



# **MONITORING OF RUSSIA'S ECONOMIC OUTLOOK:**

TRENDS AND CHALLENGES OF SOCIO-ECONOMIC DEVELOPMENT

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## TRENDS AND CHALLENGES OF SOCIO-ECONOMIC DEVELOPMENT

The collapse of global stock markets triggered by infighting in Washington's halls of power and by controversial evaluations of Fed's monetary policy, as well as dizzying plunge of oil prices, the US-China trade and economic war which has entered the phase of arrests – this is by far not the full list of factors of uncertainty facing the global economy late in 2018.

Factors that are noteworthy for Russia include criticism of the government statistical agency at the time of its senior management change. Naturally, this posed a question about not only the integrity and adequacy of statistical data in circulation. It is more important to understand how data comparability and reliability are going to be secured down the line.

Data that can hardly be questionable include a multi-year high federal budget surplus (up to 2.5% of GDP, according to estimates for 2018). However, the fact is also that this was due to last-year favourable trends in hydrocarbon markets. The trends are very likely to reverse in 2019. The problem is definitely not how deep the plunge was at the 2018 year-end; rather, the problem is annual average crude oil prices for which the only safe guess is that there are more factors in favour of prices staying far below the 2018 level than factors in favour of prices remaining unchanged. This implies that, first, it would be easier for fiscal rule supporters to hold their grounds that the fiscal rule should stay in force; second, external markets may become less appealing to Russian oil companies, which can help stabilize the domestic market.

However, the domestic market conditions remain controversial, according to our experts' analysis of how a temporal freeze on petroleum products prices in the country, the completion of the fiscal manoeuvre in the configuration in effect since 1 January 2019, the desired modernization of oil refineries and socially acceptable dynamics of retail fuel prices can be combined. Having considered various possible lines of behaviour for oil companies and for the state (whether to complete or discontinue the fiscal manoeuvre, whether to regulate or liberalize prices, whether to upgrade or freeze modernization of oil refineries), the experts conclude that the option involving the implementation of the fiscal manoeuvre without price capping and with simultaneous modernization of oil refineries would be an optimal option for the time being. However, things are developing under a scenario that is very similar to the scenario in which freezing of retail prices threatens the achievement of the fiscal manoeuvre objectives. This choice is quite likely due to the fact that a faster than normal rise in retail prices for petroleum products is undesirable.

The experts have noted, however, that retail price rise can be smoothed by lowering excise taxes rather than by interfering with the pricing principles of the market. This, however, implies the actual abandonment of federal budget (federal road funds) revenues from excise taxes on petroleum products, which are likely to be replaced by the intra-budgetary transfer. However, such a solution is difficult to implement in the near term, leading essentially to a less efficient option.

Main trends of the global crude oil market in 2018 are considered in a special article. The authors note that an agreement, known as OPEC+, played the positive role in balancing the market. However, the decision to increase oil production (in June 2018) after the price rise, the rapid increase in the U.S.'s shale oil production, concerns about dampened global demand triggered a new price fall late in the year. In this context, the OPEC+ members agreed (in December 2018) to cut their output. However, the above factors may limit the effect of the recent output cut agreement, plus there are concerns about the parties to the agreement being as disciplined as they were before.

Our experts have analyzed data on migration dynamics in Russia and noted that 2018 saw migration gain drop to 120,000–130,000 persons, posting an all-time low in the entire post-Soviet period. This will not be able to offset the natural population decline, as a result of which the population decline in Russia resumed for the first time since late in the 2000s.

Migration gain slowed because of minor decline in the number of inbound migrants and substantial increase in the number of outbound migrants. The inflow of long-term migrants from Tajikistan alone recovered in full following a serious slump in 2015. The decline in migrant inflow from Ukraine can be offset (at least temporarily) through efforts towards simplifying substantially migration from this country. Temporal migration continued to decline gradually in 2018. Temporal migrants were basically nationals from CIS countries: 8.38 million persons, or 84% of the total, were recorded as of 1 December 2018. As to labour migrants, 3.9 million persons were recorded as of the same date, of which 1.81 million persons had official work permits and patents, 1.1 million were nationals from members of the Eurasian Economic Union (EEU), who are legally entitled to work in Russia without having to obtain such documents. Migrants transferred Rb 53.4bn to regional budgets in 11 months of 2018 compared to Rb 47.2bn over the same period of 2017. ●

# 1. PETROLEUM PRODUCTS PRICE FREEZE – A HALT ON FISCAL MANOEUVRE?

A.Zhemkova, G.Idrisov, A.Kaukin, E.Miller

*In November 2018, Russia's Federal Antimonopoly Service (FAS Russia) and Ministry of Energy (MinEnergy) came to an agreement with Russian oil companies to freeze petroleum products prices in the country until March 2019, which may be a headwind for fiscal regulation policies in the Russian petroleum industry. The today's fiscal manoeuvre parameters coupled with the price freeze are not considered optimal in terms of benefits and costs for all the market participants, namely the state, oil companies, consumers.*

With the aim to further prevent an unwanted increase in prices for petroleum products in the country, the Russian government and Russian oil companies<sup>1</sup> agreed on 31 October 2018 to freeze (by maintaining prices at the level seen in June 2018<sup>2</sup>) local petrol and diesel prices until the end of the year, and then until the end of March 2019, as adjusted for the forecast inflation rate and with a 1.7% rise to offset the increase in VAT. Although the price freeze deal helped stabilize petrol prices, some regions encountered petrol shortage, particularly stand-alone petrol stations faced with limited supply at new, held down, retail prices.

