MONITORING OF RUSSIA'S ECONOMIC OUTLOOK:

TRENDS AND CHALLENGES OF SOCIO-ECONOMIC DEVELOPMENT

No. 2(63) February 2018

Monitoring has been written by experts of Gaidar Institute for Economic Policy (Gaidar Institute) and Russian Presidential Academy of National Economy and Public Administration (RANEPA).

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THE RUSSIAN PRESIDENTIAL ACADEMY OF NATIONAL ECONOMY AND PUBLIC ADMINISTRATION

Monitoring of Russia's Economic Outlook: trends and challenges of socio-economic development. 2018. No. 2 (63). February / Bozhechkova A., Drobyshevsky S., Knobel A., Sinelnikov-Murylev S., Trunin P., Khasanova R., Khromov M., Tsukhlo S. Edited by: V. Gurevich, S. Drobyshevsky, P. Kadochnikov, V. Mau, and S. Sinelnikov-Murylev; Gaidar Institute for Economic Policy, Russian Presidential Academy of National Economy and Public Administration. 27 p. URL: http://www.iep.ru/files/text/crisis_ monitoring/2018_2-63_February_eng.pdf

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TRENDS AND CHALLENGES OF SOCIOECONOMIC DEVELOPMENT

Russia's economic landscape of the past few weeks, and especially its international economic environment, were characterized by a bizarre combination of mostly positive facts and grim misgivings regarding the possible expansion of sanctions and the predominantly positive facts.

Despite the shadow of the menacing 'lists' and 'reports' looming ominously in the background, the leading international credit rating agencies either upgraded the sovereign rating of Russia and the ratings of her companies, or at least changed their credit rating outlook to positive. Germany granted the Nord Stream 2 pipeline project a permit for construction and operation in German territorial waters and the landfall area in eastern Germany, thus giving a green light for its implementation, while a huge tanker with liquefied natural gas from a US sanctions-hit Russian gas plant unloaded its cargo – not even in China, as it had been expected by many – but at a terminal in the north-eastern USA that had been temporarily suffering from a lack of heating fuel.

Of course, all those developments fell short of becoming a new trend: a spanner in the works has already been thrown by a new wave of threats with regard to any existing or potential partners of the Russian military-industrial complex. Or by the sudden backpedalling on the part of the Italian *Eni* company: in December 2017, having reputedly obtained permission from the USA, it began drilling for oil on the Black Sea shelf together with *Rosneft,* only to abruptly stop these activities in January. While such an algorithm is more or less acceptable in trading tomatoes, it definitely makes impossible any long-term investment.

Obviously, an adequate response to such a situation requires the implementation of a consistent, not contradictory, macroeconomic policy. At least it would attenuate some of the negative external effects (including situational ones, such as a possible ban on purchasing Russian debt securities), and also create conditions for the conduct of urgently needed structural reforms. However, such a policy *per se* would not trigger these reforms, and by no means would guarantee their success.

When analyzing the growth of the Russian economy in 2017 and 2018, our authors have noted that last year's results were firmly within the expectations framework, and, especially noteworthy, closer to the upper limit of the targeted interval, because in the past few years the structural growth rates of GDP (which depend on aggregate factor productivity, labor resources and capital) dropped to 1%-1.5% per annum. Despite a significant rise in oil prices, foreign trade conditions were worse than their 10-year average, while Russia's economically active population was in a steady decline.

According to our analysts, the main economic growth factor was the completion of the negative phase of the business cycle and the return to cyclic growth. This also corresponds to the growth rates achieved in 2017; and our researchers expect that in this respect the year 2018 will be no worse off. The other signs of departure from the lowest point of the business cycle are the positive dynamics in investment flows; changes in the economic behavior of the population, which resulted in a notable growth in Russia's retail trade turnover; and a significant drop in risks due to the sound economic policy pursued by the State. In this connection, the analysts point it out that at a time when both the inflation rate and the key interest rate of the Central Bank are on the decline, the rate of decline in inflation expectations lags far behind them both. When assessing the level of real rates, one should analyze the difference between the nominal rate and the expected (and not actual) inflation rate. The analysts thus have arrived at the following conclusion: the situation that emerged in 2017 is characterized not by high positive expected real rates, but by expected real rates being practically stuck at zero.

The cyclic factor remains positive for the year 2018 as well (at the same time, the influence of the foreign trade factor remains negative despite the growing oil prices). However, the restrictions existing in the economy do not allow it to grow faster than by 1.5-2% per annum). It should be noted that companies' labor costs are once again starting to grow, corporate profits as a percentage of GDP are declining, while the balances in companies' deposit accounts with banking institutions are on the rise (as a result, bearing in mind the absence of any efforts to increase loans granted to the non-financial sector, it is absolutely unclear from what sources any possible growth in investment will come). Moreover, there exists uncertainty concerning the future economic policy of the Russian government after the presidential election, Russia is facing new sanction risks, competition in international raw materials markets is rapidly intensifying, and the potential for export-led growth of Russian agriculture is being exhausted.

Thus, according to a number of experts, the issue of the economic reform agenda should be resolved without further delay in order to enable the Russian economy to overcome the aforesaid restrictions and to increase its structural growth rates. These experts believe that one of the most urgent measures that Russia should undertake is to carry out a budget maneuver based on increasing the share of productive expenditures, including by optimizing non-productive expenditures, without worsening the situation in the social sphere. In order to achieve this aim it is necessary that, over the next six years, general government expenditure should remain at the level of not less than 34% of GDP, which would require some softening of the budget rule. According to our authors, the desired redistribution of resources in favor of productive expenditures will have the potential of increasing the average annual growth rate by 0.5 p.p. on a 3–5-year horizon, and then to increase the rate of Russian economic growth by up to 1% per annum. Our authors also emphasize that Russia urgently needs destatization on a massive scale, liberalization of state regulation for foreign economic activity, acceleration of transition to a single mechanism of tax and customs regulation, and replacement of foreign exchange control by tax control.

A thorough analysis of Russia's balance of payments at year-end 2017 is indicative of a generally good state of the Russian macro-economy. According to a preliminary assessment released by the RF Central Bank, Russia's current account balance at year-end 2017 amounted to $ 40.2bn, which represented a 58%-rise on year-end 2016. Nevertheless, it should be said that at the same time, net capital outflow from Russia's non-state sector increased 1.6 times, to $ 31.3bn. However, this phenomenon was primarily caused by the Russian banking sector's active settlement of its foreign liabilities.

According to most experts, if the current trends in Russia's economy and her foreign trade situation do not significantly change, the state of the balance of payments of the Russian Federation and the exchange rate of the ruble will remain stable. The possible growth in the average annual price of oil will be compensated for by more significant foreign exchange purchases on the part of the RF Ministry of Finance in accordance with the new budget rule, and also by an increase in imports.

According to a number of studies carried out by specialists from the Gaidar Institute, in the period 2014–2017, Russian industry's dependence on imports remained mostly unchanged. The first measurements were conducted by them as early as April 2014, that is, before the ruble's depreciation, when about 40% of the surveyed enterprises stated that it was absolutely impossible for them to abstain from purchasing imported equipment, raw materials and other supplies, no matter the price. 22% of the surveyed enterprises did not import equipment and machinery, 33% did not import raw materials and other supplies, and thus were independent from imports. 25–39% of the surveyed industrial enterprises were ready to abstain from importing supplies and equipment in the event of a price surge. In December 2014, after the ruble's depreciation, when a rise in the prices of imports became inevitable, 40% of the surveyed enterprises were still not ready to abstain from purchasing imports.

In 2015, researchers from the Gaidar Institute began to investigate the main factors hampering import substitution. In this respect, all the changes observed over the course of the past three years were changes for the worse. The main obstacle to import substitution was and still is the total absence of Russian equipment and raw materials regardless of their quality: in January 2015, this response was given by 62% of the surveyed enterprises, in July 2017 – by 69% thereof. Second place among the factors hampering import substitution is occupied by 'the poor quality of domestically produced analogues' (35–37%). In 2015 and 2017, 'insufficient support on the part of the authorities' was pointed to by 18% and 10% of the surveyed enterprises respectively. Approximately the same proportions of the surveyed enterprises complained of the grossly inflated prices for domestically produced analogues. Having compared the plans of industrial enterprises in the period 2015–2017, our authors have come to the conclusion that the import substitution process is decelerating, while the role of imports is not declining.

