

ONLINE MONITORING OF RUSSIA'S ECONOMIC OUTLOOK

TRENDS AND CHALLENGES OF SOCIO-ECONOMIC DEVELOPMENT

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MAIN TRENDS AND CONCLUSIONS	3
1. THE RF CENTRAL BANK'S COURSE IS TO ACHIEVE MEDIUM-RUN STABILITY (Ye. Goryunov, P. Trunin)	7
2. EXPORT-IMPORT: A NEARLY SIMULTANEOUS DROP (A.Knobel)	11
3. COMMODITY TURNOVER: A DELAYED FALL (G.Idrisov, Yu.Ponomarev)	15
4. REGIONAL BUDGETS: TIGHTENING OUR BELTS (A.Deryugin)	18
5. MIGRANTS ARE LOSING INTEREST IN RUSSIA (Yu.Florinskaya, N.Mkrtchan)	21
AUTHORS	25

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MAIN TRENDS AND CONCLUSIONS

Mid-November 2015 was marked by something that had not been observed for a long time: oil prices and the ruble were in phase opposition. Oil prices began to plunge, the ruble's exchange rate followed at a slower pace, but then it reversed its movement and began to rise against the backdrop of the continuing downfall of oil prices. It is difficult to find any reason for such movement trajectories other than 'geopolitical positivity': the political convergence of Russia and the Western countries after the chain of terrorist attacks, Moscow's preparedness to restructure Kiev's debts, etc. At the same time, these developments can hardly be regarded as a distinctly emerging trend. Hydrocarbons remain the decisive factor that influences the Russian macro economy, although foreign politics can also play its role (first of all, if the restrictions on Russia's access to foreign financial markets begin to be eased).

In none of the scenarios developed by the RF Central Bank and included in the draft of its *Guidelines for the Single State Monetary policy in 2016 and for 2017 and 2018* it is expected that the economic sanctions may be lifted. The three scenarios suggested there, which take note of factors like the monetary policy pursued by the USA the situation in China's economy, differ primarily in terms of the level of oil prices. Under the baseline scenario, the price of oil will remain at its current level of about \$ 50 per barrel over the next three years; the optimistic scenario envisages its gradual rise of the price of oil towards \$ 75 per barrel in 2018; and the stress scenario envisages its plunge below \$ 40 per barrel. It is noteworthy that the stress scenario is the only one that offers no detailed projections. As the probability of the latter is definitely above zero, this is evidently a manifestation of an external conflict – between the desire to spare the market from the downward pressure of a negative forecast and the necessity to gear the future monetary policy also to a stress scenario. However, there exists an even deeper controversy between the reluctance to disclose its details and the RF Central Bank's goal of boosting confidence in its monetary policy as the necessary precondition for that policy being successful.

The inflation targeting regime is in itself a confidence-boosting tool, and the Bank of Russia regards it as something of paramount importance, because it helps to promptly respond to a changeable situation. No less important (in terms of monetary policy, as well as for Russia's economic policy as a whole) is the RF Central Bank's switchover to a freely floating exchange rate regime, whose purpose is to smooth the effects of external shocks. If this switchover (which has been the result of 'much agonizing thought') had not been made, it is difficult to imagine how many bans and restrictions – in the fields of foreign exchange, financial, administrative and crime control – would have had to be imposed in 2015 and in the subsequent years in attempts to revive the collapsed economy.

Meanwhile, against this background, the RF Central Bank's intention to continue replenishing its international reserves has given rise to some questions: its practice of buying-up foreign currency on the market was less than

inspiring – moreover, it was likely to play a certain role in triggering a new surge in the ruble's depreciation in summer 2015. The case in point is not so much the 'purity of the experiment' (many experts, in fact, do not consider this to be a freely floating exchange rate if the regulator, in a situation which was not really disastrous, resorted to currency purchases so as to prevent a so-called 'over-strengthening' of the ruble). More importantly, the ruble is more prone to devaluation than to revaluation, and so it is rather easy to prevent the latter, while it might be much more difficult to halt its inadvertently triggered downfall – which may make senseless, among other things, the inflation targets carefully and meticulously set by the RF Central Bank itself.

According to its draft document, the Bank of Russia will continue its efforts to bring the inflation rate down to 4% in 2017. Some doubts have been expressed concerning this target being truly realistic: thus, for example, the ceiling could have been raised to 5–6%, or this goal could be set for the next year. In any event, given the high inflation expectations, the RF Central Bank will have to keep its key rate at its existing level. The key rate, which has dropped below the inflation rate in conditions when prices are declining rather reluctantly, appears to be something of an anomaly if we believe that the RF Central Bank has indeed switched over to the inflation targeting policy. It should hardly be necessary to add that, in the current situation, a reduction of the key rate by 1 pp, or even by 2 pp. cannot have any serious effect on lending in the economy. However, it can cast serious doubts on the very prospects for achieving the goal of properly controlling inflation.