Given a heavy-handed market regulation, it remains unclear how the final stage of fiscal system construction in the Russian petroleum industry, in force since 1 January 2019, will take place.<sup>3</sup> The fiscal system's planned configuration, particularly an increase in excise payments amid fixed local prices for petroleum products will reduce oil refiners' marginality. Public subsidization in the form of the so-called damping allowance to the reverse excise tax would likely serve as an offset to revenue shortfalls rather than cover modernization costs. Furthermore, if vertically integrated oil companies (VIPCs) can offset in part the decline in marginality through the extracting segment, then stand-alone ORs (oil refineries) would begin to incur losses and may start exiting the market, thus dampening the supply. The price freeze will actually suspend the effect of the fiscal manoeuvre policies.

Supposing that oil companies and the state make decisions that influence the local fuel market (fuel end-consumers have no direct influence on investment or fiscal decisions but they do influence the market equilibrium), then each of them may opt for either of the two lines of behaviour as follows.

The Russian government may either discontinue the fiscal manoeuvre (starting regulating local prices for petroleum products via price capping) or

1 Rosneft, Gazprom, Surgutneftegaz, Russneft, Gazprom Neft, New Stream, Neftegazholding, Lukoil, TAIF-NK and Tatneft.

2 Ai-92 petrol – at not more than 53.5 thousand roubles per tonne; Ai-95 petrol – at not more than 56.65 thousand roubles per tonne; summer diesel – at not more than 51.2 thousand roubles per tonne; winter diesel – at not more than 53.6 thousand roubles per tonne.

3 Under Federal Act No. 305-FZ "Concerning Amendments to Article 3.1 of the Federal Customs Tariff Act" dated 3 August 2018 and under Federal Act No. 301-FZ "Concerning Amendments to Part II of the Tax Code of the Russian Federation" dated 3 August 2018.

finalize it in due time. Oil companies may either postpone deciding to continue modernization of their production facilities or implement these programmes.

Each of the parties will enjoy a certain benefit according to a selected line of behaviour. The benefit for the state is that the industry generates net tax revenues to the federal budget (measured exclusive of the influence of macroeconomic indicators). The benefit for companies is the gross value added (GVA) (measured as the difference between the value of produced petroleum products basket and the value of crude oil used for the production) from the manufacture of petroleum products with consideration for the state subsidy to cover modernization costs. For individuals, the effect involves varying dynamics of retail prices for petroleum products. The evaluation of likely effects that can be seen according to a selected line of behaviour is presented in *Table 1*. Let's examine each of them in details.

*Table 1*

NUMERICAL EVALUATION OF POTENTIAL EFFECTS ON THE GOVERNMENT, OIL COMPANIES AND INDIVIDUALS ACCORDING TO CHOSEN POLICY OPTIONS

Oil companies	Government	
	To regulate local prices for petroleum products	To perform a fiscal manoeuvre in the petroleum industry
To discontinue the production facilities modernization programme	[0.2 trillion roubles; 0.0 trillion roubles; 4.0–4.6%*]	[0.9 trillion roubles; 0.3 trillion roubles; 9.0%]
To continue the production facilities modernization programme	[0.2 trillion roubles; -2.0 trillion roubles; 4.0–4.6%**]	[1.1 trillion roubles; 0.4 trillion roubles; 8.0%**]

**Note:** The data in brackets represent the evaluation of net budget effect; oil refiners' GVA; retail prices for petroleum products.

*Source:* own evaluation.

\* The FAS and MinEnergy entered into agreement with Russian big oil companies to maintain retail fuel prices at the level seen in June 2018 until the end of March 2019 and then index them smoothly at a rate equal to the annual inflation rate of 4.0-4.6%.

\*\* Production facilities modernization is assumed to help reduce costs, and hence retail prices tend to rise slower with the *fiscal manoeuvre* in place than when the decision to launch modernization programmes is postponed. The decline in price growth rates has been expertly evaluated, and a more precise evaluation requires detailed information about facilities to be upgraded.

*To discontinue the fiscal manoeuvre, to regulate prices, to freeze ORs' production facilities modernization programmes*

The line of behaviour selected by the Russian government as well as the ongoing practice of manual regulation of prices for petroleum products in 2019 coupled with alleged benefits for individuals from maintaining low prices may have adverse effects on the industry itself, such as lower petroleum refining volumes, lost incentives for modernization and an increase in the share of light petroleum products; subsidization of the domestic refining industry which still remains inefficient; stand-alone ORs' losses that cannot be offset through the extraction segment. Stand-alone petrol stations have already encountered fuel shortage which may impair the fuel quality, encourage searching for sources of illegal supplies and, therefore, spur an increase in the shadow market share and in the number of market intermediaries in the Russian economy. Given the freeze on tax payments rates, this option would bring no benefits to budgets at any level.