Experts who analyze the state of Russia's banking sector believe that the results of 2017, as far as that sector was concerned, were contradictory. On the one hand, bank assets resumed growth, and there was growth in credit volume in some of the segments. On the other hand, there was a drop in profits, and in the course of bank clean-up, a large volume of poor quality assets was found in the possession of Russia's largest banks.

In the past year, the number of operating credit institutions dropped from 623 to 561, while over the course of 5 years (2013–2017), the number of such establishments declined by almost 400. In the main, licenses were withdrawn from small banks, and therefore this process did not have a pronounced effect on the dynamics of bank assets: in 2017, the aggregate volume of personal deposits with banks whose licenses were withdrawn amounted to RUB 420bn (or, on average, less than RUB 10bn per bank). The banking sector's profits declined to RUB 790bn (from RUB 930bn in 2016). In the main, the drop in its financial results was caused by a huge rise in allocations to loan loss reserves. These reserves began to rapidly grow during the last months of the year, exactly when the authorities initiated a clean-up of such big banks as *Bank Otkritie Financial Corporation*, *Binbank*, and then *Promsvyazbank*. It should be pointed out that to clean-up these banks, a new rescue mechanism, the Consolidation Fund, was used for the first time. It is too early to say whether or not this mechanism is effective, especially with regard to *Promsvyazbank*, because the latter is designated to form the core of a base bank designed to finance the state defense order. Our experts believe that this new function of *Promsvyazbank* will significantly reduce its transparency, especially bearing in mind that even now the Bank of Russia publishes simplified reports of all banks in order to prevent leakage of information concerning the accounts related to the state defense order.

The problem besetting reporting in the social sector differs from the previous one. Take, for example, Russia's mortality rates for 2017 (to be more precise, for January–November 2017). During that period, Russia experienced a natural decrease in population numbers: the number of deaths exceeded the number of births by 122,000. At the same time, the mortality rate continued to slowly decline. In the regions with high percentages of elderly residents (Pskov, Novgorod, and Tver oblasts) that rate is slightly higher than the average, while in the regions with high percentages of younger residents (Ingushetia, Chechnya, the Yamalo-Nenets Autonomous Okrug) it is much lower than the average. In order to obtain an objective assessment of the mortality rate in one or other region, which would exclude the impact of the age structure of its population, experts use the so-called standardized coefficient. In this case, the picture is quite different: the regions with the highest mortality rates will be Chukotka Autonomous Okrug, Tyva, and the Jewish Autonomous Oblast, while those with the lowest mortality rates will be Voronezh Oblast, Ingushetia and Moscow.

The main cause of death in the Russian Federation is circulatory system diseases (47%), while the so-called 'other causes' are holding second place (20%). The drop in mortality extends to practically all major causes of death (which resulted, among other things, in a two-year increase in Russia's national life expectancy), excluding 'other causes of death', the number of deaths from which increased last year by 5.8%. Experts emphasize that the number of deaths from diseases included in the category 'other causes' has multiplied in recent years. Moreover, the 'other causes' death rate differs manifold from one region to another. In each case the following consistent pattern is observed: the regions characterized by high mortality from 'other causes of death' have low rates of mortality from circulatory system diseases. Experts suspect that this phenomenon can be explained by the regions' desire to implement the targets stipulated in the presidential executive orders issued in May 2012, as well as to achieve all the other aims formulated by the authorities.

In this connection it is proposed to develop regional (and perhaps more realistic) targets that would take into account the specific features of each region, and would not create incentives for the regions to resort to statistical trickery in order to achieve them. Not to mention the necessity to thoroughly analyze the correctness of information coming from the regions.

1. RUSSIA'S ECONOMIC GROWTH CHARACTERISTICS IN 2017–2018: INCENTIVES AND CONSTRAINTS

S.Drobyshevsky, S.Sinelnikov-Murylev

2017 year-end positive results, particularly real GDP growth recovery, fixed investment growth, reflected largely the termination of the cyclical downswing phase for the Russian economy. However, structural and external factors in 2018 will not be able to shore up economic growth. To ensure a sustainable economic growth, a new government should be focused more on structural reforms including a fiscal manoeuvre, denationalization of the economy and deregulation of foreign economic activities[1].

A sharp adverse change in terms of trade in 2014–2015 contributed to a 13–14% decline in Russia's gross domestic income (in 2015). The country's real gross domestic product, however, was down as little as 2.5% (down another 0.2% in 2016). In 2017, the Russian economy reversed to positive growth rates in real GDP (up 1.5%) as the global economy advanced 3.6–3.7%, close to positive values seen in 2000–2009. Positive growth rates were reported almost for all the EU countries and for Japan. However, there can no certainty that the aftermath of the 2008–2009 crisis have been overcome globally. When it comes to Russia, the country has taken off on a new trajectory of sustainable growth, and a new recession is no longer a threat in 2018 or 2019, not to mention in the short-term perspective.

Overall, 2017 year-end economic results are what they are expected to be, and they may be even closer to the upper boundary. Note that GDP structural growth rates that rely on the total factor productivity, available labour and capital have recently dropped to 1.0–1.5% a year; therefore, amid declining economically active population, a faster growth can hardly be expected unless the efficiency of economy is enhanced. Although terms of trade improved (in particular, Urals crude prices in 2017 turned out to be approximately 25% higher than in 2016, $53.1 a barrel against $41.9 a year earlier), they were worse than the 10-year average. That is, the foreign trade sector couldn't, as usual, make any noticeable positive contribution to economic growth rates.

The termination of the negative business cycle phase and the reversal to cyclical growth can, in our view, be regarded as the key growth factor. This is exactly in line with the 2017 annual economic growth rates of 1.5–2.0%. We are anticipating a similar economic growth in Russia in 2018.

2017 and business cycle

Emphasis should be placed on certain characteristics of understanding the business cycle in modern economics. The real business cycle theory assumes that economic dynamics is led by a host of random, unforeseeable shocks that put some "noise" into possible cyclical (in classical terms) economic fluctuations, and the cycle phase identification becomes provisional and tends to be performed ex post, with a marked delay (see, for example, the practice

1 P. Kadochnikov, A. Knobel, S. Sinelnikov-Murylev. The Russian economy's openness as a source of economic growth // Voprosy Ekonomiki. 2016. No. 12.

of business cycle dating of the U.S.-based National Bureau of Economic Research[1]).

Below listed are some features that are specifically characteristic of economic recovery from the bottom of the business cycle.

First of all, companies resumed their investment activities. In 2017, the fixed investment dynamics was far beyond the expectations. According to data for the first three quarters 2017 the fixed investment index stood at 104.2% compared to the same period a year ago, and the year-end investment increased 3.5–3.8% in real terms, according to our estimates. The increase in investment was also driven by public and (both state-owned and private) companies' investments in major projects such as the Crimean Bridge Project, the infrastructure of the FIFA 2018 Football World Cup, the infrastructure, transport and urban environment of Moscow and some other big cities.

Second, household saving behaviour altered. Despite a 1.7% decline in real disposable personal income in 2017 (primarily because public employees' salaries and social benefits were not indexed and foreign exchange holdings were revised downward amid increasing rouble's nominal exchange rate), the last year's retail trade turnover increased 1.2%, including a 12% increase in auto sales, retail lending expansion was resumed, outstanding mortgage loans accelerated at quick pace.

Third, the degree of uncertainty and risks in the economy was lowered due to, among other things, a consistent economic policy of the state. In 2017, the Russian central bank cut its key interest rate more than once, but inflation expectations were much slower to lower. As to the level of real interest rates, an appropriate measurement for real interest rates might be the difference between the nominal interest rate and the anticipated inflation rate rather than the difference between the nominal interest rate and the ongoing inflation rate. Therefore, in 2017, with cuts in the key rate and relatively stable elevated inflation expectations, the country ended up facing a situation in which anticipated real interest rates were almost zero rather than highly positive, which pushed down the alternative cost of money in the economy and encouraged investment as well. An indirect proof of enhanced anticipated terms of doing business in Russia may be Russia's climb to 35th in ease of Doing Business ranking (compared to 120th in 2012).