The foreign trade balance is a factor that can directly influence a country's foreign exchange and financial situation, its international reserves, and the exchange rate of its national currency against major world currencies. Over the course of the first nine months of 2015, the RF foreign trade balance remained positive. Meanwhile, both exports and imports have been moving downwards almost synchronously. The shrinking volume of exports can be explained by the falling prices for raw materials, the imposed economic sanctions, the sharp downfall of the goods turnover with Ukraine, and weakening business activity. Imports have been shrinking due to the ruble's depreciation, Russia's ban on food imports, and likewise the weakening business activity in the Russian economy.

The downward movement of the ruble's exchange rate, which triggered the shrinkage of imports, did not at the same time translate into growth of exports – neither in physical terms, not in terms of value. However, the import substitution trend proved to be more stable (in by-sector terms), becoming visible in the main in the agricultural sector and the food industry. It is there that shrinking imports could be observed alongside domestic production growth. Meanwhile, nothing like this has been visible in the investment sphere, the production of means of transport and durable goods consumption, where both imports and domestic production have been on the decline. This has to do first of all with the sharp shrinkage of domestic demand; the downfall in the volume of sales in some sectors (for example, in the automobile market) is verging on the dramatic.

Trade, one of the biggest sectors of Russia's economy, 'put up resistance' to negative macroeconomic trends for a longer time than the rest of its sectors. However, this autumn, the decline displayed by commodity turnover has been the steepest since 2000 (its downfall towards the year's end may become even deeper compared with the panic-triggered consumption peak

in December 2014). The factors responsible for these phenomena are the decline in the real disposable incomes of the population and the pass-through effect of the ruble's exchange rate fluctuations, when the depreciation wave followed by a new inflation surge becomes directly visible in the trade sector. According to our experts' estimates, the delayed pass-through effect of the ruble's exchange rate fluctuations may push up consumer prices, before the year's end, by another 5.3% relative to July 2015. Although this effect (to a varying degree) has already been reflected by the official inflation forecasts, it only emphasizes the urgency of the demands addressed to the RF Central Bank that it should 'reduce the key rate as soon as possible'.

As for the decline in consumers' incomes being the main cause of commodity turnover downfall, we may say at this point that Russian buyers have begun to adapt to the new realities and to switch over to a so-called saving strategy, having realized that their wages in nominal terms display either only a very slightly growth rate, or zero growth, or even begin to shrink.

The situation with regard to the population's incomes has graphically translated into regional and local budgets. While over the first half-year the amount of revenues generated by personal income tax (PIT) demonstrated a respectable growth rate, in autumn this growth dwindled to nearly zero (on autumn 2014). The movement of revenues generated by profits tax (which account to a quarter of the entire revenue side in the budgets of RF subjects) is very unstable and varies greatly between regions, having displayed an increase of only 7.7% in nominal terms over the first ten months of 2015 (with the exception of Sakhalin with its special oil-related tax opportunities).

On the whole over the first ten months of 2015, the consolidated budget revenue of RF subjects increased by 6.4% (in 7 regions, this index is above the inflation index, and in 26 regions it declined even in nominal terms). The corresponding expenditure declined by only 2.6% over the same period. It is in the main this ratio that makes it possible to properly balance the budgets, preventing the amount of government debt from growing at a high rate. Another method of relieving the debt burden is the gradual replacement of the commercial loans attracted by the regions by budget loans (the relative shares of these two budget expenditure items have now become almost equal), which makes it easier to service the debt. But total expenditure is likely to sharply increase towards the year's end: according to experts' estimates, if no additional budget transfers or budget loans are allocated, the role of the more costly commercial loans will once again become prominent.

The attempts to generate some additional revenues in the budgets of RF subjects are by no means always justified, and sometimes these are simply counterproductive. The truth of this statement can be visible confirmed by the situation with regard to labor migrants. Over the first ten months of 2015, the number of officially issued employment documents dropped nearly by half (by 44%), while the corresponding labor market displayed no (even roughly) comparable decline. This means that, less than in a year's time, a huge number of labor migrants have simply 'moved into the shadow'. Experts explain this phenomenon by the introduction, from 2015 onwards, of alterations in migration legislation (whereby work permits issued in accordance with the established quotas were largely replaced by patents), which produced some quite effects. However, another likely explanation is that the main factor responsible for this 'manmade' labor market de-legalization was the manifold one-time raise of the patent fee (coupled with the introduction

of examination fees and payments for other necessary procedures), which made the official procedure unaffordable for many potential applicants.

