

ONLINE MONITORING OF RUSSIA'S ECONOMIC OUTLOOK

TRENDS AND CHALLENGES OF SOCIO-ECONOMIC DEVELOPMENT

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MAIN TRENDS AND CONCLUSIONS

The top economic news of the last few days mostly had a political flavor, which is indeed appropriate for the President of the Russian Federation's Economic Council Presidium's meetings. As can be gleaned from what has leaked from those meetings held behind closed doors, the most frequently discussed subject was the call for the RF President to ease the current geopolitical tension, otherwise Russia would not be able to take any part in technological progress. The President responded by saying that Russia cannot 'bargain with its sovereignty', and recalled its 'thousand-year history'.

Although it is indeed vital to bring down the degree of geopolitical tension, in this connection it would be worthwhile to recall also this country's very recent history. More particularly, the 2000s when, with the exception of a couple of years, geopolitical tension was at a much lower level.

Then, Russia had broad access to cheap money on world financial markets (and took full advantage of it), as well as to state-of-the-art technologies and hi-tech equipment (the opportunity that was overlooked more often). These were augmented by additional revenues generated by foreign trade. As a result, Russia's economy began to display many typical features of a petrostate. At the same time, under the conditions of low tension coupled with high revenues, it failed to transform into an economy oriented to higher efficiency. Low efficiency plus low tension was viewed as a happy match.

Of course, there were some major achievements. The consumer sector was developing at an exceptionally high rate (retail trade, retail lending, real estate, the automobile industry, etc.). Criticism of such a distortion of the development trajectory can hardly be justified, if we remember Russia's century-long under-consumption. What can indeed be criticized is that simultaneously, the economy was becoming increasingly dominated by monopolies, the market was losing its competitiveness, while domestic products remained non-competitive. The bulk of easily obtained resources was spent on mergers and takeovers, while the 'technology backwater' threat was increasing even in absence of any geopolitical threats.

The lesson of this recent history is not that we now need a major storm to clear the obstacles and (perhaps) improve the economic situation, since favorable external factors have failed to improve it. Rather, it has shown that successful economic development is much more strongly determined by internal factors. These, first of all, are those that are known as 'structural' factors – no matter how negative or ironic the attitude to this notion can be.

In fact, the only way to achieve the desired growth rate of GDP is to strengthen the role of structural components of development. This was the conclusion made by the Gaidar Institute experts on the basis of decomposition of Russia's GDP growth rates in 2016–2019, prepared with due regard for the RF Ministry of Economic Development's forecast. Their decomposition method relies on the factor analysis of economic growth (as applied in the OECD countries), adjusted in accordance with the Russian economy's high dependence on foreign trade. The purpose of this method is to isolate the various factors influencing GDP growth (structural, foreign-trade, situation-

al), so as to identify those of them that carry a potential for growth, as well as those that offer no such potential, or are even linked to negative growth.

An analysis of the forecast projections and scenario conditions offered by the RF Ministry of Economic Development has led our experts to the following assumption: the achievement of the desired growth rate of GDP in 2019 (4%) should rely neither on the external nor internal economic situation; instead, this target can be achieved by relying on structural shifts and an additional inflow into the economy of a 4.5m strong workforce plus additional investment in fixed assets to the value of Rb 40 trillion.

Structural shifts are now actually taking place in the oil extraction and oil-refining industries, and are being planned on an even higher scale. These have nothing to do with the functioning of the existing institutions; instead, they directly influence the operation of oil refineries, the structure of petroleum product output, and the tax system (and tax incentives) applied in the petroleum industry. The problem is that the 'tax maneuver' (that has already been described many times over) was partly suspended in 2015 in order to keep unchanged the amount of tax-generated revenues received by the budget. The IEP experts believe that, nevertheless, the completion of that tax maneuver would have yielded a positive effect. According to their calculations, an additional benefit would have been the suppression of growth of prices of petroleum products.

However, it should be noted that such a scenario implies that the RF Ministry of Finance must reduce the existing excises – something that is not very believable. Meanwhile, it would be much easier to believe that the fuel market can become oversaturated, the upshot being a halt in the growth of fuel prices, and some researchers have already pointed to such a possibility. The domestic consumption of petroleum has already begun to shrink, while its production by the newly modernized oil refineries will continue to increase. Exports of petroleum products may also suffer from a surge of competition that will result from the increased supply that will be created, among other things, by the launch of new big oil refineries in the Near and Middle East. So, this leads to the following question: can all these factors neutralize the effect of efforts aimed at boosting output in Russia's oil-refining industry and the modernization of oil refineries, as well as the positive effect of the tax maneuver itself. The market has entered a period of structural changes that are occurring at such a rapid pace that any maneuvering has become much more difficult.

Other industries are also faced with difficulties in setting even their short-term goals. Judging by the results of surveys conducted by the Gaidar Institute in March–May 2016, the satisfaction of Russian industrial enterprises with the demand for their products is on the rise. However, according to the same surveys, there is no confidence that this positive trend may persist. A similar picture can be observed with regard to output. In May 2016, the output movement estimations hit their record high since October 2014. Still, the production plans, which in January–February 2016 had been very pessimistic, and then in spring had begun to be more positive, once again lost their optimistic outlook. The investment intentions demonstrated a somewhat similar dynamics.

At the same time, the number of enterprises that cite the shortage of their own financial resources as an obstacle to development has hit its record low of the entire observation period (1996–2016). This factor is referred to as

a negative one by only half of the respondents (in 1998, this index was much worse – 91%). High prices of equipment and high interest rates on bank loans come second (44%); interestingly, businesses are now worrying less about the value of bank loans and more about that of equipment, while in 2015 it was the other way around. Next comes the factor of uncertainty in a speedy economic revival - its index increased to 32% vs. 25% a year ago. Availability of loans in May 2016 is estimated to be at the same level as in January, while industry's estimated ability to service loans is rather high (85% of respondent enterprises).

In the consumer loan segment, the first three months of 2016 demonstrated an increase in the volume of bank loans - by 36% on the same period of last year (Rb 1.5 trillion vs. Rb 1.1 trillion). Growth in the housing mortgage loan segment was even higher – by 46% (Rb 326bn vs. Rb 223bn). Meanwhile, the share of these loans in the total retail lending volume amounted to 39% compared to 30% in late 2014.

In Q1 2016, bank loans amounted to 13% of total household money income (vs. 20% in Q1 2014). Now, households spend 14% of their income on loan repayment compared to 17% two years ago. On the whole, however, the household debt burden has been gradually on the decline since H2 2014, when households were spending 11.8% of their disposable income on servicing their debt against bank loans. Now, this index amounts to only 9.7%.

The growth of personal borrowing activity, which has been observed since early 2016, is taking place alongside continual decline of real income. It is probable that we are witnessing a desire to use borrowing as a way to compensate for the dwindling personal income (and consequently, declining personal consumption). Meanwhile, the situation in the labor market has been demonstrating no dramatic worsening.

Over the first few months of 2016, the labor market achieved a state of relative equilibrium, which is, however, not very stable. Its main indicators – wages, unemployment, part-time employment – are near their last year's levels. In Q1 2016, the unemployment level increased by only 75,000 on the corresponding period of 2015, remaining near its lowest point of the entire observation period; over 2015, the part-time employment level increased by 112,000. However, it should be borne in mind that unemployment statistics reflect only the data for big and medium-sized enterprises. Besides, the situation varies greatly between regions. Thus, unemployment increased in 51 regions, while in 32 regions it declined. For part-time employment, the corresponding ratio is 45:36, and in three regions these indices remained unchanged. ●

1. DECOMPOSITION OF GDP GROWTH RATES IN 2016–2019: IN EXPECTATION OF STRUCTURAL CHANGES

S.Drobyshevsky, M.Kazakova

Calculations of decomposition of the RF GDP growth rates in 1999–2015 and the MED's forecast for 2016–2019 show that in current conditions cyclical components related to the domestic business cycle's entering the positive phase are the only source of economic growth. However, they alone are insufficient to ensure growth rates of 4% or more. To achieve that, it is important to increase structural economic growth rates, too. In particular, with the aggregate factor productivity to be retained at the present level it is necessary to attract to the economy further labor resources of about 4.5m people and Rb 40 trillion worth of additional investments in capital assets in 2016–2018.

