

nels on the rouble exchange rate was offset by foreign currency outflow that was necessitated by external debt interest payments, as well as by payments for imports of services. In Q1 2016 banks and other sectors showed demand for foreign currency, reducing their external obligations. However, this had no serious effect on the foreign exchange market because banks reduced their foreign liabilities mostly using their foreign asset holdings (Fig. 3).



Source: Russia's Central Bank.

Fig. 3. Key sources of foreign currency supply and demand

In Q1 2016, the US dollar to rouble nominal exchange rate decreased by 7.2%, from 72.88 to 67.61 roubles per US dollar. As a reminder, in the second half of January 2016 the rouble was traded at 80 roubles per US dollar in the foreign exchange market. Due to stabilized inflation and a slump in the rouble nominal exchange rate in January 2016, despite a correction in February–March 2016, the rouble real effective exchange rate in Q1 2016 depreciated by 4.8% from December 2015, reaching levels seen in January 2005. In February–March 2016 the rouble was driven up by a 13.7% spike of crude prices, to \$38.64 a barrel, in response to a decline in the US oil production, as well as over news that Russia and OPEC countries may agree on cutting oil production.

The financial account dynamics contributed to the rouble appreciation in Q1 2016. The rouble is supported by a major slowdown of capital outflow in the private sector due to stabilized geopolitical context, the Bank of Russia's moderately strict monetary policy that makes rouble assets attractive, as well as slower rates of repayment of obligations owed by banks and other sectors. Our estimates show that the current rouble real effective exchange rate is fundamentally substantiated. The Russian rouble may firm up further if prices of energy-carrying resources go up and sanctions against Russia are lifted. To counter rouble's appreciation, Russia's Central Bank may start buying foreign currency to increase its international reserves. ●

### 3. FOREIGN TRADE: TRADE BALANCE DOWN DUE TO DECLINE IN EXPORT

A.Knobel, A.Firanchuk

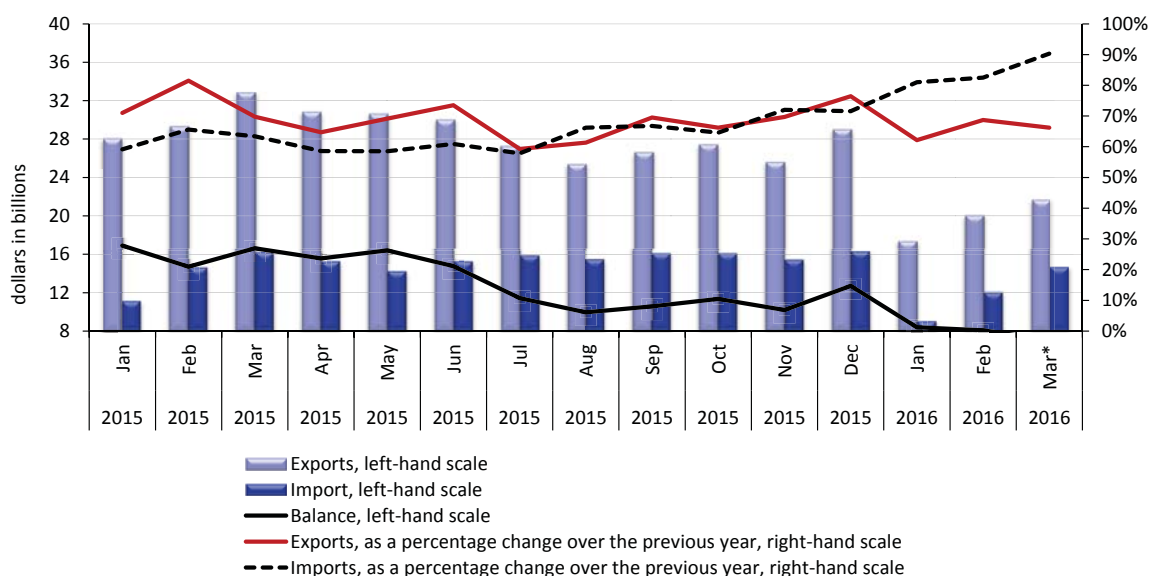
Russia's foreign trade turnover continued to fall in Q1 2016. Unlike 2015, exports fell at faster pace than imports. At the same time, the rouble exchange rate moved synchronously with imports for two straight years. The structure of exports saw a few (non-fuel) commodities change in terms of Russia's share of global markets. For example, the share of Russia's metals of EU imports shrank as the share of fertilizers hiked.