On the whole, the number of labor migrants in Russia (which, by the way, it has become even more difficult to estimate correctly) is beginning to gradually shrink. Quite possibly, labor migrants – few of them so far – are losing their formerly keen interest in Russia's labor market. At the same time, Russia's domestic migration index is currently very high, twice above its level recorder in the 2000s. In fact, it is approaching its record high of the late 1980s – early 1990s. The Crimea has increased the list of the traditional 'attraction points', while migration-triggered population loss is being felt in the main by the same regions that have been affected by this phenomenon over the course of several recent years: the northern and eastern regions, the Caucasus, and some districts in European Russia and along the Volga. ●

1. THE RF CENTRAL BANK'S COURSE IS TO ACHIEVE MEDIUM-RUN STABILITY

Ye. Goryunov, P. Trunin

The Bank of Russia medium-run monetary policy course is to remain unchanged: the regulator will continue its efforts to bring the inflation rate down to 4% in 2017. This follows from the draft of the Guidelines for the Single State Monetary policy in 2016 and for 2017 and 2018. For this goal to become achievable under the existing conditions, the monetary authorities will have to maintain the key rate at its present-day level. The reasons for this state of affairs are the high inflation expectations and a slower decline in its rate than has been expected.

The medium-run strategic vector of monetary policy in Russia will remain unchanged. This follows from the draft of the *Guidelines for the Single State Monetary policy in 2016 and for 2017 and 2018*, adopted as of 14 October 2015. The Bank of Russia intends to pursue its inflation targeting policy in the framework of a freely floating exchange rate regime through managing the key rate, which determines the average rates on the interbank lending market. The medium-run inflation target is set at 4%, and the regulator predicts that the growth rate of consumer prices can be reduced to that level as early as 2017. The decisions concerning the key rate's level, as before, will be designed to properly balance the inflation risks and the risks of more considerable economy cooling. At the same time, financial sustainability remains one of the regulator's priorities. Among the important factors that underlie the Russian financial system's resilience we may point to the international reserves held by the Bank of Russia, and it intends to further increase the amount of these assets.

The macroeconomic situation continues to be strongly dependent on the external factors, and according to the RF Central Bank, the most important among them are the monetary policies pursued by the USA and other major developed countries, and the situations in China's economy and in the hydrocarbon market. With due regard for all these circumstances, the RF Central Bank put forth several economic development scenarios for the next three years, which differ primarily in their oil price movement projections.

According to the baseline scenario, the price for oil will remain at its current level (about \$ 50 per barrel) over the next three years, and so in 2016, under these conditions, recession in Russia's economy will persist, while economic growth recovery will begin only in 2017. The optimistic scenario envisages a gradual rise of the price of oil towards \$ 75 per barrel in 2018. The GDP growth rate in 2016 will remain at zero level, and in 2017 it will rise to approximately 2%. The stress scenario is geared to a slump in the oil price below \$ 40 per barrel, followed by a new decline of the ruble's exchange rate against the world's major currencies, rising prices and a deeper and longer economic decline. None of these scenarios expects that the economic sanctions may be lifted. On the whole, the suggested three scenarios map the most probable variants of the future course of events. It should be noted that

the stress scenario is not presented in detail, which we believe to be unjustified because its realization in actual practice appears to be quite probable.

In our opinion, the strategy selected by the Bank of Russia is sufficiently correct. Inflation targeting under a freely floating exchange rate regime is a rather widespread monetary policy regime, implemented not only by many developed countries, but also by the transition economies. The regime under which the currency rates are determined by market force is an important tool whereby the effects of external shocks can be mitigated, to ensure stability in the balance of payments and economic activities. Thus, the RF Central Bank's decision to continue its policy of non-interference in the foreign exchange market also appears to be sound.

It should be noted that inflation targeting represents a flexible monetary policy regime, whereby it becomes possible to promptly respond to current changes in the economic situation. This means that, whenever necessary, the RF Central Bank will be able to alter the course of its policy in response to any new challenges and shocks.

The RF Central Bank reserves the right to carry out interventions in the foreign exchange market whenever there may arise a threat to its financial sustainability. It is critically important to maintain a stable financial system, especially in the Russian economy with its highly volatile capital flows and foreign trade condition.

In its draft document, the Bank of Russia emphasizes that its official mandate by no means implies the obligation to maintain a fixed foreign exchange rate regime. In accordance with the RF Constitution (Article 75, Part 2), the RF Central Bank is indeed obliged to ensure the national currency's exchange rate stability, but it would be wrong to interpret this provision as the duty to fix the ruble's exchange rate against one or other foreign currency. To ensure the ruble's stability means to protect its purchasing power, a goal that can be achieved through reducing inflation and increasing the predictability of its movement. This is indeed the main goal of the inflation targeting regime, as stipulated in the draft document prepared by the Bank of Russia. Therefore its refusal to manage directly the foreign exchange rate and the resulting free movement of currency rates in the foreign exchange market cannot be regarded as contrary to the official mandate held by the RF Central Bank. In fact, our interpretation of the mandate granted to the monetary authorities is exactly the same as that offered in the draft.

At the same time, inflation targeting does not imply that the actual situation in the foreign exchange market should be completely ignored, because the movement of the exchange rate is the most important factor that influences the inflation index. Insofar as the interest rate policy can determine the exchange rate, it may be employed to suppress the inflation processes caused by depreciatory pressures. We consider this practice to be correct, and according to its draft document, the Bank of Russia is going to follow this course.