In mid-May 2016, a working group – in the line: *Priorities of Structural Reforms and Stable Economic Growth* – of the Economic Council under the RF President was established. The above group is led by Alexei Kudrin, Chairman of the Center for Strategic Research. According to the order of the RF President, the working group will deal with “identification of actual problems preventing stable economic growth and progress in structural reforms and development of proposals on resolution thereof”¹. Incidentally, amid protracted stagnation of the Russian economy and forthcoming elections in 2016 and 2018 debates on the factors of sustained long-term economic growth renewed. In particular, development of measures required to be taken to ensure GDP growth of 4% by 2019 is currently on agenda (see for example: <http://www.interfax.ru/business/509695>).

Early in May, the RF Ministry of Economic Development (MED) issued an updated version of the forecast of Russia's socioeconomic development for the period of three years (until 2019). Traditionally, the forecast includes three scenarios: baseline, conservative and target ones. As stated in the MED's documents, “the forecast proceeds from the fact that development of the Russian economy takes place amid prevailing geopolitical instability, sanctions imposed against Russia over the entire forecast period by the EU and the US that limit considerably Russian companies' access to global capital markets and retaliatory economic measures”².

The baseline forecast scenario envisages Russia's moderate economic development amid falling consumer demand due to restrained growth in the government's social obligations. So, in 2016 economic growth rates within the frameworks of that scenario amount to 0.2% against the previous year with their subsequent growth to 2.2% provided that Urals oil prices are at \$40 a barrel in 2016–2019.

Under the conservative scenario, development of the Russian economy takes place in less favorable conditions, namely: the average annual oil price will fall to \$25 a barrel and remain at that level until 2019. It is to be noted

1 Order No.122-rp of 16 May 2016 on Approval of the Statutes on the Working Group in the Line: “Priorities of Structural Reforms and Stable Economic Growth” of the Economic Council under the RF President and the Composition Thereof.

2 <http://economy.gov.ru/minec/about/structure/depMacro/20160506>

that dynamics of the RF's main macroeconomic indicators is explicitly negative. So, in 2016 a GDP drop will amount to 2.1% on the previous year with a subsequent stabilization attained in 2017 and positive values of 0.7–1.6%, in 2018–2019.

“The target scenario is aimed at achievement of target indicators of the socioeconomic development and solution of objectives of strategic planning”¹ and suggests attainment of a macroeconomic equilibrium and the Russian economy's embarking on the trajectory of sustained GDP growth at the level which is not lower than the average global one (that is, attainment by 2019 of GDP growth rates of 4.5% on the previous year). The MED expects that within the frameworks of the target scenario the development of the economy takes place under trade conditions which are similar to those of the baseline one, but based on a new investment model of development with restrained growth in social obligations of the government and business in the first few years of the period under review.

So, there is only one scenario proposed by the MED that suggests a possibility of desirable growth rates of 4% to be achieved by 2019. Moreover, it is believed that with the above stated prerequisites and prevailing external conditions materialization of the baseline scenario requires serious changes in internal conditions of economic development.

The above is underpinned by the results of decomposition of forecast values of GDP growth rates on the basis of the methods developed by the Gaidar Institute; the above methods are based on the procedure – applied in OECD countries and adapted to the specifics of the Russian economy which is highly dependent on conditions of trade – for breaking down GDP growth rates into components². Decomposition was carried out on the basis of the main parameters of the scenario forecast of the socioeconomic development of Russia in 2016–2019.

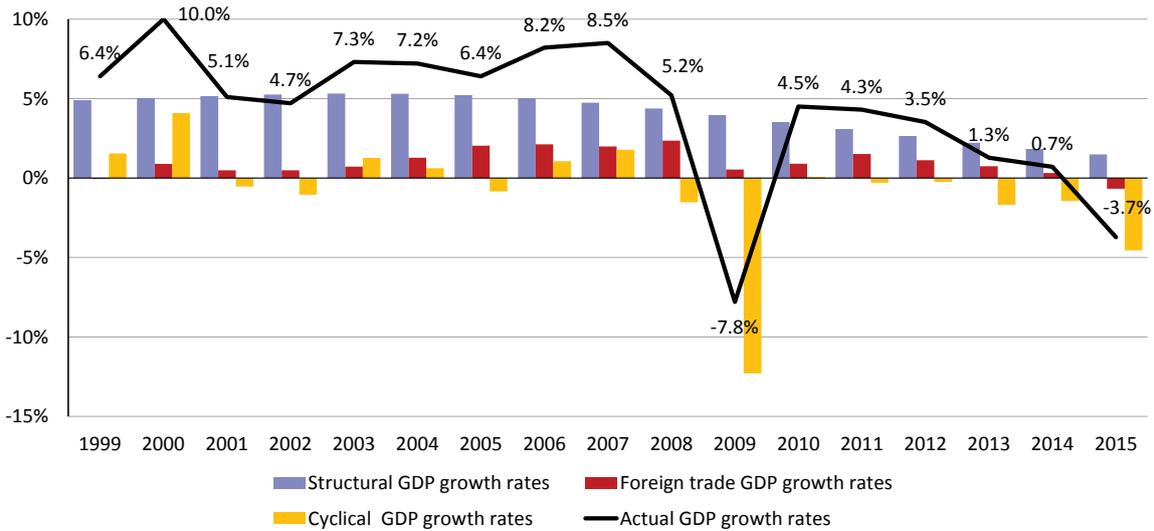
Dynamics of Russia's GDP actual growth rates, as well as structural, foreign trade and cyclical (the aggregate of components of business-cycles and random shocks) components in the 1999–2015 period received on the basis of the results of decomposition are shown in *Fig. 1*.

According to our calculations, the structural component of GDP growth has been slowing down since 2005 and amounts to 1.5% in 2015. The above trend can be explained by negative dynamics of fundamental factors of economic growth: a decrease in the number of gainfully employed population (that is, labor factor) due to unfavorable demographic trends amid slowdown of growth rates of capital assets (serving as a proxy variable for the capital factor). In addition to the above, reduction of the structural component of growth can be justified by a decrease in the aggregate factor productivity which includes a contribution of other factors of growth apart from labor and capital.

As regards the cyclical component of Russia's GDP growth rates, as seen from *Fig. 1* in 2013–2015 it was in a negative zone (-4.6% in 2015), which fact can sooner be explained by a shock representing a combination of negative

1 <http://economy.gov.ru/minec/about/structure/depMacro/20160506>

2 For more detail regarding the methods in question, see S. Sinelnikov-Murylev, S. Drobyshevsky and M. Kazakova. *Decomposition of Russia's GDP Growth Rates in 1999–2014 // Economic Policy. 2014. No.5. pp. 7–37, as well as the treatise: Decomposition of Russia's GDP Growth Rates / S. Sinelnikov-Murylev [and other]. - M. : the Gaidar Institute's Publishing House, 2015. – p.128. : Scientific Works / Gaidar Institute for Economic Policy; No.167R).*



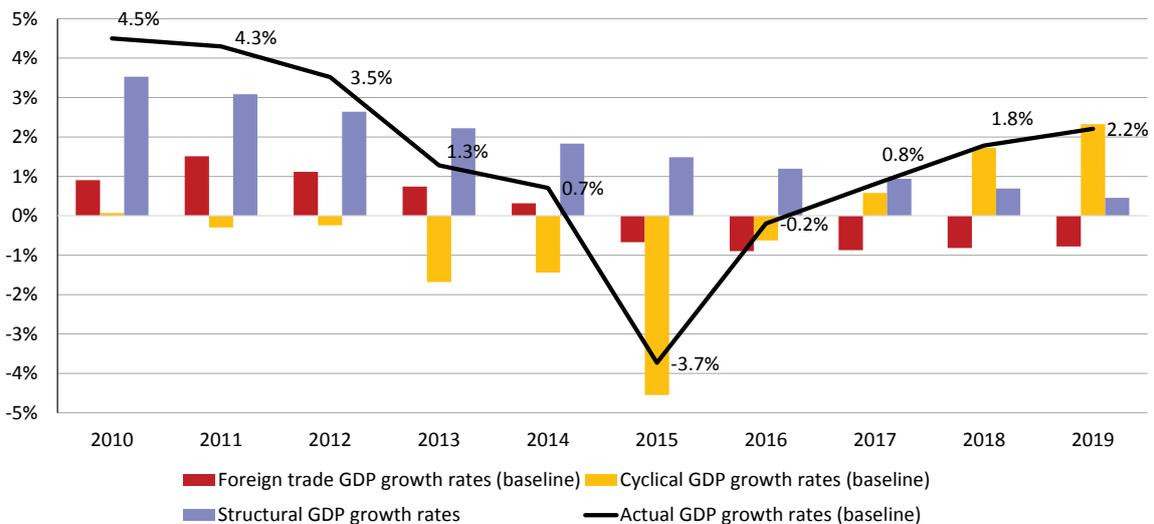
Sources: Rosstat, MED, IMF and our calculations.