The figures in *Table 1* show that the federal budget will receive 0.2 trillion roubles in revenues from the effective tax duties on crude oil and petroleum products, the mineral extraction tax and excise duties on petroleum

## 1. Petroleum products price freeze – a halt on fiscal manoeuvre?

products. Petroleum refineries' total GVA will remain near zero because of a lack of mechanisms stimulating Russia's ORs modernization. Retail prices will rise 4.0–4.6% under the adopted agreement to stabilize the domestic petroleum products market.

*To discontinue the fiscal manoeuvre, to regulate prices, to implement ORs' production facilities modernization programmes*

The above option is similar to the above-described option. The today's environment is adverse for launching new modernization programmes, only VIOCs that are able to redistribute their costs to higher production chain levels can invest in projects that are in progress.

*To implement the fiscal manoeuvre, to implement ORs' production facilities modernization programmes*

The fiscal manoeuvre implementation according to the parameters set forth in the federal act dated August 2018, as noted above, suggests raising the rates of excise taxes on petroleum products in 2019–2024, which may spur growth in local prices. A share of the tax burden on the industry in today's configuration would thus be shifted to end consumers of petroleum products. Given the fact that the state should take account of individuals' interests, that is, to prevent a strong price rise, the fiscal manoeuvre parameters can be adjusted by way of, for example, keeping a lid on retail prices through excise taxes cut, which, however, causes problems for inter-budgetary allocation of funds. The existing mechanism of replenishing regional budgets and road funds<sup>1</sup> through excise taxes (today, 54%<sup>2</sup> of total federal budget revenues from fuel excise taxes go to road funds, of which 84%<sup>3</sup> go directly to regional road funds) can only be retained as long as the excise tax on petroleum products has a fixed rate. Lowering the tax rate that is already in place would lead to considerable budget shortfalls in regions' budgets, thus necessitating search for sources that could offset the shortfalls. Targeted state budget funding for road funds has been suggested as an alternative by representatives of the Independent Fuel Union.

Late in October 2018, the State Duma submitted a bill providing for raising progressively the share of revenues from excise taxes on petroleum products that goes to regional budgets and road funds in 2020 onwards: the standard is suggested to be raised from 58.2 to 66.6% in 2020, to 74.9 in 2021, to 83.3 in 2022, to 91.6 in 2023 and to 100% in 2024. Thus, it is assumed that extra revenues to regions' budgets from raising the standard can offset lower excise taxes. A detailed analysis of the effects is yet to be presented.

The implementation of the fiscal manoeuvre that was endorsed in August 2018 will add 1.1 trillion roubles to the federal budget, with ORs' modernization in place. This is supposed to be done through revenues from

1 A road fund refers to federal funds allocated for the country's road network management, building and maintenance of motor roads and courtyard areas. See "The Budget Code of the Russian Federation" dated 31 July 1998, No. 145-FZ (revised on 03 August 2018, last updated on 11 October 2018). Article 179.4. Road Funds.

2 "The Budget Code of the Russian Federation" dated 31 July 1998, No. 145-FZ (revised on 03 August 2018, last updated on 11 October 2018). The BC of Russia, Article 50. Federal Budget Tax Revenues.

3 "The Budget Code of the Russian Federation" dated 31 July 1998, No. 145-FZ (revised on 03 August 2018, last updated on 11 October 2018). Article 56. Budget tax revenues of subjects of the Russian Federation.

raising the mineral extraction tax rate by a value equal to the value by which the export tax rate is cut; an increase in excise tax payments for petroleum products; extraction of extra profit generated from raising local oil prices (on a netback basis with external markets), imposition of excise tax on oil stock. ORs' total GVA, including the state subsidy to cover modernization costs, will amount to 0.4 trillion roubles. ORs' modernization is assumed to help reduce costs, and therefore retail prices would rise more moderately than when implementing the fiscal manoeuvre with no regard for petroleum refining modernization programmes.

*To implement the fiscal manoeuvre, to freeze ORs' production facilities modernization programmes*

The above option provides for all the benefits related to the resource rent extraction in favour of the state, while implementing the fiscal manoeuvre with due regard of ORs modernization programmes. The key point, however, is that domestic ORs postpone further modernization of their production facilities, that is, there is no increase in the average oil refining depth and in the manufacture and export of light petroleum products, and therefore the main goal of fiscal regulation in the petroleum industry cannot be achieved. According to the data presented in *Table 1*, the federal budget will receive 0.9 trillion roubles. Petroleum refineries' total GVA of the industry is 0.3 trillion roubles due to a lack of mechanisms encouraging technological revamping of domestic ORs and because subsidization remains in place. There will be a 9.0% increase in retail prices.

Thus, from the budget effect perspective, the best of the alternatives available to the state is to implement the fiscal manoeuvre without manually regulating retail prices for petroleum products. The choice for oil companies depends on their assurance that the state will finalize the fiscal manoeuvre. Should they be assured that the manoeuvre will be completed, then the option of further modernization would be beneficial for them, which would otherwise be postponed.

