

# MONITORING OF RUSSIA'S ECONOMIC OUTLOOK:

## TRENDS AND CHALLENGES OF SOCIO-ECONOMIC DEVELOPMENT

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## Monitoring of Russia's Economic Outlook

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## TRENDS AND CHALLENGES OF SOCIO-ECONOMIC DEVELOPMENT

The recently published WTO's forecasts predicting that merchandise trade growth in 2019–2020 will significantly lose momentum correlate with a predominant expectation that global economic indicators will notably deteriorate. There is almost uniform consensus among economists that one of the main factors behind the decline in trade growth is trade wars.

However, a clarification is needed in regard of trade wars: the increase in import duties on European aircraft (and some agricultural products) just introduced by the USA cannot be formally classified as a trade war. This measure came about as a result of a multi-year investigation by the WTO, and thus fits into international legal practice. For their part, our experts have been analyzing specifically the practice of the trade wars initiated in recent years by the USA, which, according to them, had come about as a result of the global economy's deep structural problems, including the uneven distribution of the economic benefits of globalization. The authors appreciate the character and effects of the USA-China trade wars in the fields of metallurgy and technology transfer, as well as potential conflicts in the automotive sector. According to our experts, as far as the direct results of this war are concerned, **its general impact on the world economy is weakly negative (this trade war has wiped \$ 80bn, or 0.12 p.p., off global GDP per annum); its impact on US economic growth is close to zero; the US trade balance with the PRC has improved only insignificantly, while its trade balance with the rest of the world has remained practically unchanged (having changed by only \$ 25–30).**

The impact on Russia's economy has also been very weak so far, while it can be expected to have some negative effects on the Russian metallurgical industry.


It should also be added that, apart from the direct effects of a trade and economic confrontation, such a confrontation can inevitably have some much more significant consequences related to expectations. For example, in many countries foreign and domestic investors are already refraining from investing in various projects, or such projects are being altogether suspended because of the fears of expected trade wars.

The September 2019, a traditional business survey of industrial enterprises carried out by Gaidar Institute researchers revealed that the respondent enterprises' estimates of demand for their products remained practically unchanged. **According to the respondent enterprises, insufficient demand remains the main industrial growth constraint, as it has always been since 2009 (at present 52% of enterprises describe the level of demand as insufficient).** Lack of export demand remains the third most important industrial growth constraint (the second most important one being 'lack of clarity in the current economic situation'). Bearing in mind that at present the percentage of enterprises admitting to a lack of external demand remains at around 28%, as it was before the ruble's depreciation in 2014, our researchers have come to the conclusion that the huge weakening of the ruble failed to trigger the expected export demand growth cherished by industrial enterprises.

Having analyzed the state of the economy of Russia's regions in January-July 2019, our experts point to industrial growth in the resource-extracting regions, an acceleration of the pace of residential housing construction, a slight increase in retail sales, and a decline in the real personal income (over H1 2019 relative to H1 2018), which dropped in 44 regions. **The volume of investments was on decline in half of the regions; however, the dynamics of that drop was strongly polarized, being influenced in this respect by the existence or absence of agglomerative and resource advantages.**

Seen against this background, the consolidated budgets of the regions give the impression of being in a pretty good shape: over the course of January-July 2019, their revenue side increased by 13% (relative to the same period of 2018). To some extent, this growth was caused by a considerable rise in profits tax payments, and to some extent by a rise in budget transfers. **The rise in transfers from the federal budget to the regions (by 15%) was determined by a notable increase in the funding of 'national projects' and by the payment of compensation for the loss, by the regions, of movable property tax.** The problem of regional budgets' deficit has been losing its former acuteness: data for the first seven months of 2019 indicate that 12 territories had a budget deficit, and although the number of such territories will certainly increase by the end of the year, the overall situation has considerably improved compared to the period 2013–2015 (when there were 75 to 77 regions with budget deficit).

Having assessed the summary data for 2018, our experts note a growth trend in life expectancy, and a trend towards reduction in infant mortality. Nevertheless, the registered growth in the number of deaths taking place against the background of a drop in the number of births sustains the existing negative trend towards natural population decline.

Last year, life expectancy in Russia increased by 0.2 year (including by 0.24 among males and by 0.18 year among females). It should be said that **while the life expectancy of urban residents increased by 0.18 year, the life expectancy of rural residents grew by 0.29 year (mainly due to a drop in their mortality).** The gap between the life expectancy rates in various regions increased to 18.8 years, from 15.5 years in 2017. The territories with the highest mortality rates for the working-age population include most of the regions of Siberia and the Far East, while those with the lowest mortality rates include the republics of the North Caucasus, Moscow, and Yamalo-Nenets Autonomous Okrug. 