Growth–2018: Risks to face

Speaking of assessing the situation in 2018, what we are seeing now is that there is a great deal of year-by-year risks and constraints that dampen growth. In particular, although we are expecting some acceleration of structural growth rates (closer to 1.5–2.0% a year) as a result of enterprises' higher investment activities and of lessened uncertainty in the economy, the economically active population continues to decline, and the total factor productivity is growing slower than in the 2000s because of lacking serious structural reforms. The increase in crude oil prices that emerged at the boundary between 2017 and 2018, the extended OPEC+ output cut agreement allow us to revise up the crude price forecast for 2018 from $50–52 to $55–60 a barrel, whereas the contribution of the foreign trade component to GDP still remains negative. In addition, the experience of 2012–2014 shows that the Russian economy is now much less reliant on price movements.

1 http://www.nber.org/cycles/recessions.html

The cyclic component of growth remains positive, although there are, in our view, headwinds for growth rates in 2018 that will not allow the economy as a whole, under the business-as-usual scenario, to see growth rates of more than 1.5–2.0% a year:

- The termination of the labour market balance (which was "screwed up" in part due to the demography-induced decline in the economically active population) and the decline in the cost of labour in the economy. In 2015, wages as a percentage of GDP fell 1.0–1.5 p.p. following the rouble's devaluation and accelerated growth of prices. However, the trend reversed in 2016, and the payroll as a percentage of GDP is now above previous peaks. That is, the positive effect of wage adjustment is over, and companies' labour costs are now higher than the cost of manufactured products.
- The increase in fixed investment is, in part, difficult to explain because statistics show that companies' profits as percentage of GDP decreased, companies resumed (after a short brake in H2 2016) to increase the balance on deposit accounts with banks, banks did not expand loans to the non-finance sector. Nevertheless, given the accelerator effect, the ongoing economic growth should lead through increase in the desired capital size to higher growth rates for investment in 2018.
- Uncertainty (at least during the first quarter) about Russian government's economic policy after the upcoming presidential elections and therefore a possible change in the business and investment environment in Russia. In addition, the risk of new U.S. sanctions is likely to keep investors uncertain throughout the entire year.
- A fiercer competition in global commodity markets (including but not limited to just hydrocarbons) makes it difficult to increase Russia's exports in volume terms even amid rising prices for commodities.
- Depleted growth potential for agricultural exports. The agricultural industry and foodstuff processing became a serious factor of economic growth in 2014–2017, initially as a reaction to the Russian ban on food imports and later on as a result of favourable weather conditions and record-high crops, the completion of some major investment agricultural projects that kicked off prior to 2014. However, at the onset of manifestations of crisis the number of new similar agricultural projects was down markedly, and the crop yield is difficult to increase without importing agriculture related technologies.

What to do?

Therefore, the economic reforms agenda after Russia's March 2018 presidential elections and a new government formation remains the central issue for accelerating structural growth rates and dealing with the existing constraints. The very fact of adopting a structural reform programme may, in our view, have a positive effect on economic agents' expectations, lower uncertainty and improve the business climate, which is sufficient to achieve real GDP growth rates of 2.5% or higher in 2018. Higher growth rates depend on government's agenda and coherent policies, the pace of reforms and changes in external business and political environment.

Below listed are the top priority economic policies which, if announced, may, in our view, have a positive effect on expectations:

1. A fiscal manoeuvre designed to increase the proportion of productive expenditure while, among other things, reducing non-productive expenditure. In particular, the Centre for Strategic Research (CSR)[1] has proposed to increase productive budget expenditure by 2024, from the present 11% of GDP to the Europe average of 13.5–14.0%, thereby overcoming chronic underfunding of expenditure (to meet both international standards and internal policy priority requirements) that ensure long-term development and are of priority for individuals. Furthermore, investment should only be focused on projects and items of expenditure that are most responsive to structural reforms in order to ensure the required effectiveness.

In order to implement the fiscal manoeuvre without impeding the provision of public goods and social security services as well as any types of support to individuals the general government's spending within the next six years should be not less than 34.0% of GDP, and federal budget expenditure not less than 16.5–17% of GDP, which, inter alia, requires that the budget rule be eased.

According to CSR's estimates[2], reallocation of funds out of non-productive expenditure into productive expenditure as a result of "fiscal manoeuvre" could increase average annual growth rates 0.5 p.p. in a 3–5 year time horizon, adding about 1% to annual growth in the long term.

2. A broad-scale denationalization of economy, which may reverse the trend that narrows the space for private initiative, leads to erosion of civilized ownership relations, interfering with the rights to private property (private business) and with competitive markets as a result of public sector expansion de jure and de facto. Less government involvement will have a positive effect on Russian financial markets, encourage foreign investment as well as create preconditions for stepping up the quality of corporate governance.

Another essential aspect is the fiscal aspect of privatization. Budget projections for 2018–2020 include a tough enough fiscal policy: 2020 year-end federal budget expenditure will be about equal to the 2017 expenditure, down 10% in real terms (as adjusted for inflation). Furthermore, Russia is in desperate need of investing more in human capital and infrastructure, which must become a part of budget expenditure priority. Privatization will help raise more money to cover the expenditure. Alternatively, a heavier tax burden on the economy can be an option to consider, but it's hardly reasonable to raise taxes while seeking economic growth.

3. Liberalization of foreign trade regulations. Despite the priority of internal factors of growth, reducing the reliance on external market movements and creating an open economy will be more helpful in attracting investors (including investors with Russian "roots") and in combating the relocation of capital to offshore accounts (deoffshorization of the economy) than "closing" the economy, imposing various restrictions on movements of goods, capital and production factors. In terms of tax administration, the work performed by Russia's Federal Tax Service (FCS) can be equated with international best practices, but FCS has just started to step up its performance. In our view, Russia falls far behind developed countries in areas such as capital movement regulation and foreign exchange regulation.

1 A. Kudrin, I. Sokolov. Fiscal maneuver and structural reforms in the Russian economy // Voprosy Ekonomiki. 2017. No. 9. P. 5–27.

2 A. Kudrin, A. Knobel. Fiscal policy as a source of economic growth // Voprosy Ekonomiki. 2017. No. 10. P. 5–26.

It's necessary to switch as soon as possible to a unified mechanism of fiscal and customs administration: customs duties must be controlled (and checked for adequate charging) within the context of firm's business as a whole rather than separately per each consignment of goods that cross the border. Frontier control of goods must be based on a risk management system (rather than a minimum cost of goods evaluation) and, accordingly, establishing financial guarantees.

An important issue is to alter the foreign exchange regulation framework. Macroeconomically, foreign exchange control is not necessary and must be replaced with fiscal control as well as control measures as part of counteracting legalization (laundering*)* of ill-gotten proceeds and terrorist financing.

2. RUSSIA'S BALANCE OF PAYMENTS 2017: STEADY BOP POSITION

A.Bozhechkova, A.Knobel, P.Trunin

Russia's positive balance of trade increased in 2017, ensuring a steady BoP position. The private sector saw capital outflow in 2017, mostly because Russian banks had trimmed foreign-exchange liabilities. The rouble appreciated on the back of stable balance of payments.

According to Bank of Russia's preliminary data on the BoP for 2017, the current account balance ran at $40.2bn, gaining 58% (or $14.7bn) over 2016[1].

The balance of trade in goods reached $115.8bn, adding 28% (or $25.5bn) to $90.3bn a year ago (*Fig. 1*). The major contribution came from increased exports, up 26% in value terms, from $281.8bn in 2016 to $353.7bn in 2017. The average annual crude oil price was on the rise amid stable supplies in volume terms (export prices in January–November 2017 averaged $364 a tonne[2], whereas the previous year's price was $289 a tonne[3]). That also pushed average annual prices for refined petroleum products (export prices averaged $388 a tonne[4] in January–November 2017, whereas in 2016 they were $295 a tonne) and for natural gas (export prices averaged $179 per thousand cubic meters in January–November 2017, whereas in 2016 they were $157 per thousand cubic meters).

Prices for other Russian primary exports rose on the back of further global economic growth and therefore heightened demand for resources: ferrous metals (an increase to $440 from $321 a tonne), hard coal (up to $74 from $52 a tonne), wheat and meslin (wheat-rye mixture) (up to $176 from $166 a tonne), nonferrous metals (up 10–30% for aluminium, copper, nickel).

The balance of trade in goods was also driven by a 24% growth in imports, from $191.6bn in 2016 to $237.9bn in 2017, mostly as a result of the rouble's appreciation. According to Bank of Russia's data, the index for rouble's real effective exchange rate against other foreign exchanges in 2017 increased 15.9% over 2016, leading to a substantial relative fall of costs of imports for Russian economic agents[5].