#### Exports fell at faster pace

In Q1 2016, exports and imports continued to fall (compared with Q1 2015), although trade volumes were small early in 2015 (Fig. 1). In value terms, in M3 2016 exports dropped to \$59.3bn (by 65.7% from 2015), imports fell to \$35.8bn (85.1%), merchandise trade balance dropped by half to \$23.5bn (48.8%)<sup>1</sup>. In January 2016, export volumes declined in value due to a fall of global crude prices, but in March export volumes stabilized following a recovery of crude prices. However, crude prices in Q1 2016 were far below the prices seen in Q1 2015, and therefore exports dropped below volumes seen in 2015 (Fig. 1).

#### Exchange rates and dynamics of trade turnover

Note that the US dollar strengthened against other currencies in January–February 2016 (compared with January–February 2015). For example, the



\* calculated using the data released by Russia's Central Bank.

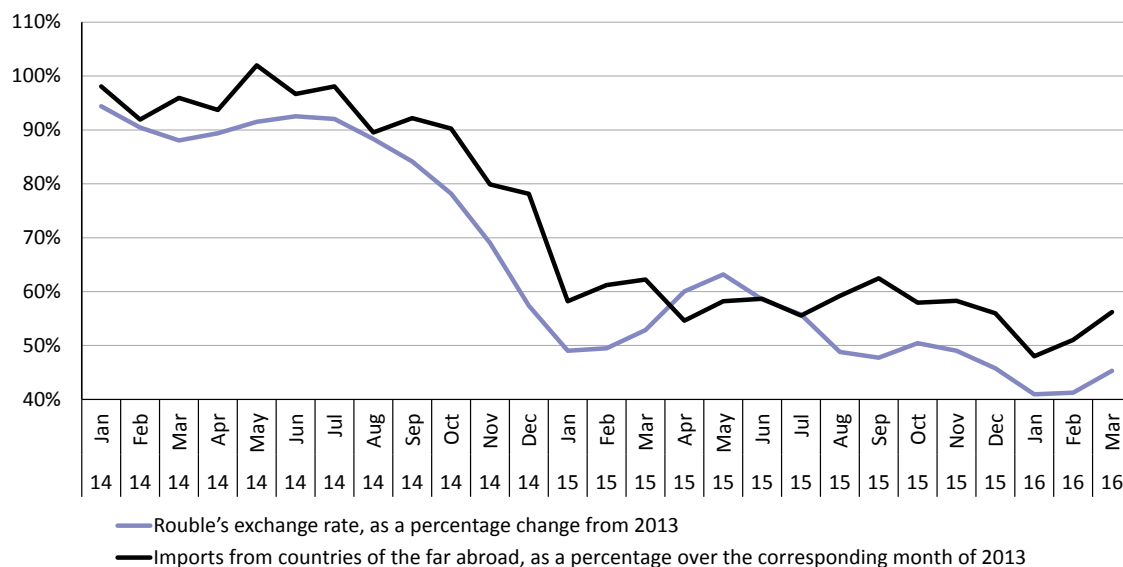
Source: own calculations using the data released by Russia's Federal Customs Service (FCS).

Fig. 1. Dynamics of Russia's foreign trade in 2015–2016

1 Preliminary data from Russia's Federal Customs Service (FCS) and Central Bank.



### 3. FOREIGN TRADE: TRADE BALANCE DOWN DUE TO DECLINE IN EXPORT



Source: own calculations using the data released by Russia's Federal Customs Service (FCS) and Central Bank<sup>1</sup>.

Fig. 2. Dynamics of Russia's imports and rouble's exchange rate in 2014–2016

fact that the rouble gained 4.5% over the euro explains only partially why Russia's trade volumes expressed in dollars contracted in early 2016.

In addition, the rouble exchange rate moved synchronously with volumes of imports from countries of the far abroad for more than two straight years (Fig. 2<sup>2</sup>). For instance, the 47% slump of the rouble to US dollar exchange rate in July 2014/January 2015 triggered a sharp fall of imports from countries of the far abroad (41% of volumes seen in the same period of 2013). Imports stabilized as the rouble exchange rate rebounded in February–May 2015 (compared to the same period of 2013). Unlike early in 2015, the depreciation of the rouble since Q4 2015 gave rise to a new fall of imports.

In January–February 2016, the annualized rouble to US dollar exchange rate stood at about 83%, and imports from countries of the far abroad were 82.9% from 2015. Additionally, in February–March 2016 the rouble's exchange rate rose with imports from countries of the far abroad. Thus, the rouble exchange rate still has a strong effect on the dynamics of imports.