This actually means that the option involving the implementation of the fiscal manoeuvre without price capping and with simultaneous modernization of ORs would be an optimal option for the time being. However, things are developing under a scenario that is very similar to the scenario in which freezing of retail prices threatens the achievement of the fiscal manoeuvre objectives. This choice is quite likely due to the fact that a faster than normal rise in retail prices for petroleum products is socially unacceptable for the state. It is nonetheless possible to at least smooth the price rise for individuals by lowering excise taxes rather than by interfering with the pricing principles of the market. This, however, implies the actual abandonment of federal budget (federal road funds) revenues from excise taxes on petroleum products, which are likely to be replaced by the intra-budgetary transfer. ●



## 2. GLOBAL OIL MARKET: MAIN TRENDS 2018

Y.Bobylev

Russian crude oil gained 33.5% in value from the previous year, settling at an average of \$70.9 per barrel in the period between January and November 2018. The increase stemmed from, among other things, a cooperative agreement to limit oil production, known as OPEC+. Global oil prices dropped considerably in recent months. The parties to the agreement decided in December 2018 to cut their oil production early in 2019. The agreement may, however, have a far less pronounced effect because of increase in the U.S. shale oil production. Oil prices in 2019 are projected to be far below the average seen in 2018.

Recent years were marked by the emergence of two significant factors – the development of U.S.’s shale oil-fields bolstered by advanced drilling methods and cooperative agreements to limit oil production, known as OPEC+ – that have a strong impact on the global oil market. Rapid increase in the U.S.’s shale oil production led to a crude supply glut in the global market and drastic slump in oil prices in 2015–2016 (Table 1, Fig. 1). In this context, OPEC members, seeking to offset oil revenue losses by increasing supplies, opted for a policy of retaining their share in the global market (Table 2). As a result, the average price of Russian Urals crude in the global market dropped from \$107.1 per barrel in Q1 2014 to \$51.2 in 2015 and to \$41.9 in 2016.

Table 1

GLOBAL CRUDE OIL PRICES, 2014–2018, US\$ PER BARREL

	2014	2015	2016	2017	March 2018	June 2018	September 2018	October 2018	November 2018
Brent crude oil price, UK	98.9	52.4	44.0	54.4	66.5	75.2	78.9	80.5	65.2
Urals crude oil price, Russia	97.7	51.2	41.9	53.1	63.7	73.4	78.1	79.3	64.8

Sources: OECD/IEA, Rosstat.

The decline in oil prices spurred oil-producing countries into taking decisive actions on output cuts. OPEC+ members agreed late in 2016 to cut their output on 1 January 2017 for a period of six months. Under the agreement, OPEC+ members committed to cut their oil production by 1.8 million barrels/d, including by 1.2 million barrels/d for OPEC members, 558,000 barrels/d for 11

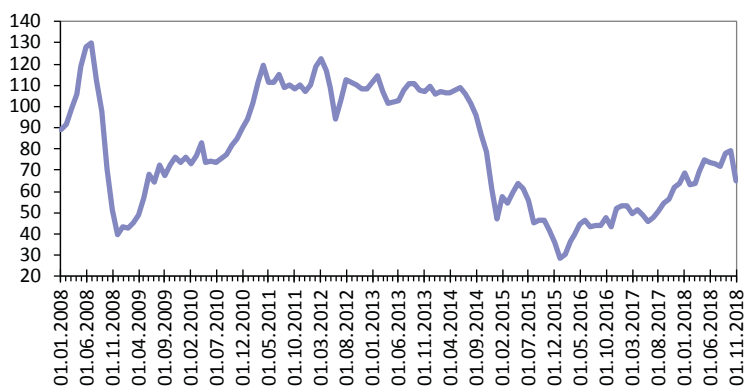


Fig. 1. Urals crude oil price, 2008–2018, US\$ per barrel

Sources: OECD/IEA, Rosstat.

non-OPEC major oil producers as parties to the agreement, with Russia taking on 300,000 barrels/d.

Table 2

U.S.'S AND OPEC'S CRUDE OIL PRODUCTION, 2014–2018, MILLION BARRELS/D

	2014	2015	2016	2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018
U.S.A.	8.63	9.42	8.86	9.35	9.95	10.23	10.54	11.25	11.50
OPEC countries, total	30.10	31.60	32.68	32.68	32.78	32.68	32.32	32.55	32.72
Saudi Arabia	9.70	10.01	10.42	10.09	10.12	10.10	10.20	10.47	
Iraq	3.34	4.06	4.43	4.44	4.36	4.46	4.50	4.66	
Iran	2.80	2.80	3.57	3.82	3.84	3.83	3.80	3.55	

Source: U.S. EIA.

With the aim to further drain the supply glut, it was decided late in May 2017 to extend the agreement for another nine months (July 2017 to March 2018), after which, late in November 2017, the agreement was further extended until the end of 2018. Countries like Venezuela and some other members experienced, for various reasons, a drastic decline in crude oil production. As a result, OPEC+ members' actual output cuts were found to be greater than the agreed target.