In 2017, *the balance of trade in services* contracted by $30.2bn compared with the $23.8bn contraction a year ago. Export of services in 2017 increased 15% to $58.1bn from $50.6bn, mostly due to inbound tourism and transport services as import of services gained 19% to $88.3bn from $74.4bn, mostly on the back of outbound tourism, transport services and other types of business services, with the latter outpacing considerably the former. If the rouble's real

1 See A. Bojechkova, A. Knobel, P. Trunin. Russia's Balance of Payments of 2016 // Russian Economic Developments. 2017. Vol. 24. No. 2. P. 3–6.

2 An equivalent of ~$50 a barrel. The value will change somewhat upwards, according to the figures for January–December.

3 An equivalent of ~$40 a barrel.

4 The value will change somewhat upwards, according to the figures for January–December.

5 More information on the foreign exchange rate effect on trade is available in the paper of Knobel A., Firanchuk A. Russia's Foreign Trade in January–August 2017 // Russian Economic Developments. 2017. Vol. 24. No. 11. P. 12–18.

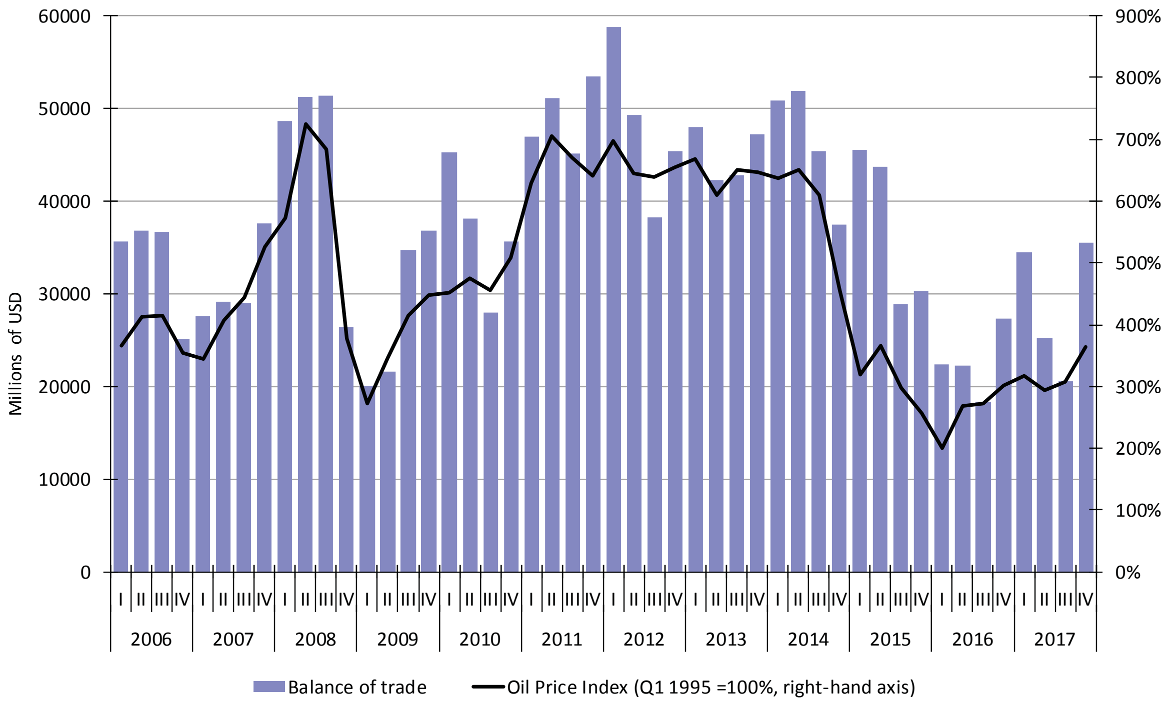

Fig. 1. Russia's balance of trade and the global oil price index in 2006–2017
Sources: Bank of Russia, own calculations.

effective exchange rate continues to appreciate, import of services would continue to outpace export of services, and therefore a negative balance of import of services would further deteriorate. However, since the rouble's appreciation may be led mostly by increasing prices for primary export items, such a deterioration is known to be offset by increase in the trade in goods balance.

Both *the investment income balance* and *the compensation of employees balance* underwent minor changes, with the former down -$2.9bn from -$2.2bn as the latter dropped -$35.3bn from -$32.5bn in 2017.

Thus, the trade in services balance and the trade in goods balance, with the latter being heavily reliant on hydrocarbon price movements, continued to be the principal driver of the amount of the current account balance in the Russian economy.

The increase in the current account surplus occurred with a comparable increase in financial account deficit, up $21.0bn in 2017 (up $11.9bn in 2016). In 2017, the non-government sector of the Russian economy saw a net capital outflow of $31.3bn, a 1.6-fold increase over 2016 (*Fig. 2*). The dynamics of capital outflow was driven mainly by banks' transactions. In particular, banks saw a net capital outflow of $28.6bn in 2017, whereas there was an inflow of $1.1bn in 2016.

The major contribution to the balance of bank transactions with the rest of the world came from the repayment of banks' foreign liabilities which in 2017 were trimmed by $31.4bn (by $27.1bn in 2016), whereas banks' foreign exchange assets in 2017 were down $2.9bn ($28.3bn in 2016). The shrinkage of banks' foreign exchange assets was in part due to the repayment of banks' foreign exchange loans under repos with the Bank of Russia ($7.9bn at 2017 year-end).

Meanwhile, other sectors saw a considerable decline in net capital outflow in 2017, down to $2.7bn from the previous year's $20.9bn. The non-bank

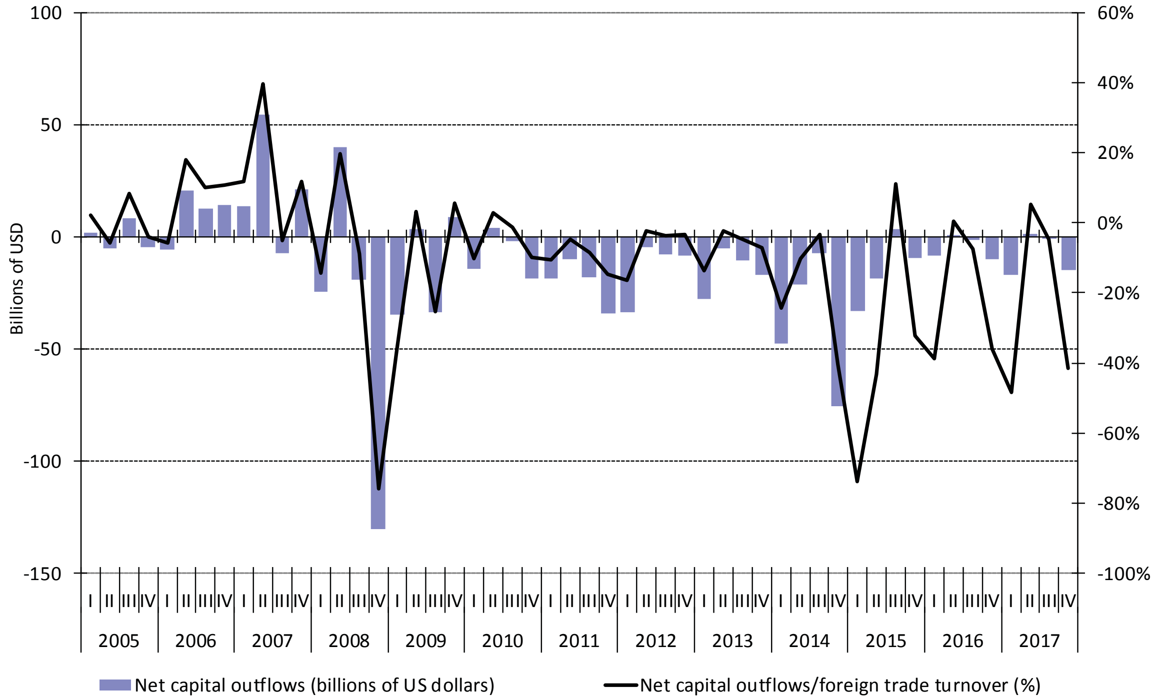

Fig. 2. Private sector's net capital outflows in 2005–2017

Sources: Bank of Russia, own calculations.

sector's foreign liabilities increased $15.7bn (up $17.6bn in 2016), mostly on the back of $23.2bn in direct investment ($30.9bn in 2016). Portfolio investment liabilities decreased by $5.9bn (no changes in 2016) and total loans and credits dropped $1.7bn (-$12.0bn in 2016), whereas other liabilities increased $0.1bn (an outflow of $1.3bn in 2016).