# 1. TRADE WARS: FIRST EFFECTS

A. Knobel, N. Pyzhikov

*The trade wars that have been waged by the USA since early 2017 are an upshot of the structural problems accumulated inside the global trade and economic system. Firstly, the benefits of globalization are distributed unevenly between the developed and developing countries, and between skilled and unskilled workforces; and inequality in the developed countries is broadening. Secondly, the multilateral trade system has been functioning in accordance with the rules established by the developed countries towards the end of the 20th century, while the positions of the developing countries have significantly strengthened since then. Thirdly, the character of regional economic integration has altered: the process of expansion and increasing complexity of trade treaties has given way to active development of bilateral agreements.*

*The effect of the ongoing processes on Russia has so far been rather weak. However, later on it can be expected that the negative effects, in particular on Russian metallurgy, might become stronger.*

Almost simultaneously with the inauguration of Donald Trump as the US President, several initial steps were taken that largely shaped the subsequent trade policy of the USA, including its withdrawal from the Trans-Pacific Partnership Agreement, the refusal to support the WTO, and a course towards reforming the existing treaties. **The list of declared key goals of the new trade policy of the USA is as follows:**

- protection of the interests of US producers in the domestic market;
- transfer of production capacities into the US territory and creation of more jobs inside the country;
- reduction of deficit in the balance of trade with the major trade partners of the USA;
- suppression of China's economic development;
- reforming of the WTO.

This particular set of goals, alongside a further evolution of the trade war into an open phase, can be explained in the main by the piling-up of structural problems inside the world trade system.

Firstly, these have to do with the **uneven distribution of the benefits of globalization** between the developed and developing countries, and between skilled and unskilled workforces; and the increasing inequality in the developed countries.

Secondly, **the rules that govern the functioning of the multilateral trade system have changed very little**, while they were elaborated predominantly by the developed countries in the late 20th century. Since then, however, the positions of the developing countries have become much stronger. The most illustrative example is China. In spite of its leading position in the international trade system, China has retained its developing country status, and thus is subject to the 'special and differential treatment provisions', whereby it is entitled, for example, to longer periods of implementing WTO agreements and commitments,

with the entailing responsibilities. By way of comparison, it should be noted that Russia, as a member of the WTO, has achieved 'developed country' status.

And thirdly, **the character of regional economic integration is also changing**. While during the last decade the countries were striving to expand trade agreements and to make them more complex, now there is a high probability of a return to the format of a bilateral agreement, when many treaties are concluded instead of a single one, which in its turn gives rise to an increasing number of rules that must be followed.

As of today, there are three sectors where trade wars are being waged: steel and aluminum; technology transfer; and the automotive sector.

### The 'metallurgy front' of the trade war

The trade war on the metallurgy front entered a new phase of open hostility in March 2018. The US president ordered that the rates of customs duties on steel<sup>1</sup> and aluminum<sup>2</sup> should be raised to 25 p.p. and 10 pp. respectively. The investigation launched by the US Department of Commerce in the steel and aluminum sector linked the national security threat to the closure of US metallurgical plants, a significant drop of the employment rate in the sector, and the excess of steel and aluminum imports over exports. As the main cause of excess steel supply in the world market, its overproduction in China was cited. In response, several WTO member states, including China, Mexico, Turkey, the EU, Canada, Russia and India introduced their balancing retaliatory measures. Besides, some other countries had to introduce protection measures in view of the increased steel and aluminum imports. In August 2018, the Eurasian Economic Commission (EEC) launched<sup>3</sup> a special protective investigation of rolling steel imports into the EAEU in response to the appeal filed by three Russian companies (NLMK, MMK and Severstal). Based on the investigation results, from 1 December 2019 the EAEU will introduce its own protection measure (year-long tariff quota) targeting hot rolled steel products.

### Trade restrictions that followed from the US claims against technology transfer

The second trade war caused by the US claims against China concerning technology transfer directly involved dealings between the two countries. In August 2017, at Trump's request, the **USTR (United States Trade Representative) launched an investigation<sup>4</sup> that resulted in the following conclusions:**

1. In effect, the PRC's legislation makes it very difficult to bring Chinese companies to responsibility for leakages of imported technologies;
2. The PRC patent law allows to register as inventions the 'improvements' made by Chinese companies to foreign technologies, which in the final analysis means that the technologies are stolen;
3. The PRC law on joint ventures allows the Chinese partners after the expiry of each agreement to continue the use of the relevant technologies.

To combat China's 'unfair trade practices', the USA raised its tariffs on Chinese imports, while the PRC, for its part, raised its tariffs on imported US goods.

1 URL: <https://www.whitehouse.gov/presidential-actions/presidential-proclamation-adjusting-imports-steel-united-states/>

2 URL: <https://www.whitehouse.gov/presidential-actions/presidential-proclamation-adjusting-imports-aluminum-united-states/>

3 URL: <https://www.whitehouse.gov/presidential-actions/proclamation-modify-list-beneficiary-developing-countries-trade-act-1974-2/>

4 URL: [https://ustr.gov/sites/default/files/Section 301 FINAL.PDF](https://ustr.gov/sites/default/files/Section%20301%20FINAL.PDF)

## 1. Trade wars: first effects

By now, restrictions have covered nearly all US-China bilateral trade. According to data released by the USTR<sup>1</sup>, the volume of China's exports to the USA in 2018 amounted to \$ 557.9bn, that of US exports to China – to \$ 179.3bn.