In June 2018, OPEC+ members decided in this context to add, early in July, 1 million barrels/d to their oil production recorded in May with a provision for switching from the previous per-country control over the agreed output targets to a control over total crude output (by 1.8 million barrels/d below the level recorded in October 2016) of the parties to the agreement. Therefore, countries with spare potential had the opportunity to boost their output in Q2 2018. Saudi Arabia (representing nearly 70% of OPEC's available capacities) and Russia were the first to do this. The growth in the second quarter allowed Russia to produce 556 million tonnes of crude oil at 2018 year-end, posting an increase of 1.7% (roughly estimated) from the previous year.

The implementation of OPEC+ agreements drained the supply glut and led to a substantial rise in global oil prices. For instance, Brent crude oil increased from \$44 per barrel in 2016 to \$54.4 in 2017 and to an average of \$72.4 per barrel in January–November 2018. Russian Urals crude oil was traded at an average of \$70.9 per barrel in January–November 2018, representing an actual increase of 69.2% and 33.5% from 2016 and 2017, respectively.

A noticeable demand growth was another positive effect on the market's state of equilibrium and oil prices. According to estimates from the International Energy Agency, 2017 saw global demand for crude oil increase by 1.5 million barrels/d, or 1.6% up from the previous year, and 2018 saw it rise by 1.3 million barrels/d, or 1.3% up from 2017.

What is important to note, however, is that the effect of the OPEC+ agreements has been increasingly weakening due to the recovered growth in

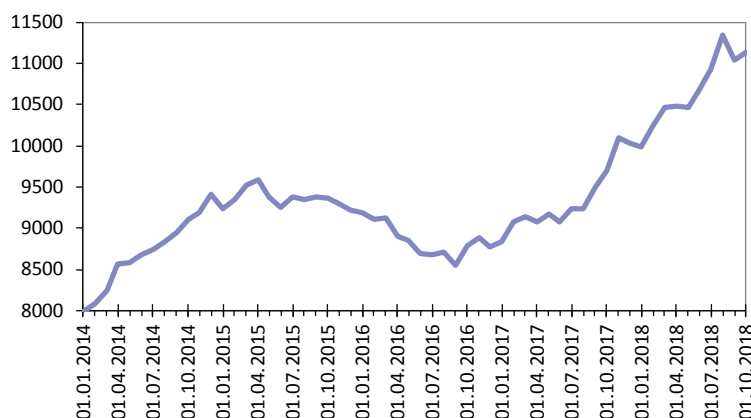


Fig. 2. U.S.'s crude oil production, 2014–2018, thousand barrels/d

Source: U.S. EIA.

## 2. Global oil market: main trends 2018

the U.S.'s shale oil production as well as the increase in oil production by some other non-OPEC major oil producers. Technological advancement and cost effectiveness allowed the U.S. oil industry to adapt to lower prices. As a result, there has been growth since 2017 in the U.S.'s crude oil production and in the number of U.S.-based operating oil rigs (Fig. 2, 3). According to data from the U.S. Energy Information Administration (EIA), the United States pumped 9.35 million barrels/d in 2017, or 0.49 million barrels/d (5.5%) up from 2016, and in 2018 it was 10.88 million barrels/d, rising 1.53 million barrels/d (16.4%) above the level seen in 2017.

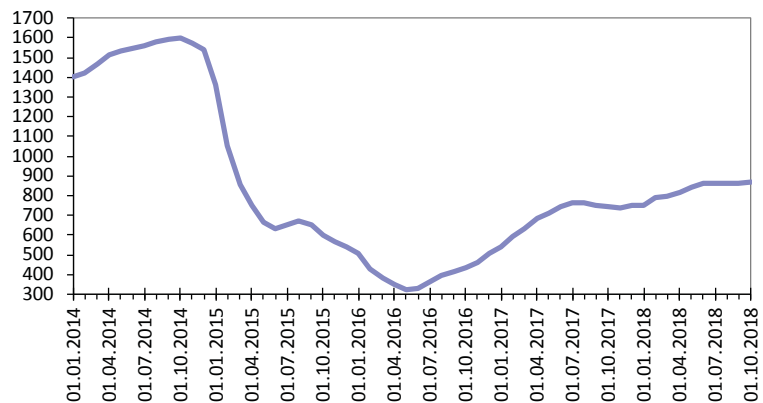


Fig. 3. Number of U.S.-based producing oil rigs, 2014–2018

Source: Baker Hughes.

The oil price rise was somewhat influenced by announced U.S. sanctions against Iran effective since November 2018, which imposed a ban on purchases of Iranian crude oil and configured expectations of drastic oil output cut in the country. Consequently, crude oil was traded at more than \$80 per barrel early in October. Later, however, the United States said it will temporarily (within a period of six months) allow eight countries, including big oil importers such as China, India, Japan and South Korea, to keep buying Iranian oil. That had a strong effect on market participants' expectations.

The increase in output by biggest oil-producing nations (The United States, Saudi Arabia, Russia), relaxation of the U.S. sanctions against Iran and some other factors led to a substantial decline in oil prices during the last few months of the year. Brent crude oil dropped to \$65 per barrel in November and slid below \$60 in December.