#### Russia's share of global commodities markets

In 2015, exports of 'Metals and precious stones and articles thereof (FEACN 71–83)', the second after 'Mineral products (FEACN 25-27)', dropped to 78.5% from 2014 (although their share of total exports increased from 10.5% to 11.9%). Additionally, highly variable global demand for, e.g., metals, poses a question of how the Russia's share of global exports has changed. Since no complete statistics on global trade are available, let's compare the dynamics of monetary values of exports of metals from Russia in 2015 with the dynamics of EU imports of metals. In 2015, monetary (in dollar terms) values of EU exports of metals from all countries (except EU member coun-

<sup>1</sup> Average currency exchange rate in dollar terms in January–February 2016 compared to January–February 2015. Source: IMF, <https://www.imf.org/external/np/fin/ert/GUI/Pages/CountryDataBase.aspx>

<sup>2</sup> The rouble to US dollar exchange rate quoted by Russia's Central Bank: [http://www.cbr.ru/currency\\_base/dynamics.aspx](http://www.cbr.ru/currency_base/dynamics.aspx)

tries) dropped by an average of 11.7% while Russia's exports of metals to all countries fell by 18.8% (*Table 1*). This suggests that total exports of metals from Russia sank deeper than global trade in metals<sup>1</sup>.

The reverse trend was observed as to, e.g., fertilizers: EU total imports of fertilizers dropped, whereas Russia's total exports of fertilizers edged up (in dollar terms).

*Table 1*

DYNAMICS OF RUSSIA'S EXPORTS AND EU IMPORTS OF CERTAIN GOODS, %

Family of goods – FEACN code	Changes in monetary volumes of Russia's total exports in 2015	Changes in monetary volumes of EU total imports in 2015	Russia's share of EU imports		
			2013	2014	2015
Ferrous metals – 72	-25.8	-14.9	17.1	15.7	15.9
Articles made of ferrous metals – 73	-26.4	-8.9	1.1	1.2	0.9
Copper and articles thereof – 74	-8.9	-13.2	10.5	11.6	17.1
Nickel and articles thereof – 75	-33.8	-17.4	20.5	20.4	17.3
Aluminium and articles thereof – 76	9.9	-7.4	7.3	11.7	11.1
Metals – 72–76	-18.8	-11.7	10.4	10.9	11.1
Nitrogenous fertilizers –3102	-17.6	-8.5	24.5	28.4	28.4
Potassic fertilizers –3104	9.5	-15.0	26.4	40.6	46.7
Mixed fertilizers – 3105	6.0	-4.3	43.1	32.6	36.2
Fertilizers	1.5	-7.9	32.5	32.0	34.2

*Sources:* own calculations using the data released by Russia's Federal Customs Service (FCS) and Eurostat<sup>2</sup>.

<sup>1</sup> This conclusion was made using incomplete data on global imports of metals and is preliminary.

<sup>2</sup> <http://ec.europa.eu/eurostat/web/international-trade/data/database>

## 4. THE WAY FLOWS OF FOOD PRODUCTS CHANGED IN THE WAKE OF EMBARGO

**N.Shagaida, V.Uzun, E.Shishkina**

*In 2015, export supplies of foodstuffs to Russia from the countries subject to embargo decreased by 66% compared to 2013. However, the negative effect on the economy of these countries was limited. Total export of foodstuffs in monetary terms fell barely by 7% and it was redirected to other countries. In the overall export pattern, the share of foodstuffs has even increased.*

In August 2014, Russia in response to economic sanctions imposed on certain Russian legal entities and individuals<sup>1</sup> introduced a ban on a wide range of agricultural products and foodstuffs from EU countries, Norway, USA, Canada, and Australia. The ban was introduced for a year and then extended for another one. At the same time, Russia was a member of EEU and its partners refused to take similar decision.

It was assumed that having lost the Russian market, countries which agricultural products were banned would not be able to find other markets and would suffer losses. Furthermore, the share of Russia in exports of these countries prior to countersanctions (in 2013) constituted on food products 4.8% and on largest groups reached to 9% (milk – 9.1%, meat – 7.3%, vegetables – 6.9%, fruits – 8.3%). Meanwhile, in Russia's food imports the share of these countries constituted 44% (at year-end 2015 decreased to 24%).

In 2015 against 2013, according to Customs Service of Russia, food export to Russia in monetary terms by countries under embargo went down by 66%. However, firstly, total reduction of food export in those countries amounted to barely 7%. Secondly, Export contraction in monetary terms does not signify reduction of export volumes, it is linked with price decline. Thirdly, prices could fall nor so much due to the fact that the market received additional volumes of products, which previously were meant for Russia as owing to decline of costs on energy, credit rates, in other words due to decrease of prime cost of food products production.