**As far as the consequences of the already existing trade restrictions are concerned, those of major importance among them are as follows<sup>2</sup>:**

- the main beneficiaries of the trade war are those sectors of the US economy where unskilled labor prevails (ferrous and non-ferrous metallurgy, extractive industries). Almost every other sector in the PRC and elsewhere (one exception probably being horticulture) has been disadvantaged, or gained only minor advantages;
- as a result of these decisions, trade flows will be diverted from the 'USA-PRC' channel towards 'the USA – the rest of the world', or be redistributed between other countries of the world; however, overall trade will be scaled down;
- their general impact on the world economy is weakly negative (according to our estimates, it wipes a mere \$ 80bn off global GDP per annum); however, later on the effects may become stronger;
- in future, the trade war may result in US companies moving their production entities from China either to other countries (Vietnam, Thailand, Cambodia, Costa Rica, Mexico), or into US territory;
- the goals declared by Trump have been achieved only in part: the effect on economic growth in the USA is close to zero; the trade balance with the PRC is improving only slightly, while that with the rest of the world has remained practically unchanged (as a result of the introduction of bilateral restrictions – by \$ 25–30bn). Losses, albeit insignificant, have been suffered by the hi-tech sectors of the US economy (first of all, by the automotive sector, finished metal goods production, the electronics and chemical industries).
- the impact on Russia's economy has been rather weak so far; at some later point, either the appearance of certain niches for Russian goods, or, on the contrary, a more intense competition can be expected. In addition to direct negative effects of raised US customs duties on steel and aluminum imports, stronger negative effects can be felt in the metallurgical industry, Russian metallurgy including.

### **The automotive sector is the new field where trade wars can be expected**


As early as May 2018, the US Department of Commerce launched an investigation targeting imported automobiles and spare parts thereto under the same Section 232 of the Trade Expansion Act that had been applied in order to introduce additional import duties on steel and aluminum. The results of the investigation have not yet been made public; however, according to preliminary data, the tariffs on imports of automobiles and spare parts could be raised by 25 p.p. So far, only Mexico and Canada will be exempt from these restrictions. In an appendix to the USMCA (United States–Mexico–Canada Agreement), the USA agreed to make some of the Canadian and Mexican exports of automobiles and spare parts exempt from any future measure to be introduced against any other country. It is expected that the potential measures will target primarily

1 <https://ustr.gov/countries-regions/china-mongolia-taiwan/peoples-republic-china>

2 See Knobel, A. Yu., Aliev, T. M., Pyzhikov, N. S., Flegontova, T. A. (2019) Trade and globalization. Events of the last thirty years and subsequent evolutionary trajectories (in Russian) / RANEP. M: Delo, 2019. – 72 p. – (Scientific Reports: Economics; 19/23).

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the products imported from the EU and Japan. For now, the introduction of additional duties has been postponed.

**The USA intends to continue to impose restrictive measures** against Chinese goods, to consider potential restrictions against imported automobiles, and there is no acceptable solution to the dispute concerning metals. So, very soon a new round of the trade war can be expected. 



## 2. INDUSTRY IN SEPTEMBER 2019: DEMAND STABILITY AS AN OBSTACLE TO GROWTH

S. Tsukhlo

*A stable demand movement pattern makes it possible, for industry, to secure control over stocks of finished goods and raw materials. At the same time, the production growth rate is still at a near-zero level, and there are no preconditions for any significant output increase in the foreseeable future. The reluctance of enterprises to create new jobs has hit its historic high of the entire monitoring period since 1993. The investment plan optimism index continues to slide after its rise in 2017.*

In September, enterprises reported a slight improvement of their demand movement patterns after a similarly slight drop of that index in August. As a result, when cleared of seasonal and random fluctuations, **the balance of sales of industrial goods has demonstrated stability over the first 9 months of 2019.**

The predicted demand movement pattern over the remaining period of 2019 is likewise stable. When cleared of seasonal and random fluctuations, they fit into the interval of +3...+4 points since the beginning of this year.

Under the existing conditions, it is relatively easy for enterprises to manage their finished goods stocks. **The upshot of this has become a record-high level of their estimates of these stocks as 'normal'. In September 2019, the yield of such estimates was 78% – the historic high of all the 328 business surveys. Meanwhile, the mean result of the first 9 months of 2019 is 73% – also an absolute record-high of the entire 28-year period of surveys of 9-month data.**

The balance (difference) of the other estimates has hovered around zero, never moving beyond the interval of -2...+3 points since the beginning of the year 2019. Industrial enterprises see no reasons for creating manageable surplus stocks, the latter being typical of the periods of confidence in demand growth.

A similar situation can be observed with regard to stocks of raw materials. **In 2019, the relative share of 'normal' estimates of these stocks hit a record high of 83% (Q2), and in Q3 that index stood at 77%, alongside a near-zero balance of all the other answers (above norm – below norm).**

The growth rate of output (cleared of seasonal and random fluctuations) has stayed just above zero for a second quarter in a row – since April, this index has been stable within the interval of 0...+1. In Q1 2019, the balance (growth rate) of actual output indices as reported by the surveys remained within the interval of +2...+3 points.

In spite of the increasingly slow output dynamics, the production plans across industry have demonstrated a high level of optimism over the course of this year. **In Q3, the balance of expected output changes was +13 points. It should be noted that in 2018, the output plans were less optimistic: all the quarterly balance indices fell between +11 and +12 points.**

**According to the enterprises, insufficient demand remains the main industrial growth constraint.** As before, this factor is ranked 1st among the output constraints for Russian industry, beginning from its record-high surge in Q1 2009 (up to 67% mentions, after 30% in Q2 2008). At present, demand is an output growth constraint for 52% enterprises.