In this context, OPEC+ members agreed on 7 December 2018 to reduce, from 2019 onwards, their crude oil production by 1.2 million barrels/d from the output seen in October 2018. The output cut agreement is supposed to stay in force until July 2019 and can be updated in April 2019. Under the agreement, OPEC members will reduce their output by 800,000 barrels/d and non-OPEC major oil producers by 400,000 barrels/d, with Russia taking on 228,000 barrels/d (by 2%). However, the output cut commitments do not apply to Iran, Venezuela and Libya where oil production is already low, plus Iran is facing the risk of reducing further its output in case of tougher U.S. sanctions against purchases of Iranian crude.

Owing to weather conditions and technological environment, Russia will reduce its oil production in Q1 2019, under the agreement, and maintain it at the same level for the next three months. Should the agreement undergo no updates, for Russia it will mean that Russia will reduce its annual production to 552 million tonnes of crude oil, or by 0.7% from the 2018 level.

The implementation of the agreement can have a positive effect on price dynamics. However, there are adverse factors that may influence the price dynamics: first, the growth in the U.S.'s crude oil production as well as in some other countries, that can neutralize to a large extent the effect of the

output cut agreement; second, OPEC+ countries may fail to fully comply with the agreement; third, the OPEC+ output cut agreement may not be extended, implying a new rise in oil production as early as the second half of 2019; Fourth, the global economy may slow down, leading to a weaker demand for crude oil.

The majority of leading institutions forecast that in 2019 the level of global oil prices will be lower than the 2018 average, varying within a range of \$60–65 per barrel. For instance, Brent crude oil is expected to be at an average of \$61 per barrel in 2019, according to the recent projection by the U.S. Energy Information Administration (EIA). ●

### 3. MIGRATION GROWTH: THE RECORD-LOW INDEX IN THE POST-SOVIET PERIOD

N.Mkrtchyan, Yu.Florinskaya

*Russia's migration growth has decreased. In 2018, it can amount to 120,000–130,000 persons to become the record-low one in the entire Post-Soviet period and will fail to make up for the natural decline in the population; reduction of the number of the population is expected to take place again.*

#### The Long-Term Migration

In the first three quarters of 2018, Russia's migration growth decreased by 66,300 persons or 42.5% as compared to the relevant period of the previous year due to the fact that the number of international migrants who came to Russia slightly fell, while that of migrant who left this country largely increased (22%).

In Q2 and Q3 2018, the number of migrant departures from Russia was the most considerable one in the current decade. Even if departure growth comes to a halt and the number of arrivals starts to increase (that is, in Q4 arrival and departure indicators will be in line with their regular annual dynamics relative to the first three quarters of the year – Fig. 1), the migration growth will exceed slightly 120,000 persons in 2018. This is the record-low index since the mid-2000s and in the entire Post-Soviet period if migration growth adjustments based on the results of the All-Russian Census of 2002 and 2010 are taken into account.

Such a low migration growth does not make up for Russia's population natural decline which keeps growing in 2018. As a result, for the first time since the end of the 2000s reduction of the number of the population has renewed.

In January-September 2018, migration growth with all the countries, except for Armenia and Turkmenistan was lower than in the relevant period of 2017. As compared to 2012, it decreased with all the countries (Fig. 2). After a substantial decrease in 2015, only an inflow of long-term migrants from Tajikistan has virtually recovered completely, having made that country Russia's main migration donor. On the contrary, the inflow of migrants from Uzbekistan has not recovered though that country has probably the most considerable migration potential.

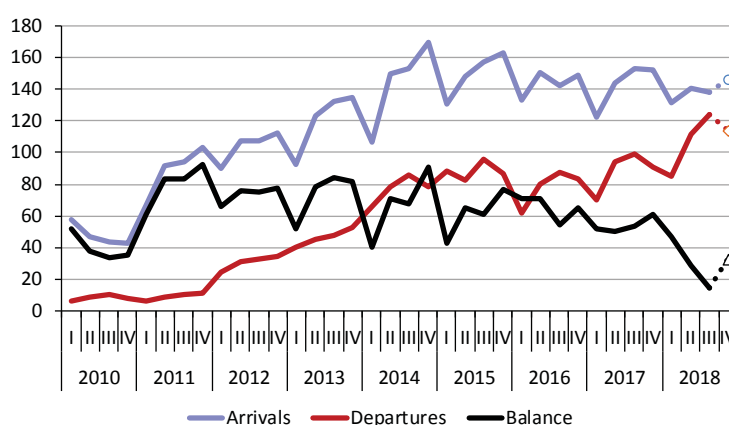


Fig. 1. Long-term international migration to Russia in 2010–2018, quarterly data, thousand persons

Note: Q4 2018 – own calculations based on the indicator's quarterly dynamics in 2016–2017.

Source: Russia's Socioeconomic Situation. Reports for 2010–2018.

After four-fold growth in 2015, the inflow of migrants from Ukraine turned out to be lower than in the years before the aggravation of the situation in that country. If upon expiry of the term of registration of migrants who arrived in 2014–2016 there is a migration decline of the population with Ukraine, such a situation will not come as a surprise. This can only be made up for by measures aimed at substantial easing of the long-term migration from Ukraine to Russia, including issuing of temporary and permanent residence permits to Ukrainian nationals. However, this measure will have only a temporary effect.