Fig. 1. Actual growth rates of GDP and its components, % on the previous year, 1999–2015

consequences caused by economic sanctions and counter-sanctions, growing uncertainties and risks in the economy amid high volatility of the rouble exchange rate, higher inflation rate and lack of foreign borrowed funds.

Reviewing decomposition of forecast growth rates of GDP in 2016–2019, as regards the baseline and target scenarios it is to be noted that the levels of global oil prices in 2016–2019 envisaged in all the forecast scenarios are below the average multiyear levels (\$80–85 a barrel) which fact explains negative values of the foreign trade component of GDP growth rates in the above years (Fig. 2–3).

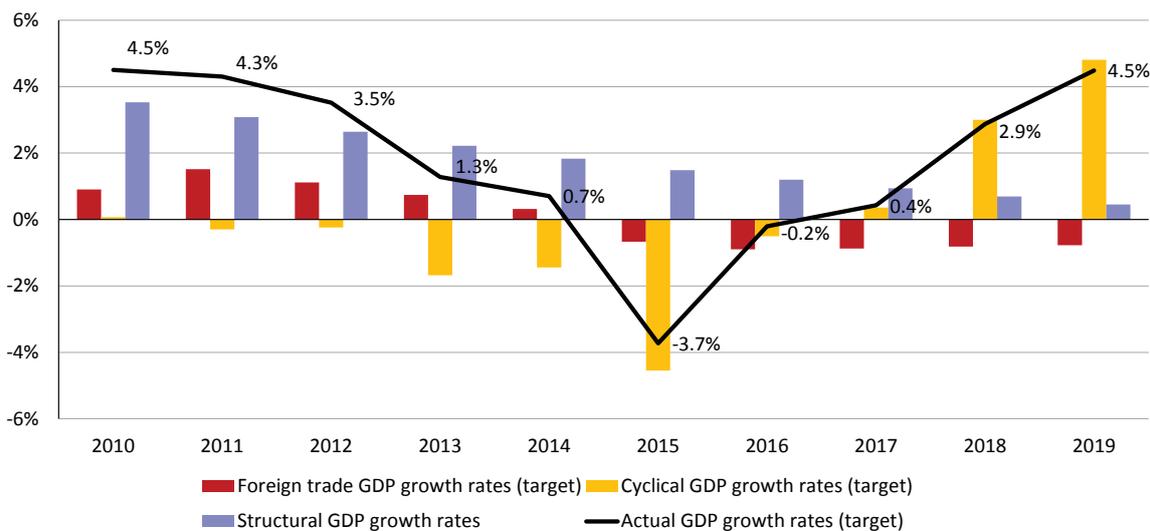
Decomposition of growth rates in 2016–2019 shows that in a situation where oil prices remain below average multiyear ones, while a structural component is falling due to a lack of growth both in fundamental factors of economic development and the aggregate factor productivity materialization



Sources: Rosstat, MED, IMF and out calculations.

Fig. 2. GDP growth rates and its components, % on the previous year, 2010–2019 (baseline forecast scenario)

1. DECOMPOSITION OF GDP GROWTH RATES IN 2016–2019: IN EXPECTATION OF STRUCTURAL CHANGES

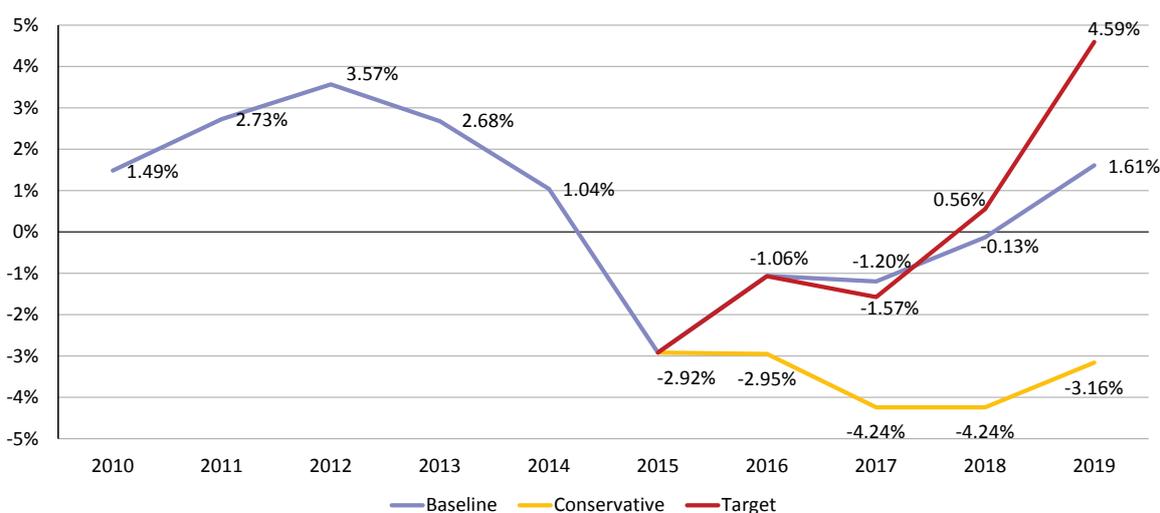


Sources: Rosstat, MED, IMF and our calculations.

Fig. 3. Growth rates of GDP and its components, % on the previous year, 2010–2019 (target forecast scenario)

of forecast growth rates of the Russian GDP is feasible only at the expense of the cyclical component. For example, within the frameworks of the baseline and conservative scenarios the cyclical component is expected to grow to 2.3% by 2019, while in the target scenario, to 4.8%. Such growth in the cyclical component can be the result either of a sudden acceleration of cyclical GDP growth after the negative shock which was observed in 2015 has gone, or under assumption that the economy remains in a low phase of the business cycle and there is a substantial positive shock whose nature is not quite clear.

Output gap (deviation of GDP from the natural output volume) assessed on the basis of decomposition is shown in Fig.4. In 2015, output gap fell into the negative zone under conditions of materialization of the MED's baseline



Source: Our calculations.

Fig. 4. Output gap in the Russian economy (%), 2010–2019 (forecast on three scenarios)

and target scenarios and remains there for the period of three years until 2018. In case of materialization of the conservative scenario, the negative output gap remains negative in the range of 3–4% throughout the period under review.

In view of the obtained results, there is a question which factors could contribute to materialization of the MED's parameters of the target forecast scenario. Firstly, as shown above the Russian economy cannot rely on favorable trade conditions as throughout the entire forecast period quite a moderate level of oil prices – much lower than the average multiyear one – is expected. Secondly, there are no prerequisites for growth in the cyclical component, either.