Meanwhile, in our opinion, the RF Central Bank's intention to replenish its international reserves has given rise to some questions. Of course, these reserves are to a certain degree a guarantee of macroeconomic stability, and they boost the confidence of economic agents in the ability of the monetary authorities to properly handle the tricky financial situation. Nevertheless, the experience of replenishing Russia's international reserves in 2015 can hardly be called successful, as this was done in the wake of huge donations of

foreign currency to the banking system in the form of refinancing. In other words, at first the RF Central Bank applied an upward pressure to the ruble's exchange rate by granting foreign exchange liquidity to banks, and afterwards began to purchase foreign currency. Under the expectably difficult macro-economic conditions over the next few years, replenishment of international reserves may upset the existing balance in the foreign exchange market, thus causing a new inflation surge. Thus, we believe that the renewal of currency purchases in the foreign exchange market can be possible only if foreign trade and capital flows demonstrate some significant improvement.

According to the baseline scenario projections prepared by the RF Central Bank, which rely on the assumption that the future developments in the Russian economy will be determined by inertia, in 2016 the inflation index will hover around 5.5–6.5%, and by 2017 it will get down to its target of 4%. The factors responsible for this decline of the price growth index will be weak output growth and the stabilization of oil prices at their current level. In our opinion, even with due regard for these factors with their suppressive influence on the price growth index, it can hardly be possible to reduce inflation to this target level without an excessively painful monetary policy toughening.

The ongoing inflation processes in Russia are sufficiently inertial, and so we believe that, in the framework of the baseline (inertia-oriented) scenario, it would be more reasonable to expect the inflation index to move at the rate of 6–8% in 2016, and 5–7% in 2017. It is noteworthy that, as stated by the Bank of Russia itself, the expectations of economic agents with regard to next year's price growth are still high, at the level of approximately 15%.

Over several previous years, the Bank of Russia systematically underestimated its inflation targets, and so the actual growth rate displayed by the Consumer Price Index (CPI) was above its target value. At the same time, the regulator chose to abstain from a rigid targeting policy in respect of the Consumer Price Index's growth rate. Whenever the inflation rose above the target level, the Bank of Russia never attempted any radical toughening of its monetary policy, thus undermining the confidence of economic agents in their future prospects. Meanwhile, the trust of economic agents in the policy pursued by the central bank is the key factor that determined the success of the inflation targeting regime. Therefore we believe that the Bank of Russia should have been oriented, in its forecasts, to a somewhat higher inflation level, while keeping its long-term target at 4%.

It should be noted that in our opinion, in addition to the absence, in the draft, of any detailed information the stress scenario of economic development, the draft also lacks the RF Central Bank's comments on some important aspects of its policy. An economic slump is usually associated with growth of dubious debts owed to banks. Under these conditions, we should like to see in the draft some estimates of the banking sector's sustainability and the probability of the onset of a bad-debt crisis in face of moderately high interest rates.

The continuing practice of revocation of banking licenses has increased the pressure on the Deposit Insurance Agency. The toughened US monetary policy and the economic growth slowdown in China are expected to cause a surge in capital outflow from the newly emerging markets, probably to be followed by a fall of prices for energy carriers. In such circumstances, it is inevitable that the amount of stake debt will be on the rise, and the banking sector may be faced with the risk of destabilization, thus forcing the RF Central

Bank to alter its currently implemented monetary policy course. The Bank of Russia is obviously well aware of this threat, but it has chosen not to offer any estimates or information as to how it intends to overcome these trends. It is still unclear if the regulator considers the set of instruments that has been applied for this purpose over the past one-and-a-half years to be sufficient to prevent the development of such a crisis.

The Russian economy is now faced with the risk of stagflation, which has been caused by both the domestic structural problems and the external shocks. In such a situation it is especially important to focus on bringing down the prevailing inflation expectations and to properly balance the efforts to boost economic activity and the measures designed to suppress price growth. The leading role in preventing the threat of a multi-year stagflation period belongs to the monetary authorities. The current policy pursued by the Bank of Russia can significantly reduce the risk of such a course of events. Thus, in particular, the decision, adopted as of 30 October, that the RF Central Bank's key rate and the interest rates on liquidity provision and absorption open market operations should be kept unchanged is perfectly in line with this policy.

It should be reminded that over the course of this year, the RF Central Bank has been consistently reducing the key rate after its abrupt raise in December 2014 in order to stabilize the situation in the financial market. For the last time, the key rate was reduced at the Bank of Russia Board of Directors' meeting on 3 August. However, at its last but one meeting on 11 September, the regulator chose to leave it unchanged. The main reason behind this policy of the RF Central Bank is that both the actual inflation index and the inflation expectation remain high, in spite of the relative stabilization in the real sector of the economy.

According to the month-end result for October 2015, the inflation index in per annum terms (for the previous 12-month period) amounted to 15.6%, which means that, since last summer, practically no inflation slowdown on the previous year could be observed. Over January-October, prices rose by 11.2%, and over the period 1 November through 9 November – by another 0.3%. This means that the CPI for November may amount to approximately 1%, and its year-end value – to more than 13%.