**2<sup>nd</sup> place in the output growth constraints ranking for Russian industry (since 2015) has been given to 'lack of clarity in the current economic situation and its prospects'.** That factor hit its local record high (49% of mentions) in early 2016, when the enterprises failed to see a rebound from the crisis bottom. In 2017 (after the onset of a real exit from stagnation) it began to be pointed out by only 24% of enterprises. However, when the exit from stagnation slowed down in 2018, that index increased to 35%. Now, the lack of clarity in the current situation coupled with foggy prospects once again prevent a third of Russian industrial enterprises from increasing their output.

**Insufficient export demand is mentioned, in Q3 2019, by 28% of enterprises.** This factor is ranked 3<sup>rd</sup>. Before the ruble's depreciation in December 2014, export demand insufficiency was also pointed out, on average, by 28% of enterprises. Probably, the enterprises' hopes that export demand would increase as a result of the ruble's depreciation failed to be realized.

**Import competition in 2019 was ranked to be 4<sup>th</sup>, being an output constraint for 22% of enterprises. This is record-high frequency of mentions of that factor after December 2014.** The constraining effect of competing imports on Russian industry has not reached its pre-depreciation level.

In September, there was an attempt across industry to raise producer prices – the balance of their actual changes rose to +5 points after 0 points in August. However, it seems that this step has been recognized by enterprises to be unsuccessful. The price forecasts, on the contrary, lost 5 points – industry is once again ready to do without raising prices. **The intention to reduce their prices in September was reported by 10% of enterprises.** A higher frequency of reported price reduction over the last 7 years (13%) was recorded only in May 2019.

**Overall across industry, September saw a zero balance of personnel number changes.** Thus, the negative trend in personnel number in face of a need for raising it, which appeared in May-July, is increasingly being overcome. However, in their personnel forecasts, industrial enterprises no longer demonstrate the optimism that was typical of the year beginning. The balance of that index has stayed at zero for a second month in a row, which means that enterprises (nationwide) are no longer planning to increase their personnel numbers.

**An absolute majority of enterprises (83%) reported, in Q3 2019, that they intended to keep the number of their employees unchanged. The intention not to change their personnel number has never been recorded on such a massive scale in any quarter over the entire period of business surveys of Russian industrial enterprises since 1993.** The previous record-high intended 'freeze' of the number of new jobs in Russian industry was recorded in 2018 (78%).

**In 2019, the investment plan optimism index of the first 9 months was somewhat below the corresponding index for 2018: +5 vs. +7 balance points.** The number of those who did not want to change their investment volume increased: 51% over the first three quarters of 2019 vs. 47% over the corresponding period of 2018. A slowdown in Russian industry's exit from the investment stagnation of 2012–2016 has continued. At the same time, machinery and equipment shortage was considered to be a constraint on their output growth over the course of the first three quarters of 2019 by only 10% of industrial enterprises, a record low percentage since 2000 or, in other words, a 20-year low. ▀

### 3. THE RUSSIAN REGIONS IN JANUARY-JULY 2019: A MIX OF GROWTH, STAGNATION AND SLUMP

N. Zubarevich

*In January-July 2019, amid the upturn in industry driven mainly by resource-producing territories and sectors and weak growth in consumption the most serious problems were still the level of households' incomes and the volume of investments which fell in more than a half of regions. The housing development was getting out of the crisis, primarily, in large metropolitan areas and in the south of the country, while the recession continued in the Far East. Most regions saw growth in their budget revenues owing to an increase in profit tax revenues and transfers, which made it feasible to raise expenditures on the economy and social services. Advanced growth in expenditures on housing and public utilities was underpinned mainly by Moscow which spent a huge amount of funds on urban land improvement. The inequality between regions kept growing, particularly, as regards investments, wages and budget revenues.*

Russian regions saw growth in industrial production (2.6% in January-July). **The leaders were the oil and gas producing Yamalo-Nenets Autonomous Region (22%) and Republic of Yakutia (11%), as well as regions oriented on the military-industrial complex (the Tula Region and the Bryansk Region – over 14%). Among federal districts, the growth leaders were the Far East (6%), with the main contribution made by Yakutia and the Maritime Territory. The recession was observed only in 13 regions with the most severe one registered in the Arkhangelsk Region (-15%).** Among the rest of the regions with negative industrial dynamics, republics with underdeveloped industries accounted for one-third.

The housing development is recovering (a 7% growth in January-July 2019 on the same period of the previous year) on the back of the mortgage lending boom which began in 2017. Among the regions with large volumes of housing development, the best dynamics were observed in Moscow (growth of 120%) mainly owing to the assimilation of new territories with a decrease of 2% in commissioning of new housing in the Moscow Region. In the Republic of Tatarstan, commissioning of new housing grew by 17%. Another group of leaders is regions of the south (the Rostov Region, the Krasnodar Territory and the Stavropol Territory – growth of 12–14%). Negative dynamics were observed in the Far East (-8%), with a decline still continuing in the Maritime Territory (-6%) commissioning most of the housing in the district. The share of the Far East in commissioning of new housing in Russia fell to 2.7%. To reverse this trend, it is necessary not only to reduce mortgage rates to 2% for residents of the Far East, but also facilitate the migration inflow growth; at present the balance of migration is negative.