Overall, positive growth in foreign liabilities was indicative of the fact that the non-bank sector in 2017 managed to raise more funds than was needed for foreign debt repayments. That was also due to non-bank sector's successful foreign debt refinancing despite sanctions-induced limited access to global capital markets. Other sectors' foreign debt increased $10.7bn to $354.0bn in 2017 (down $1.9bn in 2016). Other sectors' foreign exchange assets increased $22.7bn in 2017 (up $34.9bn in 2016), mainly because of outbound foreign direct investments of $30.1bn ($20.1bn in 2016). Other sectors' portfolio investments increased $5.0bn ($3.6bn in 2016).

A substantial contribution to the increase in foreign liabilities in 2017 also came from the growth in portfolio investments in liabilities of federal agencies of state administration ($15.3bn in 2017 compared with $5.2bn a year ago). That was due to foreign investors' heightened interest in the Russian Federal Loan Obligations (OFZs) amid a relatively high level of interest rates in Russia. However, inbound portfolio investments in public sector dropped considerably by the end of 2017, probably as a result of weakening foreign investment demand for this type of assets amid lower interest rates in Russia and concerns surrounding new Western sanctions against Russia.

According to BoP data, the international reserves in 2017 increased $22.6bn (up $8.2bn in 2016) because the Ministry of Finance purchased about $14.3bn in foreign exchange in the local foreign exchange market and banks repaid foreign liabilities under repos with the central bank ($7.9bn in 2017).

If the ongoing trends in the Russian economy and in the global energy market continue further, Russia's Balance of Payments and therefore the rouble's exchange rate will remain stable: a possible growth in the average annual crude oil price will be offset by increased imports as well as Ministry of Finance's much bigger foreign exchange purchases under a new budgetary rule. In addition, the rouble's appreciation will be dampened by a decline in short-term foreign capital inflows as the central bank continues to ease its monetary policy. What should not be left unnoticed, however, is risks that may come from a possible fall of crude oil prices induced by increased output and from new tough sanctions against Russian assets.

3. IMPORT SUBSTITUTION IN INDUSTRY OVER THE PERIOD 2014–2017: IMPORTS HAVE RETAINED THEIR SHARE

S.Tsukhlo

As before, the main obstacle to successful import substitution is the absence, in RF territory, of the production of equipment, equipment components and raw materials needed by Russian enterprises. The second issue associated with problematic import substitution is the low quality of domestic products. These factors have remained practically unchanged since 2014, when surveys of Russian enterprises were demonstrating critical dependence of Russian industry on imports. An overwhelming majority of domestic enterprises have been forced to maintain the same share of imports in their purchases. In 2017, the ruble's strengthening and industry's successful adaptation to the 2015–2016 crisis resulted in a minimal reduction of the share of import substitution in purchases reported by enterprises over the three-year monitoring period[1].

The estimated prospects of import substitution: 2014

The first measurements of the potential changes in planned purchases across industry in response to growth of ruble-denominated import prices were done as early as April 2014, when it was still unlikely that the exchange rate movement was significantly influencing buyer behavior. That survey demonstrated Russian industry's high dependence on imports. The critical dependence index – the impossibility not to rely on imports notwithstanding any scale of price growth – was then hovering at around 40% (the share of enterprises reporting that dependence) with regard to both equipment and raw materials. At the other side of the spectrum of possible reactions to price growth were those enterprises which during that period reported that they were not importing anything. The estimated independence from imports reported by enterprises amounted to 22% with regard to machinery & equipment, and 33% with regard to raw materials and other supplies. Thus, the remaining group of enterprises continued to purchase imported products, but were prepared to do without those products in the event of further growth of their ruble-denominated prices. In April 2014, this group of enterprises across Russian industry amounted to 25% for raw materials, and to 39% for machinery and equipment.

Our second opinion survey of the preparedness of enterprises to discontinue import purchases took place specifically in December 2014, when the ruble's plunge trajectory hit its bottom, and the calls of authorities for import substitution were loudest. However, the plans of import purchases across

1 This paper discusses the main results of our import substitution surveys, conducted by the Gaidar Institute in 2014–2017 on the basis of surveys of directors of industrial enterprises. In this connection, the enterprises were treated not as producers of Russian domestic products capable of ousting their competing counterparts from the Russian marker in the framework of import substitution policy, but as buyers of imported machinery & equipment and imported supplies & raw materials forced to switch over to the domestic analogues of these items in conditions of an administrative ban on certain imports and/or their rising prices resulting from the ruble's depreciation.

industry remained the same as before. Nearly 40% of enterprises were not ready to operate without buying imported machinery and equipment, even in view of the ruble's obvious depreciation inevitably followed by a rise in ruble-denominated prices for these technologies in the forthcoming year 2015. In other words, the scale of Russian industry's critical dependence on imports remained unchanged.

An almost identical situation could be observed with regard to Russian industry's dependence on imports of raw materials – the reported intentions of enterprises concerning purchases of such items. A maximum percentage share of all enterprises (37%), as before, were prepared to rely on these imports regardless any surge in their ruble-denominated prices. By late 2014, as before, only a third of all enterprises had not been relying on imports in order to secure their output.

Obstacles to import substitution

The obvious reluctance (or unpreparedness) of Russian industrial enterprises to do without purchases of imported equipment and raw materials even in face of the inevitable growth (clearly made obvious in December 2014) of their prices urged us to begin monitoring, from 2015 onwards, the existing obstacles to successful import substitution across industry. Over the past three years, the survey participants were asked 5 times to answer the following question: 'What prevents your enterprise from switching over from purchases of imported equipment and raw materials to purchases of their domestic analogues?' Their answers have yielded a rather comprehensive picture of the real issues that prevent successful import substitution in enterprises' purchases.

The main issue arising in the event of discontinuation of imports has always been and still remains the absence, in Russia, of any analogues of some imported items, no matter what their quality. The January (2015) assessments of the barriers in the way of import substitution were more than just an emotional reaction to the shock-like depreciation of the ruble in December. And our three-year monitoring failed to yield any positive observations that could confirm the creation, in Russia, of production of new equipment and raw materials (i.e., something that had never been produced before) – rather, the observable trend was the opposite (*Fig. 1*).

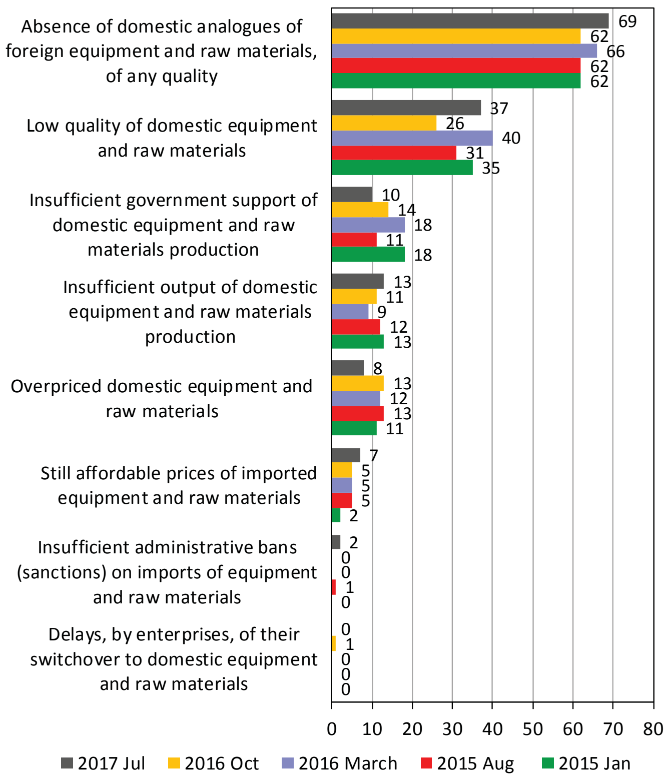

Fig. 1. Obstacles to import substitution for Russian industrial enterprises in 2015–2017, %

The low quality of domestic equipment and raw materials as compared with that of their imported analogues has been ranked stably second among the obstacles to import substitution. A sizable group of enterprises (on the average, a third of them in all five surveys) constantly pointed to that issue.