Of course, towards the end of the year 2015 the inflation index in per annum terms will inevitably decline, because the inflation surge in late 2014 was caused by the ruble's significant downfall – something that is unlikely to occur once again. But the rate of inflation decline has turned out to be lower than expected.

In such a situation the RF Central Bank's decision that the key rate should be maintained at the same level appears to be quite justified. Neither the loosening of the RF CB's monetary policy nor the softening of its lending standards appear to be feasible while the real interest rates on loans issued to non-financial organizations are remaining low, and the inflation risks is remaining persistently high. Besides, the reduced rate could translate into a new wave of the ruble's weakening and an increased inflationary pressure. ●

2. EXPORT-IMPORT: A NEARLY SIMULTANEOUS DROP

A.Knobel

Evidence of import substitution can be found only in the agriculture and the food industry: a decrease in the import volume across individual positions (meat, poultry, fish and grain crop flour) was accompanied by Household output growth. Also, simultaneously with a drop in imports, some output growth is registered in individual low-processed commodities (plastics in original forms and cast iron). At the same time, there is virtually no substitution of imports in transport vehicles, agricultural machinery and consumer durables. Despite depreciation of the ruble, the expected growth in exports of non-primary products did not take place. Insignificant growth of exports in terms of physical volumes was observed only in groups of low and medium-processed commodities.

The Dynamics of Exports and Imports

The Aggregate Exports and Imports

In the first nine months of 2015, changes in the export and import dynamics took place simultaneously (Fig. 1). The foreign trade balance remained positive throughout the whole of 2015. Despite substantial changes in prices of energy commodities, a drop in exports in monetary terms turned out to be somewhat lower (except for August) than a decrease in imports which was affected primarily by a drop in the ruble's purchasing power. In February, exports stood at 81.6% – its highest value this year – on the respective period of 2014. After that, exports started to fall and amounted to 57.8% in July 2015 against July 2014. In September, exports somewhat recovered and amounted to 69.3% on the respective indicator of the previous year. Imports did not demonstrate any explicit trend and fluctuated in the range of 57.7%-66.5% of the volumes of the respective periods of 2014.

The highest ratios (the lowest decrease) of the exports in monetary terms were observed as regards chemical industry products and the “machines and equipment” commodity position, that is, 88.0% and 89.0%, respectively, as compared to the volumes of 2014, while the worst ratios were registered in fuel materials and garment: 62.2% and 74.8%, respectively.

Random comparison of changes in the average price and export volumes

If we randomly compare changes in the ruble price of exports and their monetary volumes in Q3 2015 (Fig. 2), it can be stated that commodities on which ruble prices¹ grew considerably

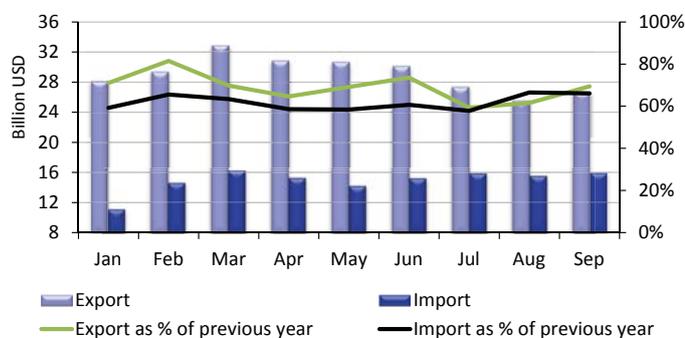
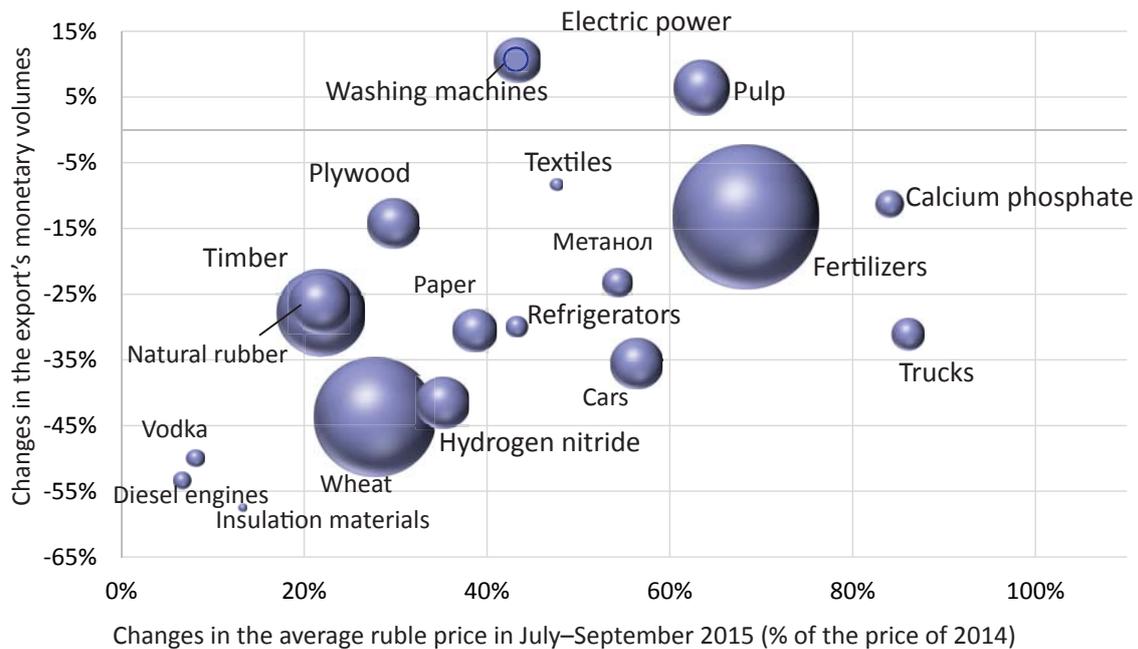