#### **Trade, Investments, Wages and Revenues**

**Growth in nominal wages (7% in H1) seems to be substantial, but real wages (with the inflation rate of nearly 5% taken into account) increased slightly.** It is to be specified that wages and salaries are measured by the Rosstat on the basis of those prevailing at large and mid-sized enterprises and entities, while in the

small business and informal economy they are much lower. Growth in nominal wages in Moscow (9.6%) surpassed average dynamics nationwide. In H1 2019, wages and salaries in Moscow exceeded by 100%, 50% and 70% the average wages nationwide, in St. Petersburg and the Moscow Region, respectively, but slightly fell behind those of the two autonomous regions of the Far North where large wage increments were paid, that is, the Yamalo-Nenets Autonomous Region and the Chukot Autonomous Region.

**The retail turnover is somewhere between growth and stagnation (1.6% in January-July). Note that insignificant growth was observed everywhere, while a small decline (1% and less), only in 10 regions.** A more sizable growth of nearly 5% in the retail trade in the Moscow Region was justified by the expansion of the chain retailing; the Moscow Region attracts a portion of Moscow consumers, particularly, during the summer season. Agglomerative advantages can be found in the Leningrad Region, too (retail trade growth of 4%).

**As regards investments, they are in stagnation; in H1 their growth was within a statistical error (+0.6%).** Regional dynamics are highly polarized, they are influenced by agglomerative and resource competitive advantages. Among the regions with a high volume of investments, they were growing at a higher rate in the Yamalo-Nenets Autonomous Region (23%) and Moscow and the Moscow Region (19%-20%). In H1, the metropolitan agglomeration received nearly 20% of this country's all investments, while the Tyumen Region with its autonomous regions, 14%. Growth in investments in the Siberian Federal District (13%) was registered almost in all its regions, while the share of the district in Russia's overall volume of investments is relatively small (10%).

**In a half of regions, the volume of investments decreased,** particularly, in the North-Western Federal District (-9%) owing among other things to the negative dynamics of St. Petersburg (-21%) and, more substantially, in the Southern Federal District (-27%), which situation can be explained by the completion of building of the infrastructure of the Crimean motorway bridge and, as a consequence, reduction of investments by 40% and 30% in the Republic of Crimea and the Krasnodar Territory, respectively. The federal budget is still the main investor in Crimea and the city of Sevastopol (71% and 61% of all the investments in these regions, respectively). Investments fell insignificantly in the Privolzhsky Federal District (-3%) where two-thirds of the regions, including Tatarstan had negative dynamics and the Far Eastern Federal District where the most dramatic drop was registered in Yakutia (20%). The share of the Far East in Russia's overall investments is equal to 8%; it is lower than in the period of preparations to the APEC Summit (9%).

The dynamics of households' real disposable incomes are in the negative zone; in H1 they fell by 1.3% nationwide. Across regions, the Rosstat measures households' real disposable cash incomes in which growing mandatory payments, including payments on loans are not taken into account. **Real incomes nationwide fell by the mere 0.4%, but kept decreasing in 44 constituent entities of the Russian Federation** and in most federal districts, except for the Urals Federal District and the Far Eastern Federal District.

### Revenues, Expenditures and Debts

With the problem social and economic dynamics taken into account, the situation with consolidated regional budgets is more favorable. **For the first seven months of this year (January-July), their revenues increased on average by nearly 13% (Fig. 1), including Moscow (17%).** The regions with the maximum

### 3. The Russian Regions in January-July 2019

growth in revenues (25–31%) can be divided into the following two groups: those with highly increased profit tax revenues (the Yamalo-Nenets Autonomous Region, the Krasnoyarsk Territory and the Murmansk Region) and those with dramatic growth in transfers (the city of Sevastopol and the Chukot Autonomous Region), while in the Amur Region rapid growth in revenues was underpinned by both the sources. Negative dynamics on the back of a decrease in transfers were observed only in the Republics of Ingushetia and Khakasia.

**In January-July, profit tax revenues grew even at a higher rate (20%).** Among the regions

where the profit tax makes a huge contribution to budget revenues, its highest growth rates were registered in the Yamalo-Nenets Autonomous Region (81%), the Murmansk Region (75%), the Krasnoyarsk Territory (68%), the Republic of Komi (47%), the Perm Territory, the Tyumen Region and the Astrakhan Region (33–38%). Profit tax revenues fell in 13 regions, with a particularly dramatic reduction observed in the budgets of Bashkortostan (-28%), Yakutia (-26%), the Khanty-Mansiisk Autonomous Region (-12%) and the Lipetsk Region (-13%).

**Personal Income Tax revenues increased by 9%.** A slump in individual income tax revenues was observed only in the Tyumen Region and the Republic of Khakasia. Moscow accounted for 21% of all the regions' incomes, as well as 27% of profit tax and individual income tax revenues of all regional budgets.

Also, the central government's decisions had an effect on budget revenues of the regions. **In 2019, regional budgets started to receive in full the excises on petrochemicals, so growth in excises was equal to 20% and registered virtually everywhere.** At the same time, the personal property tax was taken away from the territories and, consequently, **the revenues from the personal property tax decreased by 2%, which situation was observed in more than a half of regions.** The losses were partially compensated by means of transfers, but it is an unstable source.