Other constraints on import substitution were mentioned far more rarely. For example, among the other obstacles, industrialists noted insufficient government support of domestic equipment and raw materials production, but this kind of estimation of the government policy in the sphere of import substitution was voiced by only 18% of respondents in January 2015, and by 10% in July 2017.

Overall, on the basis of the available set of estimations, it can be concluded that enterprises relied mostly on their own devices, including their ability to adapt to the ruble's new exchange rate. In this respect, by the end of 2017, domestic industry had achieved some very obvious successes: the negative effects on output by 'the weakening ruble and the rising prices of imported equipment and raw materials' (as worded in the questionnaire offered by the Gaidar Institute) in late 2017 were as low as 6%.

The estimations of those analogues of imported equipment and raw materials that were already being produced in Russia were also quite stable and well-defined. Complaints about the prices of Russian products that were unreasonably high compared with their quality were reported on the average by 11% of those Russian enterprises that were buying them, and these complaints remained unchanged over the three-year period.

Special attention should be focused on the estimates of the ability of Russian industry to increase output in the framework of import substitution. Issues associated with the demand for those products that were already being manufactured in RF territory were mentioned on the average by 12% of enterprises. So, Russian industry possesses sufficient reserves (idle capacities) for increasing output in an event of an increased demand for its products in the framework of the import substitution policy.

The actual and planned scale of import substitution in 2015–2018

However, import substitution is still ongoing and by all indications, this process will remain important for our national economy for a long time. In such a situation, it becomes necessary to monitor, on a quarterly basis, not only the actual developments, but also the plans of enterprises in that sphere. This goal is answered by the new indicators applied in the regular surveys of industrial enterprises conducted by the Gaidar Institute.

As demonstrated by the monitoring results obtained in 2015–2017, Russian industry during that period managed to achieve a relatively high success in terms of import substitution when buying new machinery and equipment (*Fig. 2*). This process was most notable in Q2 2015, when 30% of industrial enterprises reported a shrinkage, in terms of physical volume, of the share of imports of machinery and equipment in their total purchases (relative to Q2 2014), or their total disappearance. Perhaps, the corresponding period-end index for Q1 2015 was even more impressive in terms of import substitution scale, but it can be considered to be the upshot of the initial and excessively emotional response to the shock produced by the ruble's December plunge.

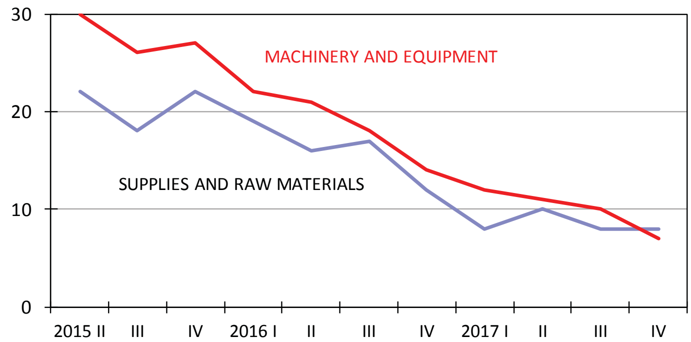

Fig. 2. The actual scale of import substitution in the purchases of equipment and raw materials by enterprises, %

However, over the next ten quarters, Russian industry began to play down the intensity of actual import substitution. And so, in Q4 2017, only 7% of enterprises reported a shrinkage, in terms of physical volume, or a zero percentage of imports in their purchases of machinery and equipment.

The shrinkage of imports of raw materials across Russian industry was less intensive due to the lower import substitution potential in that sector. The highest scale of substitution of imports of raw materials was 22%, and by Q4 2017 it had declined to 8%. The reason for this very modest success was, most probably, the dependence of Russian industry on imports that had emerged over the previous years. Having purchased imported equipment, Russian enterprises are forced to use raw materials and supplies that are compatible with that equipment. Such materials are not produced domestically, but can be supplied by foreign producers who usually offer comprehensive sets of supplies and take full advantage of any opportunity to make their customers dependent on their products for all the phases of their production cycle.

Another reason for the slow pace of import substitution in the sector of raw materials and supplies was the mildness of the 2015–2016 crisis, which did not trigger any dramatic output reduction across Russian industry. Such a situation did not require a large-scale substitution for the more expensive imports of raw materials and other supplies, and so the demand of enterprises for raw materials, including imported ones, did not dwindle markedly.

Let us now review the import substitution plans across industry (*Fig. 3*) over the period from Q3 2015 (survey in July 2015) through Q1 2018 (survey in January 2018).

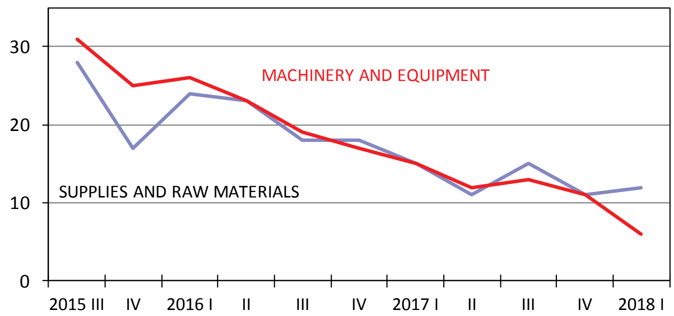

Fig. 3. The planned scale of import substitution in the purchases of equipment and raw materials by enterprises, %

The quarterly import substitution plans demonstrate that the expectations of a reduced scale of import substitution with regard to raw materials relative to that of machinery and equipment were true only for the year 2015. The plans for 2016–2017 have already confirmed the similarity of intentions of Russian producers in that sphere. The obvious collapse of investment plans and the obviously less than disastrous (non-crisis) scale of output decline predetermined that variance of plans across Russian industry in 2015. The situation became different in 2016, when industry was already capable of assessing the specificities of the protracted crisis of 2015–2016 and adapting to the new production conditions and the monetary policy implemented by the Bank of Russia. This was also true for the investment sector: there appeared certain signs of possible growth of investment in domestic production. And the strengthening ruble and relatively good financial result enabled enterprises to once again begin to purchase imported machinery and equipment.

The scale of import substitution planned by producers with regard to all categories of purchases (equipment and raw materials alike) was always below that of their own ‘import conservation’ plans. In other words, industry preferred (or was compelled) to maintain the same share of imports in the purchases of new equipment and the use of raw materials.

4. THE BANKING SECTOR: THE YEAR'S CONTRADICTORY RESULTS

M.Khromov

The Russian banking sector remains unstable. In 2017, renewal of growth in bank assets and individual segments of the lending market was accompanied by falling profits and large volumes of substandard assets being identified with large banks undergoing financial restructuring.

In 2017, the banking sector's aggregate assets increased by 7.8%[1], having exceeded Rb 85 trillion at year-end. The nominal growth rates of assets were somewhat lower (6.4%) on the back of appreciation of the rouble in 2017 and the relevant revaluation of assets in foreign currency.

In the past year, the number of credit institutions decreased by 62 from 623 to 561 or by 10%. Within five years from 2013 to 2017, their number fell by more than 40% or by nearly 400 credit institutions. The shrinkage peak was registered in 2016 when the number of credit institutions declined by 110. In 2017, the Central Bank of Russia (CBR) withdrew 51 banking licenses; that is nearly 50% less (97) than in 2016. The remaining banks which ceased to carry out their operations were restructured and incorporated into other credit institutions. It is worth mentioning that not a single new bank was registered last year.

The total assets of banks whose licenses were withdrawn in 2017 amounted to about Rb 0.8 trillion as of the last reporting date before the license withdrawal or less than 1% of the banking sector's assets. Licenses were withdrawn mostly from small banks, whose average size of assets did not exceed Rb 18bn, so that process did not virtually affect the dynamics of banking assets.

The total volume of households' deposits with banks whose licenses were withdrawn in 2017 amounted to Rb 420bn, that is, less than Rb 10bn on average per bank, so proceeding from the above it can be concluded that the regulator terminated mostly the activities of small banks with a small volume of operations.