Fig. 1. Dynamics of Russia's foreign trade in 2015

1 Prices (according to the data of the Federal Customs Service) in US dollars were converted on the basis of the average exchange rate of the Central Bank of Russia.



Note. The size of the ball is proportional to the monetary volume of the export.

Fig. 2. Diagram of dispersion of changes in monetary volumes of the Russian export in July–September 2015 and changes in the average price (in rubles)

showed a less dramatic drop (individually even growth) in exports' monetary and physical volumes. It is to be noted that growth in export revenues is observed only as regards wood pulp, some types of household appliances, as well as electric power (which is largely related to power supplies to the north of Ukraine in exchange for Ukrainian power supplies to Crimea).

Comparison of the dynamics of trade and output of specific commodities

In Tables 1–3, comparison of changes in the physical volume of output in Russia (based on the Rosstat data) with that of the foreign trade (based on the Federal Customs Service data) is presented.

The Agriculture and the Food Industry

A random comparison of the main positions of agricultural products and food industry products points to the fact that in most cases changes

Table 1

CORRELATION OF PHYSICAL VOLUMES OF TRADE AND OUTPUT IN RUSSIA BY A NUMBER OF AGRICULTURAL AND FOOD INDUSTRY PRODUCTS IN Q3 2015 AS COMPARED TO Q3 2014

Name of the commodity position according to the Rosstat –corresponding Customs Commodity Code (CCC)	Output, thousand tons	Change in output		Change in import		Change in export	
		Physical volumes, thousand tons	%	Physical volumes, thousand	%	Physical volumes, thousand	%
Meat and slaughterhouse by-products – CCC: 0201–0206, 0209	578	104.0	18	-78.3	-22	1.8	37
Meat and poultry by-products–CCC: 0207	1055	97.0	9	-23.6	-23	4.3	29
Fish and processed and canned fish products– CCC: 03	824.9	47.0	6	-63.5	-36	72.0	26
Crude sunflower oil and its fractions– CCC: 1512	523	-196	-37	-6.0	-85	-94.6	-38
Butter and butter pastes– CCC: 0405	74.9	2.4	3	-3.4	-10	-1.3	-47
Grain, vegetable and other crop flour – CCC: 1101, 1102, 1105, 1106	2581	185.8	7	-4.2	-19	39.5	136

in the trade balance in physical terms are largely compensated by changes in output. The above phenomenon is registered in the following positions: slaughterhouse meat, poultry, butter and flour. For fish and sunflower oil, the output growth was lower than a trade balance change. Also, it is noteworthy that imports fell a great deal across all commodity positions, while exports of meat and flour increased, the latter showing a sizeable growth (2.36 times).

Manufactured Low-Processed Goods

No common trends were identified in exports, output and consumption of low-processed goods. The output of plastics in original forms showed considerable growth which turned out to be lower than an increase in the trade balance. On the contrary, cast iron output grew 3.3 times more than the increase in its exports.

Transport vehicles, Household Appliances and Footwear

Production of transport vehicles largely decreased across all positions. It is to be noted that net exports (in physical terms) rose against a substantial drop in imports. Exports of buses, trucks and cars fell hugely less than their imports and output.

The output of household appliances (washing machines, refrigerators, freezers and TV receiving equipment) fell dramatically (by dozens of percent), too, as compared to the 2014 indicators. It is to be noted that net exports across all these commodity positions rose as imports fell by dozens of percent; a decrease in exports (except for washing machines), while being substantial, was lower in absolute terms.

The footwear output fell by 13% to 22.8m pairs; the trade balance demonstrated similar changes: both imports and exports fell.

Despite a growth in the trade balance across all commodity positions under review, there was a substantial reduction (by dozens of percent) of output and consumption. Imports fell across all commodity positions, while exports showed a somewhat smaller drop.