**Substantial growth in transfers to regions (15% in January-July) was largely justified by increased funding of national projects and compensatory payments for the loss of the personal property tax.** Apart from the above factors, the role of subjective and geopolitical factors is obvious, too: transfers increased by 31% and 50% to the city of Sevastopol and the Chukot Autonomous Region, respectively, while the level of subsidization of these two constituent entities was equal to 52% and 67%, respectively. Transfers increased by 18% to Chechnya which had a super high level of subsidization of 81%.

**Expenditures of the regions' consolidated budgets increased by 11%;** they grew at a higher rate in the city of Sevastopol (41%), the Chukot Autonomous

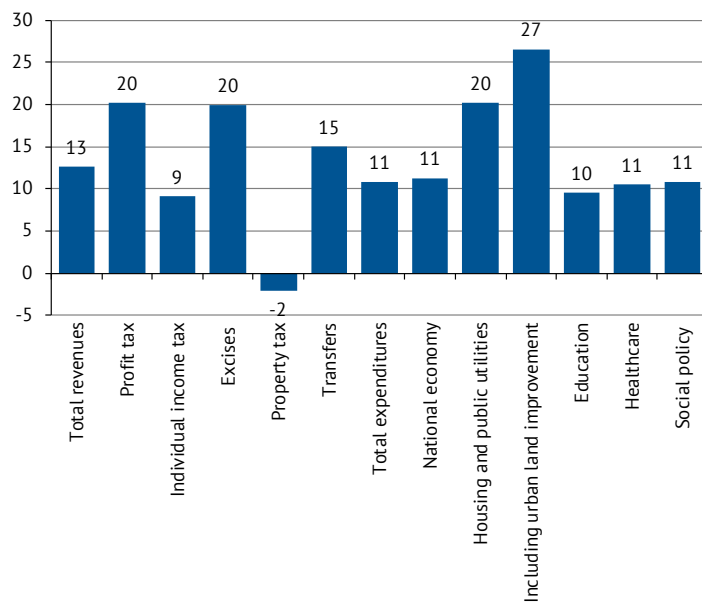



Fig. 1. Dynamics of revenues and expenditures of regional consolidated budgets in January-July 2019, % on the same period of 2018

Source: The Rosstat.

Region (36%), the Sakhalin Region (32%) and Tatarstan (27%). Expenditures decreased only in five republics: the Republic of Mordovia (20%), the Republic of Khakasia (6%) and the Ingush Republic, the Karachayevo-Cherkessian Republic and the Republic of Altai (1%-3%). In the Republic of Mordovia, they carried out tough optimization of all the expenditures to reduce a very high debt burden, while in the Republic of Khakasia, in a more moderate way.

The dynamics of expenditures on social items and the economy are similar to general growth in expenditures (*Fig. 1*), though regional differences are big enough. **Expenditures on housing and public utilities grew on average at a higher rate; their growth was observed nearly in the three-fourth of the regions. Increased budget revenues permitted to pay debts on housing and public utility services and increase somewhat funds for urban land improvement.** However, there is a more serious factor of advanced growth: Moscow accounts for 42% of all the regions' expenditures on housing and public utilities; in Moscow they increased by 24%. In the pattern of Moscow's expenditures on housing and public utilities, expenditures on urban land improvement accounted for 81%; in January-July 2019 they rose by 36% and amounted to over 15% of all the expenditures of the Moscow budget.

**In January-July 2019, the problem of the deficit of regional budgets became less topical; this problem was experienced in that period only by 12 constituent entities**, with the highest deficit registered in the Republic of Yakutia and the Jewish Autonomous Region (10–11% against budget revenues). By the end of this year, the number of problem regions will be higher, but the figures are not critical as compared to 2013–2015 when 75–77 regions had a budget deficit.

Gradually, **the debt problem is being smoothed over; in January-September 2019 the regions' and local governments' overall debt decreased by nearly 11%**. The debt volume increased only in 14 regions, with the highest growth rates observed in the Republic of Kalmykia, the Ingush Republic and the Jewish Autonomous Region (13–16%). The estimated ratio of the overall debt of regions and municipal governments to the annual tax and non-tax revenues of the consolidated regional budget fell from 24% in the beginning of the year to 20% early in September. A critical debt burden remains in the Republic of Mordovia (the debt exceeds 1.9 times over the budget revenues), though the amount of the debt has decreased by 5% since the beginning of the year. In the high debt zone, one can still see the Kostroma Region (the debt burden of 87%), the Orel Region (81%), the Smolensk Region (77%), the Republic of Khakasia (83%), but they all have reduced somewhat the debt unlike the Jewish Autonomous Region (82%), the Chukot Autonomous Region (79%) and the Kurgan Region (73%), where it kept growing. 