Reduction of costs could result in decreased export revenues received by countries under embargo but the profit of farmers could remain the same. The fact that decrease of revenues first of all is linked with price reduction on food products indicates contraction of proceeds from the markets outside Russia where the loss came to \$ 14.2bn against \$12.4bn losses sustained in Russia.

Additionally, export volume growth indicates redirection of flows to other markets (instead of Russia). The produce remained in demand in other countries. For example, the share of food products in exports of countries after introduction of embargo, even amid price reduction, did not decrease and even went up from 8 to 9% (Table 1).

<sup>1</sup> Decree "On Application of Certain Special Economic Measures in Order to Ensure Security of the Russian Federation" № 560 of 6 August 2014. kremlin.ru

Table 1

## FOOD EXPORTS BY COUNTRIES UNDER EMBARGO, BN USD

Product groups by OKVED	Total			To Russia			To other countries		
	2013	2014	2015	2013	2014	2015	2013	2014	2015
00 – Total*	4768.0	4817.2	4195.6	155.1	140.2	90.0	4612.9	4677.1	4105.5
Total 1–24	394.6	411.3	368.1	18.9	14.4	6.5	375.8	396.9	361.5
Other	4373.4	4405.9	3827.5	136.2	125.7	83.5	4237.2	4280.2	3744.0
Share of foodstuffs	8	9	9	12	10	7	8	8	9

\* across all export products, 1–24 – food products.  
Source: UN Comtrade Database.

The EU example (*Annex 1*) demonstrates that export volumes registered in 2015 against 2013 did not fell (9 product groups out of 24 by “OKVED” Russian National Classifier of Economic Activities) but in the majority of cases went up (14 groups out of 24). Meanwhile, losses of the EU exports in monetary terms by various reasons amounted to not more than 10% in current prices. If the prices remained at 2013 level then the EU exporters of food products would have increased their revenues in 2015 as a whole by around 16% even on condition of continued embargo imposed by Russia (*Table 2*).

Table 2

 REVALUATION OF TOTAL FOOD EXPORTS FROM EU DURING 2015  
 IN 2013 PRICES, 2015/2013, % (ACROSS PRODUCT GROUPS  
 TAKING 5% AND MORE IN EXPORT PATTERN)

Product group by OKVED	Total	Including in Russia	Reference: food exports pattern to Russia in 2013
Total 1–24	115.8	38.4	100.0
01 – live animals	139.5	99.6	2.1
02 – meat and edible meat offal	106.4	0.7	15.5
03 – fish and shell fish, scale and other water invertebrates	103.3	23.8	8.2
04 – dairy products; eggs; natural honey; foods of animal origin	122.4	12.1	10.4
07 – vegetables and certain edible roots and tuber crops	112.9	7.5	5.0
08 – edible fruits and nuts; citrus peel and melon rind	101.6	6.4	9.3
21 – various food products	101.1	50.2	6.5
22 – alcoholic and soft drinks and vinegar	106.6	51.6	12.6

Source: Eurostat, own calculations.

It is impossible to completely block food supplies originating from the countries under embargo. EEU facilitates the flow of food products to Russia. Refusal of other EEU member states to take similar decision regarding food products embargo. Moreover, the main reason for supply of imported food products via devious paths remains even in the wake of ruble devaluation and growth of domestic prices on imported food products. Export–import operations are very profitable for business.

Foods products from the countries under embargo none the less come through the EEU market to Russia. How it happens can be seen from an example of several types of vegetables and fruits. Among the EEU countries,

Russia is the largest consumer of these products. However, following imposition of food embargo, the volume of vegetables and fruits supplies to EEU market from EU did not decrease but even went up (*Table 3*).

Table 3

EXPORT OF CERTAIN TYPES OF VEGETABLES AND FRUITS FROM EU  
TO EEU MINUS RUSSIA, THOUSAND TONS

	Code TN VED	2013	2014	2015	Growth in 2015 against 2013, times
1. Tomatoes	5702	53.3	72.6	106.4	2.0
2. Cabbage	0704	14.5	53.5	80.8	5.6
3. Citrus	0805	61.2	75.4	100.6	1.6
4. Apples, Pears, and quince	0808	244.8	537.3	916.2	3.7
5. Apricots, cherry, sweet cherry	0809	36.0	88.9	197.1	5.5

Source: Eurostat.