The year 2018 saw Russia's migration decline with far-abroad countries. It is noteworthy that the size of this migration is not big enough and it is also known that the emigration from Russia has been largely underestimated for a number of years.

Unlike the long-term international migration, there is stability as regards domestic migration. Though the in-country migration increased by 19.2% and 11% as compared with January-September 2012 and January-September 2013, respectively, this growth can in no way be compared with doubling of this migration's volumes in the previous two years. As compared to January-September 2017, the in-country migration increased by 111.300 persons or 3.6%.

With international migration growth diminishing, the number of RF constituent entities with migration growth observed fell from 31 constituent entities to 24 constituent entities. The main migration gravity centers are still Moscow with the Moscow Region, St. Petersburg with the Leningrad Region and the Krasnodar Territory. The centers of the second order are the Tyumen Region, the Kaliningrad Region, the Republic of Crimea and the City of Sevastopol. A considerable migration growth was seen in the Voronezh Region, the Kaluga Region, the Novosibirsk Region, the Belgorod Region and the Republic of Tatarstan.

The largest migration decline was observed in the Omsk Region (it was the leader in January-September 2017 as well), the Republic of Dagestan and the Tambov Region. As regards federal districts, the largest migration outflow took place in the Privolzhsky Federal District and the Siberian Federal District, while the outflow from the Far Eastern Federal District remained virtually at the level of the previous year (-14,000 persons); among the regions of the Far Eastern Federal District the highest migration growth was registered only in the Kamchatka Territory and the Chukot Autonomous Region, while the highest migration outflow, in the Khabarovsk Territory and the Maritime Territory.

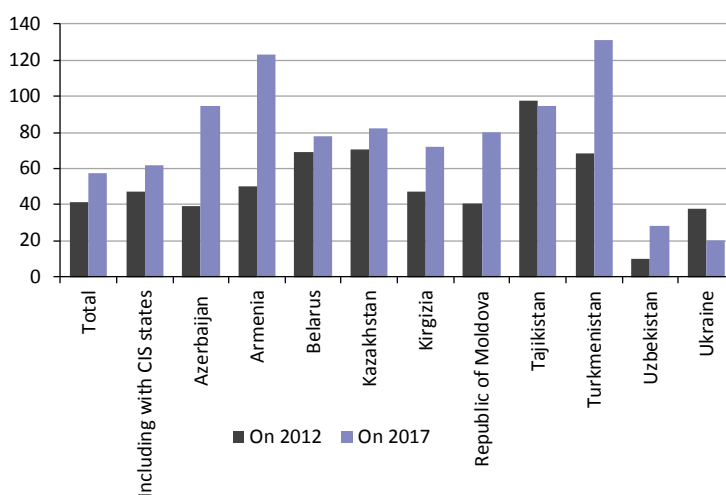


Fig. 2. Migration growth/decline of Russia's population owing to international migration in January-September 2018, % on January-September 2012 and 2017, by the country

Source: Russia's Socioeconomic Situation. Reports for 2012, 2017 and 2018.

### 3. Migration Growth: the Record-Low Index in the Post-Soviet Period

#### The Temporary Migration

The trend of the past three years towards gradual reduction of the number of temporary migrants in Russia continues in 2018, as well. Small growth in the number of foreigners in autumn 2018 as compared to 2017 is unlikely to have a great effect on the general trend (Fig. 3). As of 1 December 2018, 9.93m foreigners arrived in the Russian Federation ( 9.62m as of 1 December 2017).

The overwhelming number of temporary migrants are CIS nationals: 8.38m (84%) as of 1 December 2018. Most of them came from Central Asian countries and Ukraine (Table1).

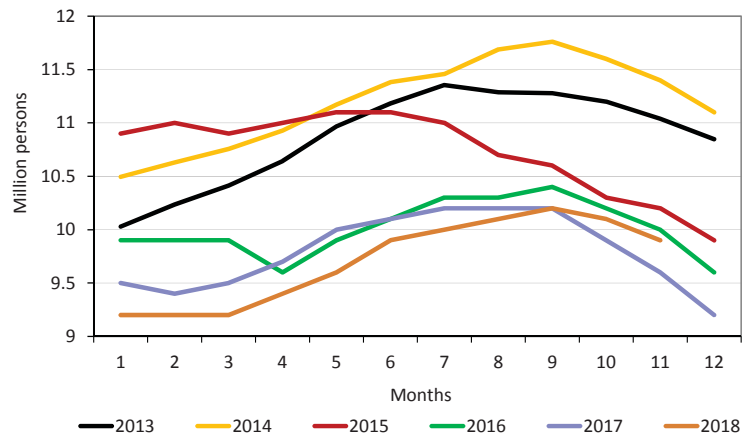


Fig. 3. Foreign nationals in the territory of the Russian Federation as of the end of month, million people, 2013–2018

Source: The RF Federal Migration Service, the Main Department on Migration Issues of the RF Ministry of Internal Affairs and the Central Database of Accounting of Foreign Nationals and Stateless Persons (CDAFNSP).