## 4. 2018: LIFE EXPECTANCY AND MORTALITY RATE

R. Khasanova

*According to aggregated data for 2018, positive tendencies have been observed with regard to life expectancy rates as well as to reduction of infant mortality. However, growth of diseased along decrease of births exacerbates natural decline in the population. A slight decrease in the male mortality rate aged 16–59 is accompanied by growth of this rate in females (16–54). Reduction of mortality from diseases of the circulatory system, neoplasms occurs simultaneously with an increase of mortality from diseases of the digestive system, endocrine system, eating disorders and metabolic disorders, nervous system, mental disorders and behavior disorders.*

Number of diseased in Russia in 2018 grew by 2.8 thousand or 0.2% compared to 2017 and constituted 1828.9 thousand people. At the same time, absolute mortality rate resulted from external causes (road traffic accidents, intoxication, drowning, murders and suicides, etc. decreased by 8.1 thousand or 5.3% while mortality from diseases increased by 10.9 thousand or 0.7%. **Overall mortality rate increased by 0.8% in 2018 and constituted 12.5 per 1000 people vs 12.4% in 2017. At the same time, changes in age structure of Russian population influence on dynamics of absolute rate and an overall mortality rate (growth of seniors share in the structure of population has its impact also on growth of diseased).**

In 2018, life expectancy of the Russian population amounted to 72.9 years: 67.8 in males, 77.8 in females. **Compared to 2017, this rate increased by 0.2 years: by 0.24 years in males, 0.18 years in females.** Increase of life expectancy took place mainly at the expense of reduction of rural mortality: +0.29 years vs +0.18 years in urban environment).

Regional gap in life expectancy grew in 2018 and constituted 18.8 years compared to 15.5 in 2017. In 2018, maximum rate of life expectancy at birth was observed in the Republics of Ingushetia (82.4 years), Dagestan (78.7), in Moscow (77.8). Minimum life expectancy was marked in Chukotka Autonomous okrug (63.6), Tyva Republic (66.5), Jewish Autonomous region (68.6).

Growth of regional gap of life expectancy at birth happened due to significant increase of mortality in the region marked by low life expectancy: in Chukotka Autonomous okrug (territory with a minimum rate of life expectancy at birth) life expectancy rate reduced by 2.5 years in 2018. Reduction of life expectancy of the population was observed in 20 regions compared to 2017 (*Fig.1*). Maximum growth of life expectancy at birth was marked in Sakha Republic (Yakutia) (by 1 year up to 72.7 in 2018), Republic of Khakassia (by 0.9 years up to 71.15 in 2018), Republic of Dagestan (by 0.9 years up to 78.7 in 2018), Krasnodar region (by 0.88 years up to 74.3 in 2018).

**Growth of male life expectancy is associated with reduction of mortality resulted from infections and parasitic diseases, circulatory, respiratory diseases, external causes (*Fig.2*).** Meanwhile, calculation of a standardized rate (age structure of the population in 2017 approved as a standard) according to causes of death shows an increase in the mortality rate resulted from digestive diseases and other causes in males. Male mortality rate resulted from neoplasms remained at the level of 2017.

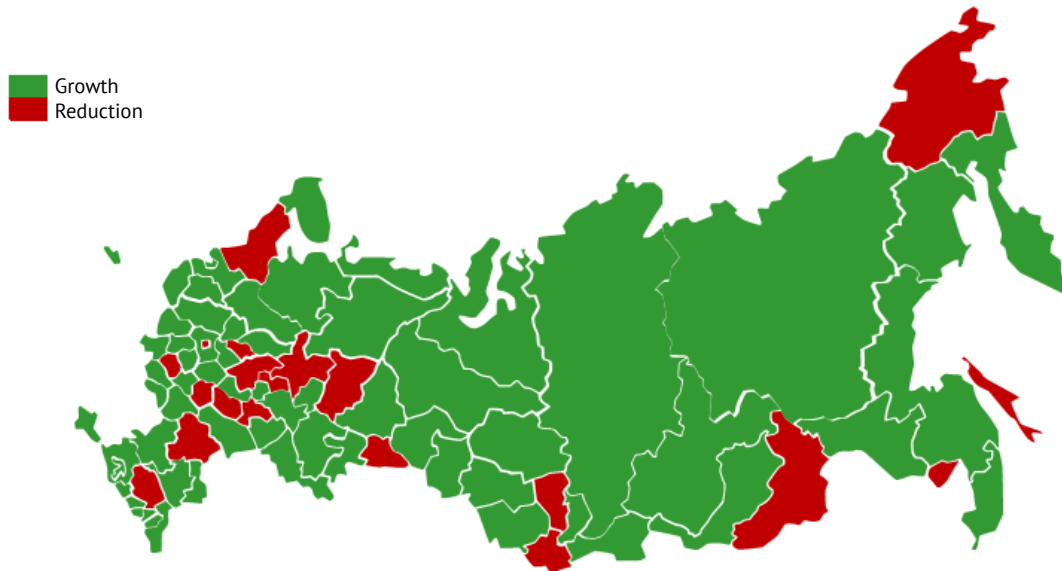


Fig. 1. Life expectancy in Russian regions, 2018 vs 2017

Source: Rosstat data.

Reduction of mortality resulted from neoplasms, circulatory, respiratory diseases, external causes contributed to growth of female life expectancy in 2018. However, female mortality grew due to infections and parasitic diseases, diseases of digestive system and other causes of death.

**Growth of mortality resulted from endocrine diseases, eating disorders, metabolic disorders, nervous system and behavior disorders is going on.** Age mortality rates demonstrate a more detailed picture. **Infant mortality decreased by 9% in 2018 compared to 2017** and constituted 5.1 cases per 1000 live births.

Mortality rate at active working age (here and further: 16–54/59) reduced by 0.5% in 2018 compared to 2017 and amounted to 481 cases per 100 thousand people of respective age. **Share of diseased at active working age constituted 21.5% from the total number of diseased.** Major causes of death at active working age in 2018), external causes (24.2%) and neoplasms (15.3%).