In 2017, the financial result of the banking sector decreased considerably as compared to the previous year. In 2017, the banking sector's total revenues amounted to Rb 790bn which means that the return on assets (ROA) fell below 1% year-on-year, while the return on equity (ROE), below 10%

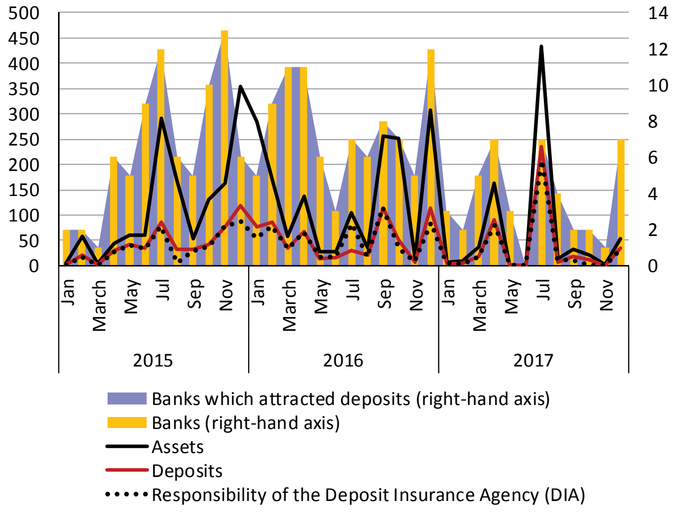

Fig. 1. Indices of the banks whose licenses were withdrawn
Source: The Central Bank of Russia, own calculations.

1 Hereinafter, the growth rates are stated with adjustment to the exchange rate revaluation unless otherwise is specified.

year-on-year. In 2016, the banking sector's profits amounted to Rb 930bn, while the ROA and ROE indicators, to 1.1% and 12.2%, respectively. The main factor behind a drop in profits was multiple growth in deductions to reserves for possible bad loans and other assets. In 2017, their volume increased by Rb 1322bn or 24%, while in 2016 reserves for possible losses rose by the mere Rb 188bn or 3%.

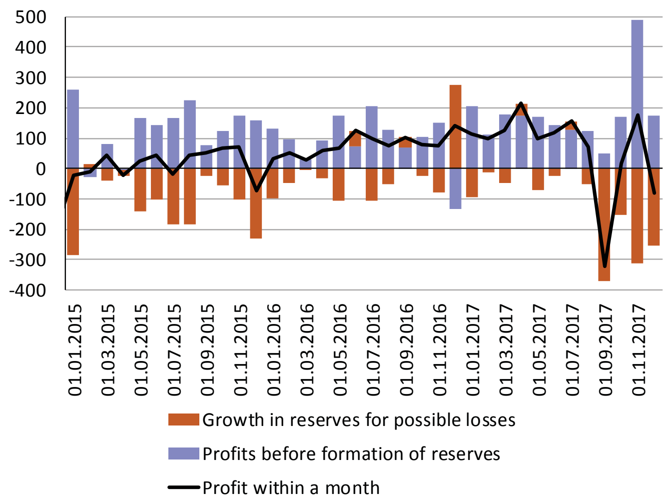

Fig. 2. The pattern of the banking sector's profits, billion Rb
Source: The Central Bank of Russia, own calculations.

A larger portion of growth in reserve provisions and, accordingly, bank losses took place in the last months of 2017. Within the first eight months of 2017, the banking sector's profits surpassed the 2016 index, having amounted to Rb 997bn, while the volume of deductions to reserve provisions, to the mere Rb 235bn. In the remaining four months of 2017, the reserves increased by more than Rb 1trillion and this situation resulted in losses of Rb 207bn.

Such a dramatic change in the bank profit dynamics was driven by financial rehabilitation procedures started in August-September in respect of Russia's large banks: FK Otkrytie and the Binbank, and in December, in respect of the Promsvyazbank. The restructuring of those banks identified a large volume of high-risk assets against which reserves adequate to the risk level were charged promptly. Eventually, as of 1 January 2018 the banking sector's total volume of reserve provisions amounted to the record 8.1% of the total bank assets, having exceeded the level (7.5%) of the 2008–2009 crisis.

So, the slowdown of the process of banking license withdrawal did not demonstrate any radical improvement of the situation in the banking sector. With critical problems identified at large banks, the regulator took a decision to modernize the financial rehabilitation mechanism.

From June 2017, new regulatory norms envisaging an alternative mechanism of financial restructuring (rehabilitation) of banks became effective. For this purpose, the Central Bank of Russia has established the Banking Sector Consolidation Fund (BSCF) and the BSCF management company which is fully controlled by the Central Bank of Russia. The modified mechanism is aimed at reducing the rehabilitation-related costs and promoting control over expenditures and utilization of allocated funds.

Until the mid-2017, the financial rehabilitation of banks was carried out with participation of the Deposit Insurance Agency (DIA) and funds of the Central Bank of Russia and investor-banks which were interested in development of the rehabilitated bank. However, funds allocated for rehabilitation were often used by investor-banks for development of their own business. The modified financial rehabilitation mechanism prevents this practice until the sale of the rehabilitated bank. It excludes from the chain of financial support of rehabilitated banks the two components – the DIA and investor-bank – which are replaced by the management company subordinate the Central Bank of Russia.

Note that the first banks subjected to the modified financial rehabilitation procedure were FK Otkrytie and the Binbank which used to be active as turnaround managers in restructurings of other banks. The problems of these credit institutions were mostly related to inefficiency of the former mechanism of bank restructuring.

By the end of 2017, financial rehabilitation of those two banks was far from being over and it is not possible yet to assess the efficiency of the new mechanism.

The same can be said about the Promsvyazbank where the restructuring began at the very end of the year. However the fate of this bank is virtually solved: on its basis it is planned to create a base bank to provide services to the Gosoboronzakaz. It means that the bank's transparency is going to be largely reduced. Even now, the Central Bank of Russia publishes simplified reporting of all the banks in order to prevent a disclosure of the information on accounts related to the Gosoboronzakaz. Should all the activities related to the Gosoboronzakaz be concentrated with one bank, the results of the bank's financial rehabilitation may remain unknown for long.

5. THE MORTALITY RATE IN RUSSIA: WHAT DO THE 2017 DATA MEAN?

R.Khasanova

In 2017, Russia saw natural decline in the population: within 11 months the number of deaths surpassed the number of births by 122,000 persons. The mortality rate is slowly going down. Blood circulatory system diseases are still the major cause of death in Russia. The analysis of the regional statistics on death causes identified the problem related to accuracy of the information received in a number of cases.

In January–November 2017, the downward mortality rate trend prevailed in Russia. According to the Rosstat's preliminary data, within the abovementioned period the number of deaths amounted to 1,678,000 people (2.7% less than in the relevant period of 2016). The crude mortality rate is 12.5‰[1].

In January–November 2017, in Russian regions the gap between the minimum and maximum crude mortality rates was equal to 14.5%. The crude mortality rate depends largely on the population pattern and such a differentiation of the rate can be explained, in particular, by the specifics of the sex and age pattern of a region's population. In 2017, regions with a high share of the senior age population (the Pskov Region, the Novgorod Region and the Tver Region) demonstrated a high crude mortality rate (16.9–17.6‰), while those with a high share of the younger age population, a low one: the Republic of Ingushetia (3.1‰), the Chechen Republic (4.6‰) and Yamalo-Nenets Autonomous Region (4.9‰).

For the purpose of a more objective mortality rate assessment excluding the effect of the population age pattern, a standard rate is utilized. Based on the regions' 2016 data[2], it presents a somewhat different version: the regions with a high mortality rate include the Chukot Autonomous Region, the Republic of Tyva and the Jewish Autonomous Region. In 2016, the minimal standard rate was observed in the Voronezh Region, the Republic of Ingushetia and Moscow.

Blood circulatory system diseases are still the main cause of death (47%) in Russia. In January–November 2017, other causes of death[3] are rated the second (20% of all the deaths) and include "other classes of diseases", endocrine system diseases, eating disorders, metabolic diseases and nervous system diseases; neoplasms are rated the third (16%).

In January–November 2017, a decrease in the mortality rate was observed by all the main causes of death: death from external factors (a decrease of

1 The crude mortality rate is the ratio between the number of the deaths during a calendar year and the average annual number of the population. It is calculated in per mille (per 1000 persons of the population).

2 The direct standardization method; the 2016 Russian population pattern is taken as the standard. The data on the sex and age pattern of the mortality will be available in summer 2018.