So, growth in the structural component is still the only way of achieving the desirable economic growth rates. In other words, the prerequisite for materialization of the most optimistic scenario, namely, achievement by 2019 of sustained GDP growth rates at the level of average global ones (about 4% on the previous year) is a substantial speed-up of growth in fundamental factors ensuring formation of GDP. According to our calculations, with the aggregate factor productivity remaining at the current level (this prerequisite is quite a realistic one amid the existing sanctions and lack of influx of foreign capital as described by the MED) to achieve that goal further attraction to the economy of labor resources of about 4.5m people and Rb 40 trillion worth of additional capital investments is required in the 2016–2018 period. ●

2. TAX MANEUVER: ECONOMIC GROWTH ACCELERATION TO THE DETRIMENT OF BUDGET CONSOLIDATION

G.Idrisov, A.Kaukin

The taxation reform in the oil and oil-refining industries in 2014 – the ‘tax maneuver’ – was designed to boost the performance of domestic oil refineries. In late 2015, the planned reduction of export duty was suspended in order to keep unchanged the volume of tax-generated revenues under the new terms of trade. However, our calculations demonstrate that full implementation of the tax maneuver will not only result in the accomplishment of that task, but prevent growth of wholesale and retail prices of petroleum products, as well as conduce to increasing the value added created by Russia’s oil-refining sector.

The measures that envisage a gradual reduction of the export duty on oil alongside raise of mineral resources extraction tax (MRET), which were elaborated in 2014 and then consolidated in legislation (the so-called ‘tax maneuver’)¹, are designed to eliminate the non-productive subsidizing of the national economy by keeping domestic oil prices at a low level². The mechanism behind that subsidizing builds on the assumption that the use of cheap oil³ produces cheap petroleum products, which will create competitive advantages for domestic companies and bring down their costs. However, in actual practice such a mechanism does not work, because nearly the entire amount of the subsidy being transferred is absorbed by the domestic oil-refining sector⁴, which produces negative value added in terms of world prices (Fig. 1), while end consumers get none of that subsidy. The production of negative value added means

| Domestic oil refining industry | |
|--|---|
| COSTS Oil input 282m tonnes x World price of Russian exported oil \$51 per barrel = \$105bn* | OUTPUT Gasoline 39m tonnes x Export price of Russian gasoline Rb 24 per liter Diesel fuel 75m tonnes x Export price of Russian d.f. Fuel oil and other petroleum products 71m tonnes x Export price of fuel oil Rb16 per liter = \$80bn |
| Total value added, in world prices = – \$25bn (24% of oil input value) | |

* the industry’s estimated costs are shown at the bottom, less wages and ‘other’ costs.

Source: Rosstat; FTS; own calculations.

Fig. 1. Russia’s oil-refining value added, in 2015 prices

1 The tax maneuver parameters for 2017: the basic rate of MRET is to be raised from Rb 857 to Rb 919 per tonne; the coefficient applied to price of Urals in the EX (export duty) formula is to be reduced from 0.42 to 0.30; the coefficient applied to the EX on oil in the formula for EX on gasoline is to be reduced from 0.48 to 0.3, and that on fuel oil – increased from 0.76 to 1.0; the excise on gasoline is to be reduced from Rb 10,130 to Rb 7,430 per tonne.

2 For more details on the reasons for implementing the tax maneuver, see Idrisov G.I., Sinelnikov-Murylev S.G. *Oil Export Duty: Cancel or Preserve. Neft Rossii*, No 12, December, 72–77; Idrisov G.I., Sinelnikov-Murylev S.G. *Modernization or Conservation: the Role of Export Duties on Oil and Oil Products. Economic Policy*, 2012, No 3, pp. 5–19.

3 Due to the export duty levied on oil, Russia’s domestic prices of oil are below world oil prices.

4 Approximately 1.4% of GDP in current prices.

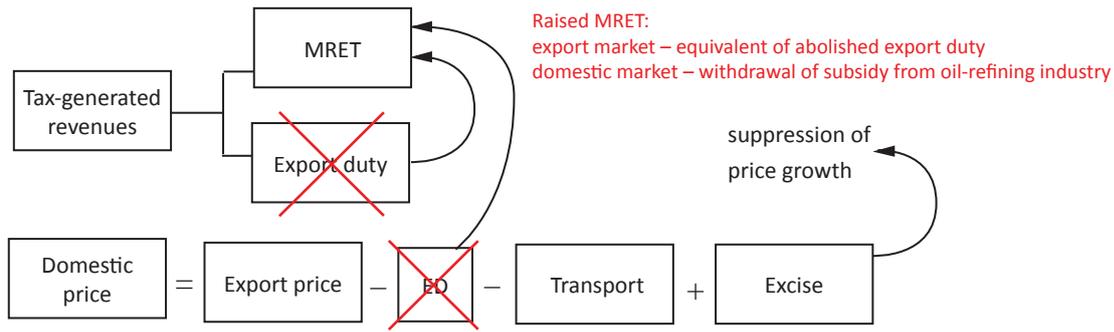
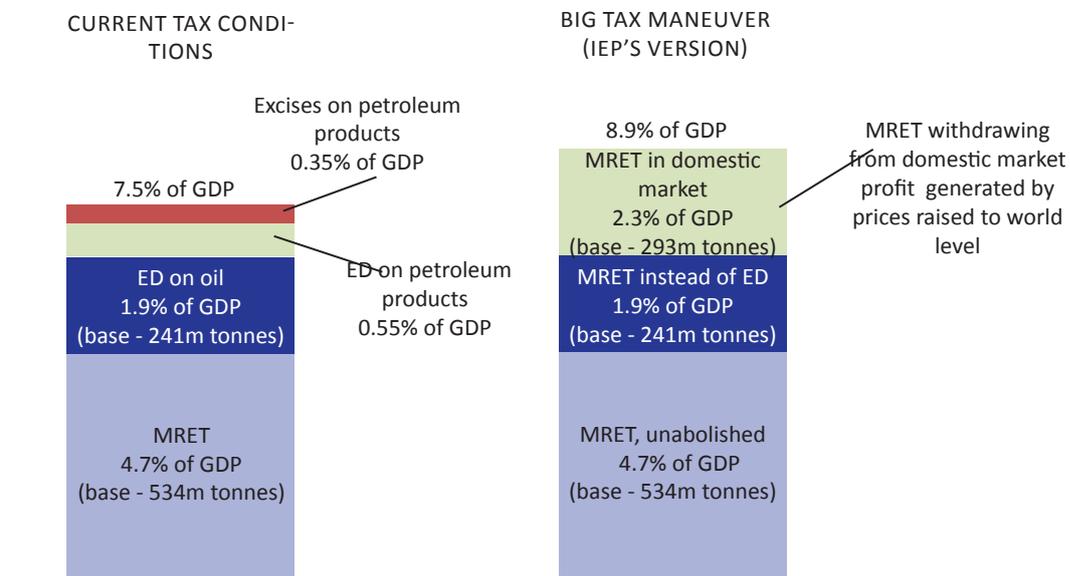


Fig. 2. An illustration of the tax maneuver

that each tonne of oil that could have been sold for export at a world price, and which is processed instead by Russian oil refineries, would have yielded an entire basket of petroleum products and saved approximately 25% of the associated expenses.

The political and economic paradox that becomes visible in the course of implementing the tax maneuver in actual practice is that it ‘does not create incentives for increasing the oil extraction volume’¹. Indeed, the idea behind the tax maneuver was² that for each exported tonne of crude oil, the amount of abolished export duty should be replaced by that of MRET, while MRET should generate additional profit on each (now more expensive) tonne of crude oil in the domestic market. Such a maneuver makes it possible to release an additional budget resource that was previously transferred to Russia’s oil-refining



Source: Rosstat; FTS; own calculations.

Fig. 3. Tax revenues generated by different tax schemes in the oil-extracting and oil-refining sectors, in 2015 prices; scenario-based Rb-to-USD exchange rate = 60, scenario-based price of oil – \$50 per barrel

1 In 2011–2014, this was the main argument in favor of delaying the reform voiced at the expert meetings where the tax maneuver’s parameters were discussed.

2 For the initial calculations, see Idrisov G. I., Sinelnikov-Murylev S. G. *Modernization or Conservation: the Role of Export Duties on Oil and Oil Products. Economic Policy*, 2012, No 3, pp. 5–19.

industry, and that now can be used for reducing the excises or for targeted subsidizing some socially important or energy-intensive projects (supplies to the northern regions, sowing campaigns, purchases for the army).

In the framework of such schemes, it is unprofitable for oil-extracting VICs (vertically integrated companies) to increase their output. As a result, it is the ‘bargaining’ between incentives to increase output in the oil industry and the amount of the released budget resource that can lay the foundation for implementing the tax maneuver in Russia¹.