Table 2

CORRELATION OF PHYSICAL VOLUMES OF TRADE AND OUTPUT IN RUSSIA BY A NUMBER OF MANUFACTURED LOW PROCESSED GOODS IN Q3 2015 AS COMPARED TO Q3 2014

Name of the commodity position according to the Rosstat – corresponding Customs Commodity Code (CCC)	Output, thousand tons	Change in output		Change in import		Change in export	
		Physical volumes, thousand tons	%	Physical volumes, thousand tons	%	Physical volumes, thousand tons	%
Plastics in original forms – CCC: 3901–3914 (thousand tons)	1677	184.0	11	-272	-30	12.1	4
Cast iron – CCC: 7201 (thousand tons)	13800	700.0	5	0.0	17	210.4	20
Petrol – CCC: 271012 (light distillates) (million tons)	10	0.4	4	-0.1	-25	-1.3	-19
Diesel fuel – CCC: 27101942, 27101946, 27101948 (million tons)	19	-0.2	-1	0.0	118	-2.4	-19
Residual fuel oil – CCC: 27101966, 27101964, 27101962 (million tons)	16.9	-2.5	-15	0.0	-83	-1.1	-6

Table 3

CORRELATION OF PHYSICAL VOLUMES OF TRADE AND OUTPUT IN RUSSIA BY A NUMBER OF TRANSPORT VEHICLES, HOUSEHOLD APPLIANCES AND FOOTWEAR IN Q3 2015 AS COMPARED TO Q3 2014

Name of the commodity position according to the Rosstat – corresponding Customs Commodity Code (CCC)	Output, in units/ thousand units/ million pairs	Change in output		Change in import		Change in export	
		Physical volumes	%	Physical volumes	%	Physical volumes	%
Field engines for the agriculture and forest sector, other, units – CCC: 870190, 870120	1012	-126	-12	-4378	-53	-116	-18
Combine harvester, units – CCC: 843351	837	-462	-55	-164	-28	-67	-24
Busses, thousand units – CCC: 8702	10.0	-1.3	-13	-1.0	-78	-0.39	-47
Trucks (including running gear), thousand units – CCC: 8704	32	-6.3	-20	-7.8	-62	-2.2	-35
Cars, thousand units – CCC: 8703	274.1	-107	-39	-84.1	-53	-8.2	-28
Household washing machines, thousand units – CCC: 8450	910	-127	-14	-88.4	-31	48.0	34
Household refrigerators and freezers, thousand units – CCC: 8418	935	-130	-14	-202.4	-31	-23.5	-15
TV receiving equipment, thousand units – CCC: 8528	1659	-2284	-138	-2259	-36	-123.0	-35
Footwear, million pairs – CCC: 64	22.8	-3.0	-13	-14.6	-18	-0.3	-8

3. COMMODITY TURNOVER: A DELAYED FALL

G.Idrisov, Yu.Ponomarev

In late 2014 – early 2015, retail and wholesale trade, the one of the biggest sector of Russian economy¹, longer than others ‘put up resistance’ to the negative macroeconomic trends and showed an increase, however small, in commodity turnover. Meanwhile, in the autumn of 2015, in spite of a relative stabilization of Russian terms of trade and foreign exchange rate dynamics, commodity turnover in Russia experienced its sharpest downfall since 2000. This phenomenon is largely explained by the delayed pass-through effect of the ruble’s exchange rate fluctuations into commodity prices and by the gradual adaptation of households to new permanent income.

According to Rosstat, in September 2015, retail turnover amounted to Rb 2,335.9bn (or to 89.6% of the retail turnover, registered in comparable prices in the same period of 2014)², while wholesale trade turnover amounted to Rb 4,290.1bn (88.7%)³. At the same time, in September, the share of food commodities including beverages and tobacco products in retail turnover slightly increased – to 47.8% (vs. 46.6% in September 2014), while the share of non-food commodities declined to 52.2% (vs. 53.4%).

In the structure of wholesale trade, the share of organizations trading in food commodities, including beverages and tobacco products, increased from 20.6% in September 2014 to 22.7% in September 2015, while the share of organizations trading in non-food commodities grew from 15.1% to 15.9%. In the main, this growth occurred at the expense of a notable decline in the share of organizations engaged in wholesale trade in non-agricultural intermediate products, waste and scrap⁴ (from 47.9% to 43.0%).

At the same time, in spite of the negative trends dominating Russia’s trade sector, the largest retailers (retail chains) account for a large proportion of commodity turnover⁵ and continue to show positive financial results⁶. In other words, traditional formats of trade account for almost all the decline in retail turnover.

The key factors behind the drop in retail and wholesale trade turnover are as follows:

1 According to Rosstat in 2010 – 2014 the share of wholesale and retail trade in gross value added amounted to 18% (in constant prices).

2 See: *The Short-Term Economic Indicators of the Russian Federation*. The Federal State Statistics Service of the Russian Federation (Rosstat). September 2015.

3 See: *The Social and economic Situation in Russia*. Rosstat. September 2015.

4 Including fossil fuels, metals and metal ores, timber, construction materials and sanitary appliances, machines and equipment, and other goods.

5 According to Rosstat, during the past few years, the share of retail chains in the total volume of Russia’s retail turnover was gradually increasing. In 2014, it amounted to 22.4%.