It is conceivable that increase of supplies growth to EEU could happen due to demand increase in those countries (including Russia). However, this additional demand could not have provoked supplies growth from EU by 2–6 times. For example, according to Belstat data, consumption of vegetables in 2015 in Belorussia moved up barely by 300 grams per person annual and consumption of fruits decreased by 4.5 kg per person. In 2013, Poland exported to Russia around 700,000 tons of apples. In 2015, approximately the same amount came from Belorussia (according to Belstat report and by 140,000 tons less according to RF Customs Service report) (*Table 5*).

There was an increase of consumption of vegetables and fruits by 3 kg per person in Kazakhstan. Theoretically, it boosted demand for imported products bearing in mind natural increase of the population (*Table 4*). However, additional demand for vegetables and fruits in EEU member-states is significantly lower than the supplies increase of solely two types of vegetables from EU to EEU. Moreover, the vegetables crop growth in Kazakhstan during this period constituted 95,000 tons, i.e. demand growth was satisfied by domestic production. Thus, additional volume of vegetables and fruits arriving from EU to EEU could be consumed solely in Russia.

Table 4

SHIFTS IN CONSUMPTION OF VEGETABLES AND FRUITS IN KAZAKHSTAN  
AND BELORUSSIA

	Consumption person/year, kg				Population, thousand persons		Shifts in consumption total, thousand ton	
	vegetables		fruits		2014	2015	vege- tables	fruits
	2014	2015	2014	2015				
Belorussia	86.4	86.7	71.4	66.9	9468.2	9480.9	3.9	-41.8
Kazakhstan	86.6	89.4	60.8	63.9	17160.1	17417.7	71.1	69.7
Total							75.0	27.9

Sources: Belstat, Komstat of Republic of Kazakhstan.

Articles surveillance system demonstrates complete inadequacy of information regarding export-import operations. For instance, according to Eurostat (*Table 5*), in 2015 EU exported to Belorussia 822,000 apples, pears and quince at \$229 per ton, which is half the average price in EU. In its report

Belstat has indicated solely 233,000 tons, which is one fourth of the amount. There are problems in statistics of EEU partner states: the difference in supplies in 2015 registered by Belorussia constituted 26% of the level registered by Russian customs bodies (*Table 5*).

*Table 5*

## IMPORTS AND EXPORTS OF APPLES, PEARS, AND QUINCE

	Source of information	Volume, thousand tons			Average price, ton/USD		
		2013	2014	2015	2013	2014	2015
EU export to Belorussia	Eurostat	188	453	822	536	409	229
Belorussia imports from EU	Belstat	202	352	233	508	567	584
Belorussia exports to Russia	Belstat	–	–	676	–	–	177
Russia imports from Belorussia	CS of RF	114	221	536	401	294	170

Sources: Eurostat, Belstat, CS of RF.

Choice of foodstuffs as the main weapon in the sanction war has turned out to be debatable. Countries under the sanctions have lost barely 7% of their exports' value and mainly due to the price decrease. Price fall on food products by various reasons and not solely owing to additional supply of products, which previously was destined for Russia has led to increased accessibility of food products both inside of these countries and in importers. It is doubtful that embargo could negatively affect the economy of those countries: flows of food products quickly reoriented from the Russian markets to markets of other countries. It was not a big deal owing to a relatively small share of Russia in their exports and availability of a wide export network in other countries. Part of food products all the same reaches the Russian market via EEU because embargo was imposed solely by Russia.

*Annex 1*

## EXPORTS FROM EU COUNTRIES IN MONETARY TERMS AND VOLUME IN 2015 AGAINST 2013

Products by OKVED	In monetary terms	In weight terms
00 – Total	0.9	1.0
Total 1–24	0.9	1.2
01 – live animals	1.1	1.4
02 – meat and edible meat offal	0.9	1.1
03 – fish and shell fish, scale and other water invertebrates	0.9	1.0
04 – dairy products; eggs; natural honey; foods of animal origin	0.9	1.2
05 – foods of animal origin not otherwise indexed by name	0.9	1.2
06 – live trees and other plants; bulbs, roots and other similar parts	0.9	1.0
07 – vegetables and some edible roots and tuber crops	0.8	1.1
08 – edible fruits and nuts; citrus peel and melon rind	0.8	1.0
09 – coffee, tea, mate, or Paraguay tea and pimento	1.0	1.0
10 – cereal	0.9	1.3
11 – products of flour and cereals industry; malt; starch; inulin	0.9	1.1
12 – oil seeds and olives; other seeds, fruits and grain; medicinal	0.9	1.0
13 – shellac; gum, resin and other vegetable juices	1.0	1.2