In fact, the actually adopted legislative measures represent an intermediate version, where the export duty is to be reduced slowly, and not to zero, MRET is to be raised by an amount that does not compensate in full for the loss resulting from the reduced duty, so that oil companies could derive profit from the tax maneuver, and would want to increase their output. The budget-related aspects have been sacrificed – the tax maneuver, in its current configuration, is almost neutral from the point of view of budgetary effects.

By way of illustrating what can happen next, we did three variants of model calculations². The first one envisages the implementation of the tax maneuver in accordance with the parameters established by the RF Tax Code for 2017; the second one likewise envisages its implementation in accordance with the parameters established by the RF Tax Code for 2017, with the exception of the rate of export duty on oil, which is to be frozen at its current level (these alterations were temporarily initiated by the government in late 2015); the third one envisages full implementation of the big tax maneuver in accordance with the IEP’s recommendations: the reduction to zero of the rates of export duties and the excise on gasoline, and the raise of the basic rate of MRET. In this connection, we studied three variants of the terms of trade (price of oil in combination with the foreign exchange rate, see *Table 1*).

No doubt that the implementation of the variant suggested by us – a tax maneuver that would be neutral in terms of tax load and positive in terms of budget – will be complicated politically. However, in view of the current low prices of oil and the budgetary effect of 1.4 pp. of GDP, it will generate an additional benefit – by reducing the excises, we can fully suppress the growth of prices for petroleum products³. Meanwhile, from the point of view of economics, the suggested alternatives are understandable, and their interpreta-

1 One example of such bargaining is the suspension, in the budget for 2016, of the planned reduction of export duty envisaged by the 2014 tax maneuver. The motive behind that decision is the desire to prevent a reduction in the amount of tax-generated revenues under the new terms of trade. For further details, see Bobylev Yu., Idrisov G., Kaukin A., Rasenko O. *Oil, budget and tax maneuver*. Online Monitoring of Russia’s Economic Outlook, No 15 (November 2015), pp. 11–14. It should be noted that the increase of the tax burden was rather painless for the oil companies. This happened because the new level of oil prices was acceptable for the producers as, firstly, their costs are, for most part, denominated in rubles, and secondly, the plunge of oil prices translates mostly into reduced government revenue, and not into reduced incomes of oil producers. For more details, see G. Idrisov, A. Kaukin, O. Morgunova, M. Turuntseva. *The two poles of Russian industry*. Online Monitoring of Russia’s Economic Outlook, No 12 (September) 2015, pp. 19–22.

2 For more details on the methodology for calculating the parameters of Russian petroleum products and oil, see Idrisov G.I., Sinelnikov-Murylev S.G. *Oil Export Duty: Cancel or Preserve*. *Neft Rossii*, No 12, December, 72–77; Idrisov G.I., Sinelnikov-Murylev S.G. *Modernization or Conservation: the Role of Export Duties on Oil and Oil Products*. *Economic Policy*, 2012, No 3, pp. 5–19.

3 And our model calculations demonstrate that, if the excises are fully abolished, prices may even go down.

tion is transparent: one has to make a choice between withdrawing from the oil sector the subsidy generated by cheap oil and generating a positive value added, or leaving that subsidy intact in one or other way, and transferring the mineral resource rent to VICs and hoping for output growth that can translate in growth of real GDP.

Table 1

THE CALCULATED EFFECTS OF THE TAX MANEUVER'S VARIOUS MODIFICATIONS UNDER DIFFERENT TERMS OF TRADE

| | Current tax conditions | Implementation of tax maneuver according to parameters envisaged in RF TC (raised MRET, reduced ED and excises) | Tax maneuver with frozen ED | Full implementation of big tax maneuver, as recommended by IEP (raised MRET, reduced-to-zero ED and excises) |
|--|------------------------|---|-----------------------------|--|
| Rb-to-USD exchange rate = 60, price of Urals = \$50 per barrel | | | | |
| Growth of gasoline prices, % | | | | |
| retail, for individuals | | -1.80 | -5.95 | -7.48 |
| wholesale, for industrial companies | | -2.49 | -6.78 | -9.38 |
| Budget revenue, % of GDP | | | | |
| generated by MRET on oil | 4.70 | 5.04 | 5.04 | 8.92 |
| generated by export duty on oil | 1.91 | 1.51 | 1.91 | 0.00 |
| generated by export duty on petroleum products | 0.55 | 0.46 | 0.55 | 0.00 |
| generated by excises on petroleum products | 0.36 | 0.28 | 0.28 | 0.00 |
| Change in budget revenue volume, pp. of GDP | | -0.22 | 0.27 | 1.40 |
| Rb-to-USD exchange rate = 70, price of Urals = \$40 per barrel | | | | |
| Growth of gasoline prices, % | | | | |
| retail, for individuals | | -2.65 | -5.95 | -8.95 |
| wholesale, for industrial companies | | -3.37 | -6.78 | -10.91 |
| Budget revenue, % of GDP | | | | |
| generated by MRET on oil | 3.92 | 4.20 | 4.20 | 7.43 |
| generated by export duty on oil | 1.58 | 1.30 | 1.58 | 0.00 |
| generated by export duty on petroleum products | 0.46 | 0.40 | 0.46 | 0.00 |
| generated by excises on petroleum products | 0.36 | 0.28 | 0.28 | 0.00 |
| Change in budget revenue volume, pp. of GDP | | -0.13 | 0.21 | 1.12 |
| Rb-to-USD exchange rate = 80, price of Urals = \$30 per barrel | | | | |
| Growth of gasoline prices, % | | | | |
| retail, for individuals | | -3.94 | -5.95 | -11.26 |
| wholesale, for industrial companies | | -4.70 | -6.78 | -13.31 |
| Budget revenue, % of GDP | | | | |
| generated by MRET on oil | 2.69 | 2.88 | 2.88 | 5.10 |
| generated by export duty on oil | 1.07 | 0.96 | 1.07 | 0.00 |
| generated by export duty on petroleum products | 0.31 | 0.29 | 0.31 | 0.00 |
| generated by excises on petroleum products | 0.36 | 0.28 | 0.28 | 0.00 |
| Change in budget revenue volume, pp. of GDP | | 0.00 | 0.12 | 0.68 |

Source: Rosstat; FTS; own calculations.

3. SENTIMENTS IN INDUSTRY IN MAY 2016: NOT GOOD ENOUGH BUT NOT PARTICULARLY BAD

S.Tsukhlo

Positive dynamics of demand and output of industrial products amid minimal surplus of stocks of finished products combines in May 2016 with growth of uncertainty in future demand. There is no confidence regarding the investment plans and there is no pessimism regarding servicing of loans.

Demand, stocks and output

Demand dynamics of March–May 2016 demonstrate unexpectedly stable for those months initial changes in sales of industrial products. Even the month of May, which missed a few working days, failed to reduce the amount of demand and retained the difference in responses “growth” and “decrease” at the level of March–April. As a result, seasonal adjustment has placed the May demand change at the highest value observed since February 2014.

Definitely positive dynamics of demand posted over recent months has increased satisfaction with its volumes since the turn of the year by 15 p.p. As a result, at present 54% of Russian enterprises consider sales of their products as normal.

However, forecasts of demand, which were steadily becoming more optimistic according to seasonal and calendar adjusted data unexpectedly crashed in May by 8 p.p. It seems that industry is unsure in retaining such positive demand dynamics, which it faced during recent months. Pessimism expressed by officials and experts does not contribute to the growth of optimism of enterprises.

Estimates of stocks of finished products confirm the conclusion about a positive dynamics of demand posted during recent months. “Excess” of stocks posted in March 2016 (has fallen sharply (by 6 p.p.) (+2 – +3 p.p.). In May, balance of estimates was taking shape both amid contraction of responses “above normal” and responses “below normal.” As a result, the share of these responses (10 and 7%, respectively) reached all-time high over the entire period (1992–2016) of monitoring estimates (not volumes) of stocks in Russian industry. Estimates of stocks as “normal” still remain stable and are in the range of 70–72%,

Decrease of estimates of stocks (“above normal”, “normal,” and below normal”) was due to the growth of responses “no answer,” which reflects industry’s lack of understanding what *physical* volume of stocks is proper for the current situation. In May 2016, eleven percent of enterprises renounced definitive estimates of their stocks, which exceeded the share of responses “above normal” or “below normal.” Although in January 2016, merely 5% of enterprises renounced definitive estimates of their stocks.