3 Until 2017, in the operational statistics these causes used to be united into a single group: "Other Causes of Death". From January 2017, in the Rosstat's operational statistics such classes of diseases as "nervous system diseases" and "endocrine system diseases, eating disorders and metabolic diseases" were singled out from "other classes of disease".

9.3%), respiratory system diseases (11.5%), digestive organ diseases (5.7%), neoplasms (2.2%), blood circulatory system diseases (4.1%) and infectious and parasitic diseases (1.3%). The indicator of death from other causes is an exception. The mortality rate in this group grew by 5.8%. It is difficult to say why the death rate from other causes has increased. The detailed data will be available only in summer 2018.

In previous years, nervous system diseases (13353 deaths, 30% of other death causes in 2007), urinogenital diseases (10211 persons, 23%), endocrine system diseases, eating disorders and metabolic diseases (9742 persons, 22%) accounted for a larger portion of other causes of death. By 2016, the number of deaths from these diseases multiplied (*Fig. 1*): deaths from nervous system diseases: 83925 persons (52% of deaths from other death causes), urinogenital diseases: 17928 persons (11%), endocrine system diseases, eating disorders and metabolic diseases: 33711 persons (21%).

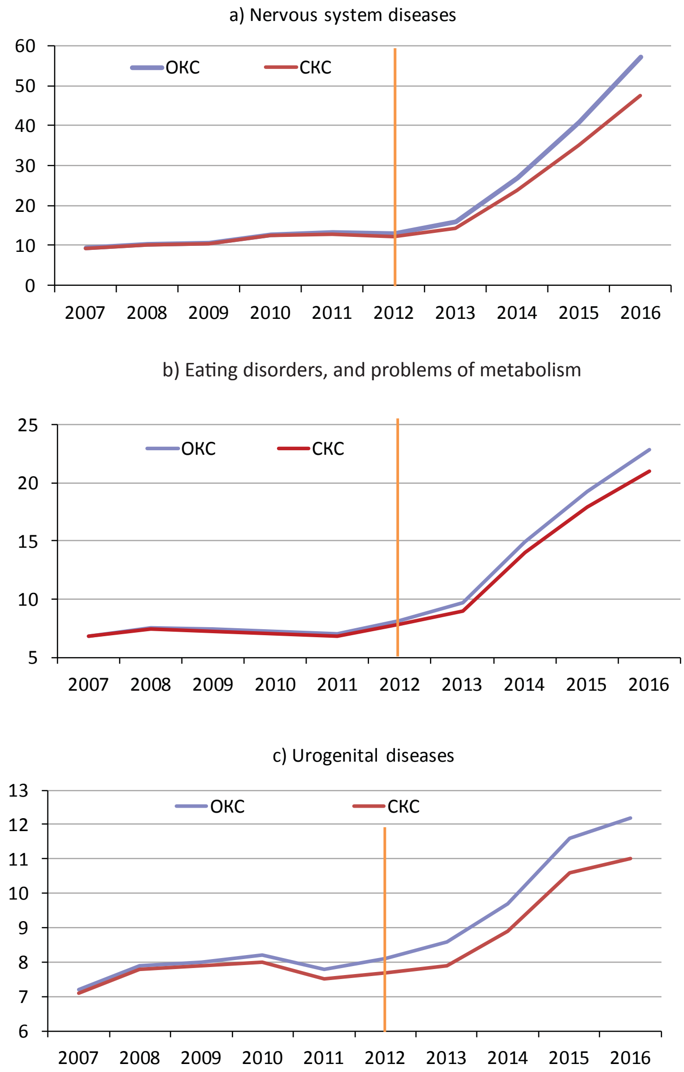

Fig. 1. Crude mortality rate (CMR) and standard mortality rate (SMR) by death causes, per 100,000 people, 2007–2016

Source: own calculations based on the Rosstat's data

Note. The direct standardization method; the 2007 Russian population pattern is taken as the standard.

In 2011–2016, the index of mortality from blood circulatory system diseases, neoplasms and external factor (for example, road traffic accidents) decreased, but not considerably. The life expectancy (LE) rose by 2 years in Russia (including by 2.46 years with men and 1.45 years with women). The calculation of the life expectancy change components estimating the effect of the mortality at specific ages and from specific death causes has revealed that in 2011–2016 life expectancy in Russia increased mainly owing to the reduction of the rate of mortality from blood circulatory system diseases at the senior age (by two years). Along with a positive effect of this factor on life expectancy growth, the index's dynamics experienced a negative effect on the part of the increased mortality rate from other causes at the senior age (-0.8 years) and infectious and parasitic diseases (-0.01 years) (*Fig. 2*). In addition, the life expectancy increased on the back of reduction of the rate of mortality from external factors at the young working age (0.6 years) and neoplasms with senior age groups (0.15 years).

The analysis of the standard mortality rate from other causes in Russian regions in 2016 has revealed a considerable dispersion. In 2016, the regions with the maximum index include the Republic of Mordovia (485 deaths per

100,000 people), the Ivanovo Region (401.3 deaths per 100,000 people) and the Amur Region (372.6 deaths per 100,000 people). The low standard mortality rate is registered in the Republic of North Ossetia-Alania (47.5 deaths per 100,000 people), the Jewish Autonomous Region (52.7 deaths per 100,000 people), St. Petersburg (57.3 deaths per 100,000 people) (*Fig. 3*).

At the same time, regions with a high rate of mortality from other causes demonstrated low indicators of mortality from essentially the main cause of death, that is, blood circulatory system diseases (for example, the Republic of Mordovia has the highest mortality rate from other death causes and the lowest one from blood circulatory system diseases). It cannot be excluded that this phenomena is related to regions' aspirations to attain target goals set in the President's Decrees of May 2012 and the Guidelines for the Demographic Policy of the Russian Federation till 2025. In a situation where the authorities set the goals to reduce the rate of mortality from blood circulatory system diseases

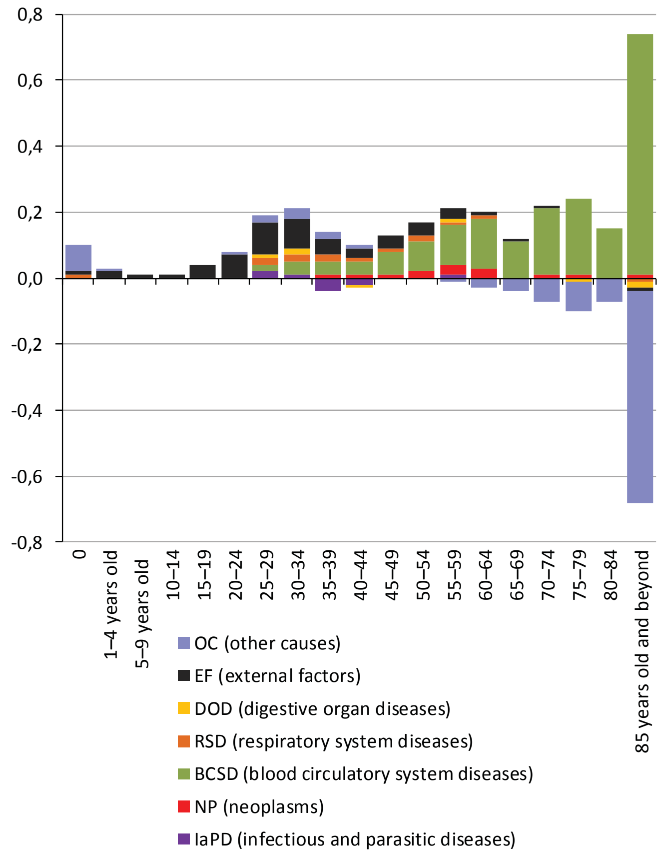

Fig. 2. Life expectancy change components by the age and death causes in Russia, in 2011–2016, years
Source: own calculations based on the Rosstat's data.

Fig. 3. Standard mortality rate from other causes in Russian regions, per 100,000 people of the standard, 2016*
Source: own calculations based on the Rosstat's data.
*Direct standardization method based on the Russian population pattern in 2016.

to the target level, the regional gap in the rates of mortality from such causes may increase.

Accordingly, it would be expedient to develop regional (and, probably, more realistic) performance targets which take into account the specifics of territories and prevent statistical tricks. It is necessary to analyze the accuracy of the statistical data received from the regions and carry out a detailed analysis of the mortality rates and correctness of death cause coding. Also, the responsibility for providing misleading reports on death causes should be strengthened.

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