#### 4. THE WAY FLOWS OF FOOD PRODUCTS CHANGED IN THE WAKE OF EMBARGO

Products by OKVED	In monetary terms	In weight terms
14 – vegetative matter for basket-work production; other products	0.8	2.1
15 – fats and oils of animal and vegetable origin and products produced from these	0.9	1.0
16 – meat, fish and shellfish and scallops products	0.8	0.9
17 – sugar and sugar confectionary	0.9	1.1
18 – cacao and their products	1.0	1.0
19 – cereal grain, flour, starch and dairy products; farinose	1.0	1.1
20 – vegetable, fruit, nuts products	0.9	1.2
21 – various food products	0.9	1.0
22 – alcoholic and non-alcoholic beverages and vinegar	0.9	1.1
23 – food-industry waste and remains; ready-made feed for animals	1.0	1.2
24 – tobacco and industrial tobacco substitutes	0.8	1.0

Sources: Eurostat.



## 5. RESOURCES OF MIGRATION GROWTH HAVE RUN DRY

Yu.Florinskaya, N.Mkrtchan

*Net migration has been contracting. Resource for long-term migration including internal one has run dry. At the same time, the number of foreign nationals temporarily staying on the territory of Russia is falling. Although reasons for these processes differ - in the first instance, the question is partly about static effect and in the second - most likely about tightening migration legislation. On the whole, one may talk about the fact that migration stops contributing seriously to the demographic situation and to the labor market.*

### Long-term migration

The number of long-term migrants who arrived in Russia in 2015 constituted around 600,000 persons and the number of those who left Russia exceeded 350,000 persons. At the same time, compared to the last year, inflow has increased insignificantly (by 1.3%) and outflow – by 13.7%. These numbers one might understand as outflow growth from Russia, which is due to crisis and other negative factors, but this is not quite so. Major migration outflow is due to delayed effect of change in methodology of long-term migration count undertaken in 2011. Foreign nationals arriving to Russia and receiving registration for 9 and more months were considered as migration inflow, which originally produced an effect of inflow growth (in 2011–2012). By now, if and when registration term expires of foreign nationals who arrived during previous years posted outflow increase. Currently registration terminates of migrants who arrived prior to the crisis (in 2012–2014). Migration statistics registers this as an outflow from the country.

Positive migration balance of Russia's population in 2015 contracted in comparison with 2014 and constituted 246,000 persons. During previous years, it remained at such low level solely in 2002<sup>1</sup> (corrected to re-count of 2010 census results; without their count it was below this level during 2001-2006. At the same time, migration from the post-Soviet countries was explicitly understated<sup>2</sup>). Apparently, the potential of migration gain in Russia from the post-Soviet countries has run dry despite somewhat easing of Russia's policy towards migrants inflow: widening of the Program of support for voluntary migration of compatriots residing abroad, implementation of simplified procedures for obtaining Russian citizenship for native speakers of Russian, etc. Among far abroad countries, there are no feasible significant partners for long-term migration. Even Chinese nationals predominantly arrive to Russia as temporary labor migrants.

The role of Ukraine has sharply increased following the events of the beginning- mid-2014 in relation to migrant inflow from CIS member states. Owing to the fact that Ukrainian nationals stay in Russia without registration and intend to prolong their stay for indefinitely long period, the potential

1 Demography Yearbook of Russia – 2015. Statistical digest. Moscow, 2015. Table 1.2.

2 Russia's Population 2012. Twentieth Annual Demographic Report. Ed in Chief A.G. Vishnevsky. Moscow. HSE Publishers, 2014. pp. 343–345.



for growth ('on paper') of registered long-term migration from that country to Russia remains. As of the beginning of 2016, 311,000 Ukrainian nationals received temporary asylum in Russia.

In 2015, Ukraine ensured around 60% of net migration to Russia. Without the contribution of that country, the net migration to Russia would have been less than 100,000 persons, the lowest for the entire post-Soviet period.

The role of the Central Asian countries in migration gain has fallen significantly. With respect to Uzbekistan, there is a migration loss by over 20,000 persons in 2015. Main reason is above mentioned change in the migrants registration procedure (put off departures growth). However, actual decline in the number of arrivals from those countries has also affected the situation. The resource for long-term migration to Russia from those countries is not limitless, which we mentioned on several occasions before, moreover, when it amounted to compatriots' migration residing abroad. The majority of them have already moved to Russia during almost quarter of century life of our countries and part of them have adapted to life in their countries.

At consistently low level remains migration gain from far abroad countries – 8,200 persons in 2015 against 10,100 in 2014 and is mainly owing to Georgia, Abkhazia and the Baltic states (all those countries are recently referred as far abroad countries). There are no reliable figures regarding departure of Russian nationals for an indefinite period to EU countries, US, Israel and other. According to estimates released by those countries, the number of departures from Russia is at least underestimated by 2–3fold<sup>1</sup>.