Similar high level of renunciation of definitive estimates of their stocks of finished products was registered by business surveys conducted by the IEP in 2000–2002. Then, the enterprises finally believed in stability of industrial growth following 1998 default were in transition from the practice of rigid minimization of their stocks to their reasonable control and later – to estimate stocks as “normal.” This transition was accompanied by a logical growth

of uncertainty in estimates of stocks of finished products. Since mid-2003 through mid-2015 uncertainty in estimates of stocks of finished products did not exceed 5% on average per quarter. However, by late 2015 and at the beginning of 2016, this indicator went up to 7% and by the average level of the first two months Q2 2016 constituted already 10%.

Actually, output dynamics registered in May also demonstrates positive: seasonal adjusted balance of changes (growth rate) of industrial production reached maximum values observed since October 2014.

However, output plans of Russian industry, which overcame in March–April the worst for the current crisis expectations of January–February 2016 stopped gathering confidence and contracted in May by 3 p.p. Enterprises, probably, are not sure in retaining positive trends. This is logical in the wake of sharply negative correction of May demand forecasts.

Capacity adequacy

In the wake of constantly delayed recovery growth, the industry is reviewing their estimates of capacity adequacy and supply of workers. What is more – towards their improved sufficiency.

Capacity shortage due to expected by industry changes in demand on output product dropped to 5% in Q2 2016. This is nearly the minimal level of equipment shortage for the whole period of monitoring since 1993. Lower capacity shortage (3%) was registered by the IEP business surveys on the eve of the default, in April 2009, and in January 2013. Staff shortage in industry is big but also decreased compared to the turn of 2016. The latest value of the indicator is 9%, which is minimal since January 2010.

Maximum capacity shortage at the sectoral level hits 10% (registered by 10% of enterprises) and has been registered in the chemical, timber, and construction industries. However, this shortage (less timber) is offset by a considerable overhang of excessive capacities: 30% in the chemical industry and 48% in the construction industry. Shortage of capacity in machine building and light industry registered in Q2 2016 constitutes 6%, but is offset by their surplus in 28% and 56%, respectively. Annual average data on capacities shortage in sectors of industry (for the first two quarters in 2016) reflect rather modest scale of this phenomenon, which furthermore in all cases (minus timber industry) are offset by a considerable overhang of surplus capacities.

Prices of enterprises

In May, Russian industry froze growth of its prices: the balance of their actual changes (growth rate) decreased from +9 April p.p. to +1 May point and turned out to be the minimal value of this indicator in 2016. Nevertheless, in 2015, industry managed to cut balance to -2 p.p. However, exceptionally moderate May price growth hardly continues in the coming months. Balance of price forecasts went up in May by 9 p.p. following hitting in April the minimal for 2016 +7 p.p..

Accuracy of forecasts precision (plans) of three major indicators (demand, output and prices) demonstrate that Russian industrial enterprises were more precise in forecasting changes of their prices. Accuracy of price forecasts averaged in some years 73–74% and in certain months – 80%. The worst (60%) forecast performance was obtained in following the default years 1999–2002. Accuracy of forecasts in the current 2016 along four months

averages 69%. The April forecast came true for 80% of enterprises in May, which is the highest value of this indicator.

Analysis of mistakes in price forecasts (their share complements the share of accurate forecasts to 100%) demonstrates that Russian industry was persistently wrong by overestimating its projections. As a result, the balance of mistakes (overestimated minus understated) apart from rare and insignificant exceptions turned out to be positive. Especially significant and prolonged (despite blunders) were mistakes of 1999–2002. Then the share of mistakenly overstated forecasts hit record 30% against 7–9% of mistakenly understated forecasts.

Prior to crisis 2008–2009, industry also started to overstate oftener its price forecasts, although commenced demand contraction forced businesses to conduct a more accurate actual pricing policy. In June–October 2008, the balance of mistakes committed in price forecasts was in the range of +14 – +17 p.p. with forecasts precision at 70%.

Quite another pricing policy Russian industry was conducting prior to crisis 2014–2016. From March 2014 (outbreak of geopolitical tension) precision of price forecasts of businesses were steadily growing and hit in August 2014 a record high of 81%. At the same time, the balance of mistakes increased to 6 p.p. “at best” and from August 2014 became zero, i.e. mistakes in forecasts inter-balanced one another. When Russian countersanctions triggered the inflationary spiral and closer to disastrous December 2014, businesses’ price forecasts commenced reducing their precision: by the end of the year, the indicator shed 17 p.p. and returned to the minimum levels of 2005–2014. However, the balance of mistakes in price forecasts remained around zero through August 2015.

Investment plans and problems of industry

In May, businesses’ investment plans consolidated at the level of a moderate pessimism of January–February 2016 following demonstration of a crisis maximum in March. Thus, Russian industry still cannot make up its mind to the positive investment dynamics. So far, it has managed to reduce investment pessimism from -36 p.p. posted in February 2015 to -2 p.p. posted in March 2016. However in April 2016, they failed to retain the obtained result.

“Shortage of their own financial resources” has been considered up till now as a number one (most widespread) obstacle to investment in industrial production. In 2016, the magnitude of this indicator fell to its all-time low over the entire observation period (1996–2016). Currently, only half of businesses consider this factor as a hindrance (worst result – 91% was registered in 1998). High prices of equipment and high interest rates on bank loans come with 44% in the rating list of obstacles to investment. However, this year interest rates on bank loans were mentioned less by 4 p.p., then high prices on equipment were mentioned oftener by 2 p.p. against 2015. Thus, in 2016, not a single restriction of the second level was subject to significant change of its impact on the investment activity of Russian industry.

Other three factors have shown the highest growth (by 7 p.p.) of downward pressure in 2016 compared to 2015. The factor of uncertainty in a speedy economic revival in the near future has moved up to 32%, although in 2013 such uncertainty was in the way for investment activity of solely 21% of businesses and in 2014 and 2015, it went up by merely 2 p.p. per annum.

Thus, protracted character of the slow rolling crisis with dim outlook for its termination has been exerting ever-increasing downward pressure on the

investment activity of Russian industry. In 2016, 26% of businesses experienced difficulties with obtaining long-term loans, meanwhile prior to crisis 2014–2016, merely 10% of enterprises complained about this factor. It turns out that over two crisis years Russian banks have significantly complicated extension of investment loans to industrial enterprises amid reducing interest rates. Features of the national investment climate negatively impact on the investment plans of 15% of businesses, meanwhile in 2013–2015 barely 6–9% of respondents complained about it.

Lending to Russian industry

The May estimates have reflected retention of the same level of availability of loans for Russian industry, which since January 2016 is estimated by business on average at 50% with fluctuations in the range of 49–51%. Thus in 2016, stability has been achieved on one more economic indicator. Herewith, the minimum corporate interest rate decreased over 5 months of 2016 from 16.4% to 15.7% per annum in rubles. Overall reduction of this indicator came to 0.9 p.p. since August 2015 (i.e. from the date the Bank of Russia held its key rate at 11%).

Industry's estimated ability to service loans remains at high level. In Q2 2016, 85% of respondent enterprises, which use loans, cited it. This indicator hit the maximum high (88%) in August 2014.

At the same time, in Q2 2016, the balance of borrowing plans has undergone a sharp reduction (by 11 p.p.) compared to Q1 2016. In comparison with Q4 2015, the reduction has already constituted 17 p.p. In consequence, the maximum level of the borrowing plans (+24 p.p.) over two quarters has given way to the minimum (+7 p.p.) during five-year monitoring of the indicator. Russian industry less and less needs bank lending for such industrial growth. ●

4. RETAIL BANK LENDING: DEBT BURDEN IS DECREASING

M.Khromov

In 2016, the volume of bank lending resumed growth. However, its level remains below the 2014 indicators and is insufficient to curtail the reduction of the population's loan debt volumes. There is a shift in the retail bank lending debt structure in favor of the long-term and cheaper mortgages. This results in the reduction of the debt burden on the disposable income of the households.