Mortality in this particular age group significantly differs by gender, that is, it is much higher in males. Data comparison between 2017 and 2018 reveal reduction of male mortality at

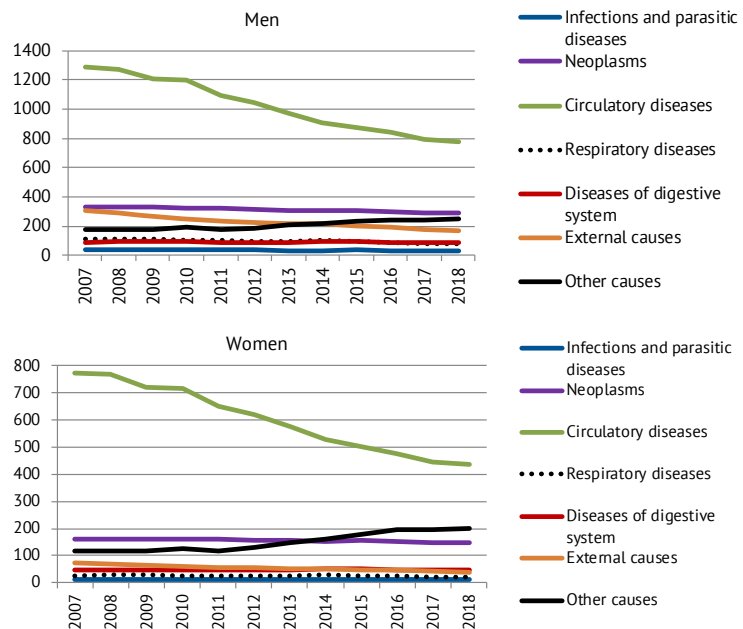


Fig. 2 Standardized mortality rate of the Russian population according to causes of death, gender, 2008–2018, per 100 thousand people (standard signifies age structure of the population in 2017)

Source: author's calculations according to Rosstat data.



## 4. 2018: Life expectancy and mortality rate

active working age with the rate reduced by 0.9% (727.2 cases per 100 thousand people). However, similar female mortality rates increased by 0.7% (210.8 cases per 100 thousand people of respective age and gender).

Structure of death causes at active working age also differs by gender. Circulatory diseases contributed most significantly to male mortality (236.4 per 100 thousand people of respective age and gender), external causes (188), neoplasms (95.5), other causes (69.3). Main causes of female mortality are neoplasms (49.5 per 100 thousand people of respective age and gender) and circulatory diseases (48.3). Both causes contributed almost equally to female mortality aged 16–54.

Reduction of male mortality aged 16–59 is associated with decrease of mortality rate resulted from infections, parasitic diseases, neoplasms, circulatory, respiratory diseases, external death causes. Male mortality at active working age resulted from circulatory diseases remained at level of 2017 while it increased by 3% for diseases of digestive system and by 8% for other death causes (Fig. 3).

Growth of female mortality rate aged 16–54 is associated with the increase of deaths resulted from infections and parasitic diseases (by 3%), circulatory diseases (by 1%), diseases of respiratory system (by 6%), digestive system (by 6%), other causes of death (by 9%).

### Mortality of the population at active working age differs significantly across Russian regions.

Regional gap in the mortality rate related to population at active working age (16–54/59) amounted to 813 per 100 thousand people in 2018. Regions demonstrating maximum mortality rate at the age of 16–54/59 represent Chukotka Autonomous okrug (955 per 100 thousand people of respective age), Kemerovo region (704), Tyva (683) and Karelia Republics (678), Magadan (663), Irkutsk (655), Amur and Pskov regions (654 per 100 thousand people of respective age). Minimum indicators have been observed in Republics of Ingushetia (142 per 100 thousand people of respective age) and Dagestan (166), Republic of Chechnya (166), Republic of Kabardino-Balkaria (284), Moscow (315), Republic of Karachaevo-Cherkessia (327), Yamal-Nenets Autonomous okrug (360), Republic of North Ossetia-Alania (370 per 100 thousand people of respective age). ▀

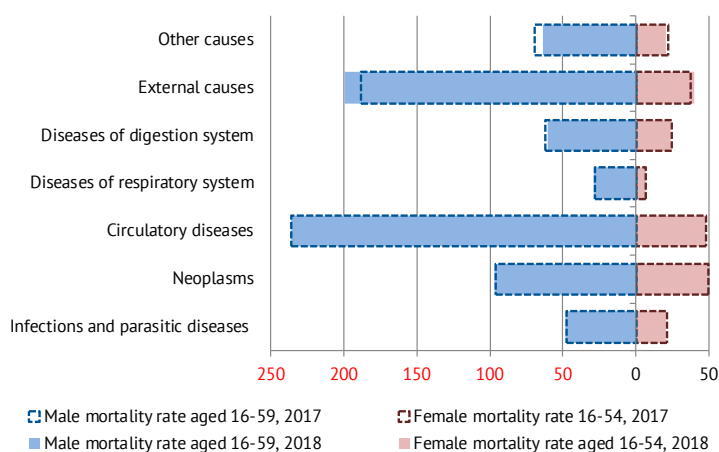


Fig 3. Mortality rates of the population at active working age resulted from main causes of death in 2017–2018, per gender, per 100 thousand people of respective gender and age

Source: Rosstat data.

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