In 2015, practically ran dry the volume growth of *internal long-term migration*. The number of internal migrants went up to 4,135,000 persons up 1.5% against 2014. It is of interest that it took a lot of time to adapt to the new methodology of migrants count (2011, we mentioned it above) and significant twofold growth of the number of migrants in 2011–2013 was most likely determined by this factor. Certain influence was exerted by easing of registration procedure at place of residence, in particular, submission of documents to multifunctional center (for example, in Moscow – single point of contact) and reduction of the number of unreasonable demands at receiving registration including norms of leaving space per person<sup>2</sup>.

Centers, which attract migrants, change very little. Undoubtedly, Moscow and the Moscow region retain leading positions. In 2015, they increased their population owing to migration by 200,000 persons (more than 1%). Moreover, over 80% of that growth was accounted to internal migration. Owing to migration significantly grows population of the Krasnodar Krai – 58,000 persons, St. Petersburg and the Leningrad region – 12,000 persons. There is a new center for attracting migrants – the Crimea federal okrug, whose net migration constituted 34,000 persons.

Regions of Far Easter, Siberian, Volga, and North-Caucasus federal okrugs continued losing population due to migration. In 2015, 'leaders' among migration outflow remained Republic of Dagestan (13,000 persons), Yamal-Nenets AO (12,000 persons), the Komi Republic, and Arkhangelsk region (8,000 persons each).

1 Denisenko M. If we take a look from the other shore. Migration XXI century, No. 1(4), January–February 2011, pp.36–39.

2 It is not the case of the so called "rubber apartments" but about the registration of actually living Russian nationals in living quarters.

Observed in 2015 trend of long-term migration do not allow to talk about a serious impact of the crisis on its scale and directions compared to temporary migration these flows are inactive.

### Temporary migration

The number of all foreign nationals temporarily residing on the territory of Russia has been constantly falling during nearly a year – since spring 2015, breaking customary seasonal character of this indicator (*Fig. 1*). At the same time, is the beginning of 2015 was characterized by maximum number of foreign nationals compared to recent years (10.9m as of the end of 2015, which is by 4% more than the same date 2014 and by 9% more against 2013), then by the end of the year the indicator fell to the minimum – 9.9m as of the end of December (by 11% less than in 2014, and by 9% less on 2013). The same trend, it seems, will continue in 2016. For example, for 2 first months the number of foreign nationals actually remained at the level of late 2015. In absolute terms, contraction for a year constituted 1.1m (end of February 2016 against February 2015), which looks significant but not catastrophic.

Natives of CIS countries still constitute the majority of foreign nationals in Russia. Their share in early March 2016 constituted 86% or 8.5m persons (*Table 1*).

*Table 1*

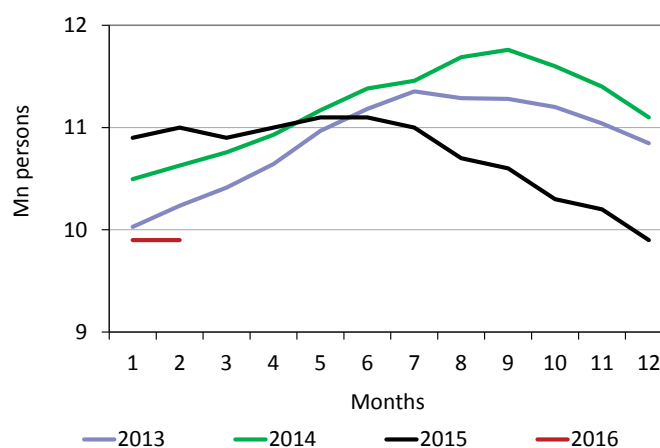
#### STAY OF FOREIGN NATIONAL FROM CIS COUNTRIES IN RUSSIA, PERSONS

	As of March 4, 2015	As of March 1, 2016
Azerbaijan	562 787	520 844
Armenia	484 892	469 481
Belorussia	529 953	650 809
Kazakhstan	626 594	624 512
Kirgizia	523 221	572 759
Moldova	557 592	488 616
Tajikistan	963 489	862 914
Uzbekistan	2 131 300	1 764 468
Ukraine	2 552 844	2 507 677
CIS, total	8 932 672	8 462 080

Sources: FMS of Russia, Central Bank of Data on Foreign Nationals Counts.