In Q1 2016, the volumes of the retail bank lending commenced recovering following a sharp fall in 2015. The amount of loans extended by the banks to the households over first three months of 2016 constituted Rb 1.5 trillion, which is by 36% more than a year earlier (Rb 1.1 trillion). More growth was observed in the housing mortgage, which volumes went up by 46% from Rb 223bn in Q1 2015 to Rb 326bn in Q1 2016. Other types of loans extension movement was more moderate. Their volume in Q1 2016 moved up by 33% in comparison with the corresponding period of 2015.

Despite rather intensive growth of loans origination (comparable with level of movement was representative, for instance, of 2012 when retail lending was actively unfolding), proper lending volumes have not yet recovered following last year slump. Due to sharp fall in 2015, the volumes of loan origination have not yet achieved the 2014 level as of their nominal value. Aggregate volume of extended loans in Q1 2016 tuned out to be 22% less than in Q1 2014. Even in housing lending where the reduction in 2015 was minimal and growth in 2016 was maximum, volumes of extended loans in Q1 2016 remained by 6% below than in the corresponding period of 2014.

The fact that the nominal volume of lending is remaining as a rather low level means that its impact on the financial balance of the households has failed to recover much less. For example, in Q1 2014, the volume of the volume of extended by the banks new loans to the households was comparable with 20% of their money income. Due to meltdown of the credit market, which happened at the beginning of 2015, this ratio as of the period-end for Q1 2015 fell to 10%. And in Q1 2016, the volume of extended new bank loans increased barely to 13% of the money income of the households.

The low level of new loans origination predetermines continuation of the aggregate household bank debt contraction. This is due to the fact that the volumes of actual loan repayments have decreased insignificantly compared to the reduction of the new loans origination. In Q1 2016, as in the same period of 2015, the households spent around 14% of their money income on bank loans repayments, meanwhile in Q1 2016, this ratio amounted to 17%.

Reduction of total household outstanding debt on bank loans¹ has been continuing since December 2014. During this period, the retail credit portfolio of banks has shrunk by 7% and the ration of the aggregate debt volume

¹ Adjusted to revaluation of debt denominated in foreign currency.

to the money income of the population over 12 months has contracted by 4 p.p. – from 23.6% to 19.6%. This is one of the factors, which is driving the credit burden on the population's income down.

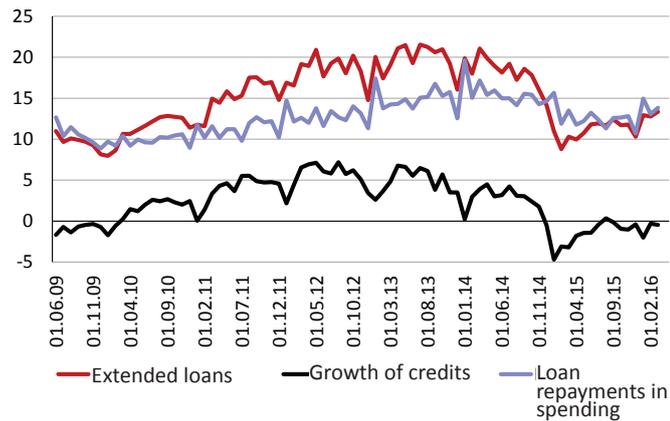
A shift in the loan debt pattern in favor of long-term and cheaper residential mortgage loans can be viewed as a positive trend in addition to a reduction of relative volume of debt volume. Following the results of Q1 2016, the share of loans extended on purchase of housing reached 39% of the total volume of the household bank debt. Meanwhile, in late 2014 this indicator barely exceeded 30%. Increment of the share of long-term loans means that with the same volume of debt the borrowers have to repay less on the principal debt, which reduces the volume of mandatory payments.

At the same time, mortgage portfolio as well as other loans portfolio duration according to the principal debt service figure has noticeably grown over the last year. If at the early 2015, weighted average term of the total debt constituted 38–40 months and the mortgage debt – 94–98 months, then in early 2016 these indicators went up to 46–48 months for total debt and 148–150 months for the residential mortgage loans.

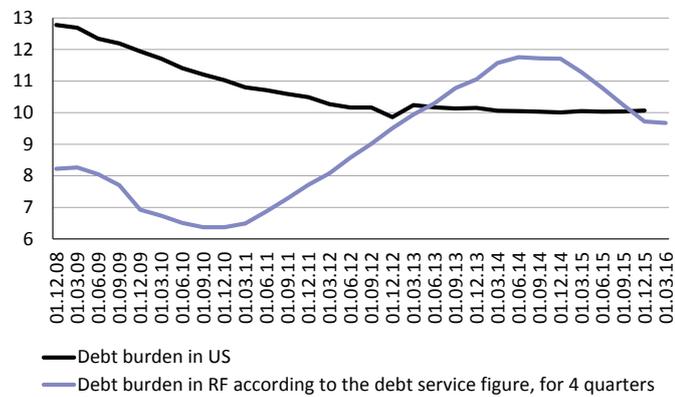
Weighted average cost of the household outstanding debt has not changed over the year. In Q1 2015, it amounted to 16.4% per year, and in Q1 2016, went up to 16.5% per year. Such stability is due to the growth of the share of residential mortgage loans, which cost remains noticeably lower: 12.5% per year in Q1 2015 and 12.6% per year in the same period of 2016. At the same time, the cost of other loans moved up more for a year – from 18.4% to 19.0% per annum.

All enumerated above factors lead to a gradual reduction of the debt burden on the household disposable income observable since the second half of 2014. Then, the households allocated on service of their credit debt up to 11.8% of disposable income. By the period-end for Q1 2016, the debt burden decreased to 9.7% of the disposable income.

If we compare the Russian lending market, for example, with the US lending market, then the Russian households by end-2015 came up with the American households on the debt burden parameter. However, the debt level against income for American households exceeds 100%, which is 5-fold exceeds the Russian level with the comparable level of debt burden. ●



Sources: Bank of Russia, Rosstat, and IEP estimates.
 Fig. 1. Parameters of the retail bank lending in % to the money income of the households, 2009–2016



Sources: Federal Reserve, Bank of Russia, Rosstat, and IEP estimates.
 Fig. 2. Debt burden on disposable income in RF and US

5. REGIONAL LABOR MARKETS: UNSTABLE EQUILIBRIUM

V.Lyashok

In 2016, almost all the main labor market indicators, that is, wages and salaries, the level of the rate of unemployment and the share of part-time employment are close to the levels of 2015. The labor market virtually stands still in a state of shaky equilibrium. However, there are serious regional differences behind the dynamics of those indicators across the country. Though the rate of unemployment in Russia has increased somewhat in the past two years, in more than one-third of regions it fell; similar dynamics were observed in respect of the number of workers transferred to part-time employment. The analysis shows that regions applied various instruments to cut labor costs and that practice helped smooth the general nationwide dynamics of labor market indicators.

As was shown earlier¹, in 2015 the economic slump had a mixed effect on the main labor market parameters. There was a dramatic drop in wages and salaries: according to the Rosstat's updated data they fell 9.7% in real terms. At the same time, the rate of unemployment rose insignificantly (merely by 300,000 persons) and its level remains the lowest one in the entire post-Soviet period. A similar situation was observed as regards workers transferred to part-time work: in 2015 their number at large and mid-sized enterprises rose by the mere 112,000 persons as compared to 2014.

In Q1 2016, no specific changes took place. Real wages and salaries remain at the level of Q1 2015 and the rate of unemployment rose only somewhat. There is only small growth in the number of workers transferred to part-time work: as compared to Q1 2015 their number rose by 75,000 persons. Virtually, it can be stated that the labor market currently stands still in a state of shaky equilibrium.

However, one should not be deluded about that weak reaction to the crisis. The Russian labor market is not homogeneous geographically. Insignificant nationwide changes can conceal regional markets' reactions which may greatly vary from one region to another.