Table 1

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

	04.12.2014	01.12.2015	01.12.2016	01.12.2017	01.12.2018
Azerbaijan	598646	531080	542588	601704	667513
Armenia	499084	490156	489005	494848	488614
Belarus	506759	644598	737791	689534	658188
Kazakhstan	581516	671751	599825	531865	539092
Kirgizia	554808	541855	587693	624756	678743
Moldova	586069	512637	495084	425269	357229
Tajikistan	1052822	898849	917908	988771	1105362
Uzbekistan	2275290	1884110	1585769	1719492	1888810
Ukraine	2476199	2598303	2564356	2129446	1952374
CIS, total	9131193	8773339	8520019	8205685	8335925

Source: The RF Federal Migration Service, the Main Department on Migration Issues of the RF Ministry of Internal Affairs and the Central Database of Accounting of Foreign Nationals and Stateless Persons (CDAFNSP).

Out of all member states of the EEU, only Kirgizia demonstrates growth in temporary migration to Russia; it seems that the migration potential of that country is not yet exhausted. The migration from Azerbaijan is on the rise; its volumes have amounted to and even surpassed those of the pre-crisis 2013. Temporary migration volumes from Tajikistan and Uzbekistan are recovering, but have failed so far to achieve the pre-crisis values (a shortfall of 5% and 25%, respectively, as compared to 2013). The temporary migration has kept declining from Ukraine (since 2016) and Moldova (since 2015).

The baseline trend of reduction of the number of foreigners from developed western countries has not changed much; small fluctuations by individual countries do not change the general pattern (Table 2). Such types of migration as work on hire, business, tourist and private trips have decreased as compared to the previous year, while all types of migration, except for business and training (they still remain at the low level as before) have declined as compared to the pre-crisis values.

Table 2

## THE NUMBER OF FOREIGN NATIONALS FROM THE EU AND THE US IN THE RUSSIAN FEDERATION AS OF THE SPECIFIED DATE, PERSONS

	04.12.2014	01.12.2015	01.12.2016	01.12.2017	01.12.2018
EU total	843824	484 981	498 774	437 189	426 331
Germany	242978	112 053	109 507	105 524	102 093
Spain	45860	14 960	14 820	14 109	15 721
Italy	54097	29 004	26 865	24 092	24 957
UK	111093	29 225	28 053	23 616	21 356
Finland	76091	76 220	96 574	73 500	58 805
France	53487	34 161	27 165	26 071	28 772
USA	142016	47 355	50 365	43 875	46 120

Source: the Main Department on Migration Issues of the RF Ministry of Internal Affairs and the Central Database of Accounting of Foreign Nationals and Stateless Persons (CDAFNSP).

As of 1 December, 3.9m labor migrants whose purpose of visit is “work on hire” officially came to the Russian Federation, that is, a little more than at the same date in 2017. Note that 97% of those migrants came from CIS states. As compared to the previous year, small growth in labor migration was observed from all the CIS states, except for Moldova and Ukraine whose labor migrants increasingly switched over to other destinations. On the Russian labor market, the number of labor migrants from far abroad was equal to 132,000 persons with leading positions occupied by representatives from China, Vietnam, Turkey and North Korea.

By the end of November 2018, labor migrants had 1.81m effective work permits (permits to work and patents) and about 1.1m persons had the title to work without such documents (nationals from the EEU member-states). Generally, about 75% of labor migrants could legally work on the Russian labor market (72% as of the end of November 2017).

As seen from the data on the number of foreigners who were issued work permits, there is no growth, but a small decrease as compared to the previous year, though the number of legal foreign workers turned out to be higher as compared to 2016 (Table 3). The number of those who were issued legal work permits in the peak year 2014 is still twice as high as the current one. No growth in the number of newly issued permits can be evidence both of a too high price of official entry to the labor market (note that the authorities are going to raise it further in 2019) and toughening of the migration rules (in particular, migration registration).

Table 3

## ISSUING OF WORK PERMIT DOCUMENTS TO MIGRANTS IN THE RUSSIAN FEDERATION, JANUARY-NOVEMBER, PERSONS

	2014	2015	2016	2017	2018
Work permits for foreign nationals (FN)*	1186080	162786	118700	126506	108721
Including:					
Work permits for skilled workers (SW)*	139894	19738	10528	15497	17677
Work permits for high-skilled workers (HSW)	28556	36993	23351	19506	23391
Patents**	2166498	1667716	1394291	1536997	1524833
Total	3352578	1830502	1512991	1663503	1633554

Source: the Main Department on Migration Issues of the RF Ministry of Internal Affairs, 1-RD form.

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

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



### 3. Migration Growth: the Record-Low Index in the Post-Soviet Period

Within 11 months of 2018, migrants paid Rb 53.4bn (advance tax payments for patents) to regional budgets compared to Rb 47.2bn in the same period of the previous year. The largest contribution to such payments is made by migrants from Uzbekistan and Tajikistan (within 11 months of 2018 they were issued 88% of the patents compared to 86% of the patents in the same period of 2017); on the contrary the share of patents issued to nationals of Ukraine and Moldova is shrinking (from 11% in 2017 to 9% in 2018). ●

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