During the year, the number of CIS nationals in Russia declined by 5%, but the pattern changed differently for various countries. The number of nationals from EEU (Kazakhstan, Belorussia, Armenia, and Kirgizia) has been growing owing to simplified employment procedure (no authorization documents are required) and migration registration in RF<sup>1</sup>.

<sup>1</sup> Small reduction (by 3%) of Armenian nationals registered during recent months most likely indicates the fact that migration potential of this country has run dry. However, it does not refer to the number of arrivals for employment.



*Fig. 1. Number of foreign nationals on Russia's territory as of the end of month, million persons, 2013–2016*

At the same time, the number of foreign nationals from other CIS countries was contracting. It was most noticeable in relation to main contributing countries of labor migrants to Russia – Uzbekistan and Tajikistan (for a year, reduction amounted to 15%). Remaining high throughout 2016, the number of temporary arriving Ukrainian nationals at the beginning of 2016 began falling although not so fast. Taking into account introduced from November 2015, restrictions regarding stay of Ukrainian nationals in Russia, one can expect further contraction of their numbers (unless there is force majeure).

Significantly higher quantitative shifts happened regarding numbers of foreign national arriving from far-abroad countries, especially from advanced countries: the number of nationals from EU countries fell by 40% during the year (over 2 years – by 60%). The number of nationals from such countries as US, Great Britain and Spain fell by around 70% during the year and by over 80% in the course of 2 years (*Table 2*). The number of tourists fell most of all (although those arriving on business trips and study tours also reduced). According to data released by the FMS of Russia, the number of arrivals with tourist purposes EU nationals at the beginning of March was 2.5fold more than in March 2016.

*Table 2*

NUMBER OF FOREIGN NATIONALS FROM CERTAIN EU COUNTRIES AND US IN RUSSIA, PERSONS

	As of March 2, 2014	As of March 4, 2015	As of March 1, 2016
Germany	347 094	238 293	110 706
Spain	76 576	45 445	146 35
Italy	75 173	52 541	27 577
Great Britain	178 186	109 930	28 311
France	64 886	50 622	33 446
EU as a whole	1 177 366	811 696	483 683
USA	220 275	141 115	45 625

Sources: FMS of Russia, Central Bank of Data on Foreign Nationals Counts.

The number of foreign labor migrants (judging by indicated at the entry to Russia purpose of visit as ‘employment’) as of beginning of March 2016 amounted to 3.9m persons, which exceed the March 2015 indicator by 5% (approximately by 200,000). However, most likely, this does not reveal the real growth of the number of labor migrants. Simply, the majority of arrivals started to indicate work as the purpose of entry because with this is impossible to officially process authorization documents for employment. If we count migrants in working age entering Russia on private purposes but working unofficially, then the total estimate will be somewhat below the level of March 2015 (by 4–5%) and will not exceed 6–6.5m persons<sup>1</sup>.

Amid contraction of supply on the Russian labor market and decrease of real wages accompanied by radical changes in the migration legislation since the beginning of 2015, there remain difficulties for legalization of foreign workers. For example, the number of those who obtained authorization documents for work in Russia during 2 months of 2016 happened to be less by 60% than during the same period of 2014, although somewhat exceeded in-

<sup>1</sup> If we count all arrivals with private purposes excluding old age people and children as labor migrants. In reality, significant share stay in Russia on personal purposes.

dicators of early 2015 (*Table 3*). Overall, 1.7 foreign nationals had effective documents for work as of early March<sup>1</sup>.

*Table 3*

PROCESSING OF AUTHORIZATION DOCUMENTS FOR WORK FOR MIGRANTS  
IN RUSSIA, PERSONS

	January– February 2016	January– February 2015	January– February 2014
Work permits for foreign nationals*	8518	29 320	118 682
Work permits for qualified specialists *	985	1423	2897
Work permits for highly qualified specialists	2695	3490	4488
Work patents**	126 983	79 185	223 322
Total	139 181	113 418	349 389

\* Since 1 January 2015 issued solely to foreign national from visa-free regime countries.

\*\* Since 1 January 2015 issued to visa-free foreign nationals employed both by individuals and legal entities.

Sources: FMS of Russia, 1-RD form.

However, already amid contraction of official employment, regional budgets received significant revenues due to increased in 2015 monthly payment for work patents (personal income tax in terms of fixed advance payment): Rb 33.3bn for 2015 compared to Rb 17.9bn for 2014. ●

1 Among the number of legal foreign nationals who received official documents for work in Russia should also be around 300,000-400,000 foreign nationals who officially work without such documents and who are nationals of EEU member states; foreign nationals who have citizenship, having a permit for temporary residence in permits for temporary residence; refugees and those who received temporary asylum.

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