In research carried out by R. Kapelyushnikov and A. Oschepkov, it is shown² that regions have their own local labor markets and "the differences between regional labor markets in Russia are of a complex nature, that is, they concern not one or two indicators, but exist over the entire spectrum of quantitative and price parameters – the level of employment, unemployment, labor remuneration and other"³.

Reactions to the crisis may also vary considerably depending on the region. One can single out the three main instruments which permit employers to reduce labor costs during the crisis. Firstly, it is lay-offs which lead to growth in the rate of unemployment. Secondly, a transfer of workers to part-

1 See. V. Lyashok. The Labor Market: The Specifics of National Adaptation. OMES 2(20) 2016.

2 <https://www.hse.ru/pubs/share/direct/document/177933018>

3 Ibid.

Table 1
REGIONS WITH THE HIGHEST AND LOWEST GROWTH RATES OF UNEMPLOYMENT, THE NUMBER OF PART-TIME WORKERS AND REAL WAGES AND SALARIES
IN Q I 2014–2016¹

| No. | Region | Unemployment | No. | Region | Part-time employment | No. | Region | Real wages |
|-----|--|--------------|-----|---|----------------------|-----|--------------------------------|------------|
| 1 | Yaroslavl Region | 209.9 | 1 | Nenets Autonomous Region | 300.0 | 1 | Sakhalin Region | 110.1 |
| 2 | Samara Region | 159.9 | 2 | Magadan Region | 180.0 | 2 | Chukot Autonomous Region | 97.6 |
| 3 | Nenets Autonomous Region | 158.6 | 3 | Republic of Ingushetia | 166.7 | 3 | Yamal-Nenets Autonomous Region | 97.5 |
| 4 | Republic of Altai | 155.9 | 4 | Voronezh Region | 166.0 | 4 | St. Petersburg | 94.5 |
| 5 | Republic of Komi | 150.6 | 5 | Republic of Mordovia | 157.4 | 5 | Republic of Sakha (Yakutia) | 94.4 |
| 6 | Ivanovo Region | 140.7 | 6 | Republic of Altai | 157.1 | 6 | Republic of Bashkortostan | 93.4 |
| 7 | Orel Region | 140.1 | 7 | Sverdlovsk Region | 155.3 | 7 | Republic of Mordovia | 92.6 |
| 8 | Novgorod Region | 137.5 | 8 | Republic of Chuvashia | 150.0 | 8 | Krasnoyarsk Territory | 92.4 |
| 9 | Murmansk Region | 136.6 | 9 | Republic of Kalmykia | 150.0 | 9 | Ulyanov Region | 92.3 |
| 10 | Moscow Region | 136.0 | 10 | Moscow Region | 145.4 | 10 | Orenburg Region | 92.3 |
| 38 | Russian Federation | 106.6 | 34 | Russian Federation | 108.5 | 28 | Russian Federation | 89.7 |
| 74 | Republic of Sakha (Yakutia) | 86.4 | 74 | Republic of North Osetia - Alania | 78.9 | 74 | Pskov Region | 85.0 |
| 75 | Republic of Ingushetia | 84.6 | 75 | Nizhny Novgorod Region | 76.3 | 75 | Tver Region | 84.6 |
| 76 | Bryansk Region | 80.8 | 76 | Kaliningrad Region | | 76 | Ivanovo Region | 84.6 |
| 77 | Tomsk Region | 79.9 | 77 | Astrakhan Region | 72.9 | 77 | Orel Region | 84.5 |
| 78 | Republic of Tatarstan | 79.6 | 78 | Republic of Karachaevo-Cherkessia | 72.7 | 78 | Kaliningrad Region | 84.5 |
| 79 | Arkhangelsk Region without autonomous region | 79.5 | 79 | Amur Region | 71.4 | 79 | Krasnodar territory | 84.3 |
| 80 | Chukot Autonomous Region | 78.6 | 80 | Samara Region | 70.5 | 80 | Republic of Dagestan | 83.9 |
| 81 | Republic of Tyva | 72.2 | 81 | Jewish Autonomous Region | 60.0 | 81 | Amur Region | 81.3 |
| 82 | Chechen Republic | 69.2 | 82 | Khanty-Mansiisk Autonomous Region - Yugra | 59.7 | 82 | Chechen Republic | 80.2 |
| 83 | Kamchatka Territory | 62.2 | 83 | Ulyanovsk Region | 42.9 | 83 | Republic of Ingushetia | 77.7 |

Source: Rosstat and Reports on Russia's Social and Economic Situation in 2014–2016.

1 Dynamics of wages and salaries is calculated on the basis of the data for January–February 2016 against the same period of 2014.

time work with respective cuts in wages takes place more often by decision of the parties rather than on the initiative of the employer. Thirdly, it is a direct reduction of real wages and salaries as an inevitable result of the inflation rate if the employer does not seek to increase them adequately in nominal terms. Each region uses a different combination of the above instruments.

The difference between regions becomes evident when the levels of the rate of unemployment in Q1 2016 and Q1 2014 when a slump in the economy was not registered yet are compared. The top ten regions with the highest growth in the rate of unemployment in the past two years include four territories from the Central Federal District (the Yaroslavl Region, the Orel Region, the Ivanovo Region and the Moscow Region) and the same number of territories from the North-Western Federal District (the Nenets Autonomous Region, the Republic of Komi, the Murmansk Region and the Novgorod Region). The most dramatic drop in the rate of unemployment was registered in the Far Eastern Federal District (Yakutia, the Chukot Autonomous District and the Kamchatka Territory), the North Caucasian Federal District (the Republic of Ingushetia and the Chechen Republic) and the Siberian Federal District (the Tomsk Region and the Republic of Tyva). Generally, the rate of unemployment rose in 51 regions while in 32 regions it went down.

A more dramatic dispersion is observed in the dynamics of the average quarterly number of part-time workers. Though in the past two years their number rose on average by 8.5%, in the Nenets Autonomous Region it increased threefold, while in the Ulyanov Region it fell by 50%. Generally, part-time employment increased in 45 constituent entities, while in 3 constituent entities and 36 constituent entities it remained unchanged and decreased, respectively. Three regions – the Nenets Autonomous Region, the Republic of Altai and the Moscow Region – are in the top ten as regards growth in the rates of unemployment and part-time employment. It is difficult to single out individual trends on the basis of a geographic factor, for example, top ten regions with the highest growth rates of part-time employment include three republics from the Privolzhsky Federal District (Mordovia, Chuvashia and Kalmykia), while three regions (the Nizhny Novgorod Region, the Samara Region and the Ulyanov Region) from the same federal district are in the top ten regions with the lowest growth rates of part-time employment.

The Sakhalin Region is the only region in the country where the level of real wages and salaries rose in real terms in the past two years. In the same period, the most dramatic drop in wages and salaries was registered in republics of the North Caucasus (Ingushetia, Chechnya and Dagestan), some regions of the Central Federal District (the Orel Region, the Ivanovo Region and the Tver Region) and the North-Western Federal District (the Pskov Region and the Kaliningrad Region).

It is to be noted that ratios of correlation between those indicators are low and statistically significant only for correlation of the level of part-time unemployment. The above is evidence of the fact that most employers use only one or two of the available options to cut labor costs inside their regions. It is noteworthy that statistically significant correlations with the consumer price index may mean that whenever employers encountered dramatic price rises they tried to keep in check growth in wages and salaries in nominal terms and transferred their workers to part-time employment. At the same time, lay-offs were used rarely and simultaneously with a transfer of other workers to part-time work.

Table 2

CORRELATION OF DYNAMICS OF DIFFERENT LABOR MARKET INDICATORS
AND THE CONSUMER PRICE INDEX

| | Level of unemployment | Part-time employment | Real wages | Consumer price index |
|-----------------------|-----------------------|----------------------|------------|----------------------|
| Level of unemployment | 1 | | | |
| Part-time employment | 0.242* | 1 | | |
| Real wages | -0.102 | -0.152 | 1 | |
| Consumer price index | 0.103 | 0.301* | -0.553* | 1 |

* significant at a 5% level of significance. ●

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