6 Thus, for example, X5 Retail Group has announced that in Q3 2015 its revenues increased by 28.6% [http://www.x5.ru/common/img/uploaded/files/press_releases/2015/Q3_2015_Trading_Update_RUS.pdf], while the grocery retail chain Magnit has announced that in September 2015 its revenues (in rubles) increased by 19.31% [<http://www.acort.ru/press-room/news2/1149-magnit-ob-yavlyaet-o-roste-vyruchki-za-sentyabr-2015-goda-na-19-31-v-rublyakh.html>].

- the decline in real household disposable income (by 4.3% in September, and by 3.3% during the period January 2015 – September 2015, relative to the same periods of 2014), and expectations of further decline;
- the rise in consumer prices (by 0.6% in September and by 10.4% during the period January 2015 – September 2015), and expectations of their further rise;
- the possible shift in durable goods consumption towards the end of 2014 – early 2015, the period when rush demand was registered;
- customer defection from retail chain stores and independent stores to corner food markets.

The reduction in the household disposable income is a result of economic agents' adaptation to the new macroeconomic conditions, while the rise in prices – a result of the pass-through effect of the ruble's exchange rate fluctuations¹.

Retail chains and traditional formats of trade represent a link between producers/suppliers and customers and are traditionally subjected to political pressure and consumer discontent with the growth of consumer prices². In their turn, the retail chains and non-chain stores transmit this pressure to the producers³. As a result, there exists a constant tension between retail chains and producers, which is determined, on the one hand, by the tug of war for profit margins, and on the other hand – by their resentment over the 'unfair' distribution of the mutually created added value⁴.

In Russia, the numerous efforts at resolving such disputes via the self-regulation mechanism of the trade sector have so far proven to be futile. The upshot was that the sector had to be subjected to legislative pressure – on 21 January 2015 a draft law on the introduction of amendments to the Trade Law was introduced into the State Duma of Russian Federation⁵. The draft law, which has so far been passed in the first reading, significantly increases the regulatory burden imposed on the trade sector. However, it should be said that the parliamentary debate over the draft law is far from the end.

At the same time, Russian consumers should be ready not only to witness the continuing confrontation between retail chains and producers, but also to prepare themselves to a further rise in consumer prices, determined by

1 For more details, see *G. I. Idrisov, A. S. Kaukin, Yu. Yu. Ponomarev. The Pass-Through Effect: The Rise in Prices in Industry Will Continue. Online Monitoring of Russia's Economic Outlook. 2015. No 4, pp. 12-14.*

2 For example, such a situation has led to the mass inspections of retailers undertaken by the RF Prosecutor General's Office (see URL: [<http://genproc.gov.ru/smi/news/genproc/news-741416/>]; [<http://tass.ru/ural-news/1772419>]).

3 In late February 2015, a number of retail chains announced that the prices of major socially important commodities would be frozen for two months (see URL: [<http://www.acort.ru/press-room/news/778-torgovye-seti-vvodyat-spetsialnye-mery.html>]). Later on, however, the largest retail chains invited their suppliers to discuss the possible ways to mutually curb the growth of prices under the current adverse economic conditions (for more details, see URL: [<http://tass.ru/ekonomika/2402895>]).

4 At the same time, official statistics do not permit to make unambiguous conclusions in favor of any of the conflicting parties. See *G. I. Idrisov, Yu. Yu. Ponomarev. Retail Trade: Producers Versus Retail Chains. Online Monitoring of Russia's Economic Outlook. 2015. No 9. Pp. 28-33.*

5 Federal Law, of 28 December 2009, No 381-FZ (as amended on 31 December 2014) 'On the Fundamental Principles of State Regulation of Trade in the Russian Federation' (entered into force, with alterations and amendments, on 9 January 2015).

Table 1

ACTUAL CHANGES OF CONSUMER PRICES AND THE MAGNITUDE OF THE PASS-THROUGH EFFECT

			2015			
			Sept	Oct	Nov	Dec
Consumer Price Index	Actual change of prices	In %, relative to previous month	100.6	100.7		
		Accumulated result since beginning of 2015, %	110.6	111.4		
	Assessment of change of prices due to pass-through effect	In %, relative to previous month	100.4	102.2	100.6	101.1
		Accumulated result since beginning of 2015, %	110.6	111.4	112.0	113.2
Food Commodity Price Index	Actual change of prices	In %, relative to previous month	100.4	101.0		
		Accumulated result since beginning of 2015, %	110.4	111.5		
	Assessment of change of prices due to pass-through effect	In %, relative to previous month	100.7	102.2	100.3	101.9
		Accumulated result since beginning of 2015, %	110.4	112.8	113.1	113.3
Non-Food Commodity Price Index	Actual change of prices	In %, relative to previous month	100.6	101.0		
		Accumulated result since beginning of 2015, %	109.2	110.3		
	Assessment of change of prices due to pass-through effect	In %, relative to previous month	100.9	102.3	100.4	101.0
		Accumulated result since beginning of 2015, %	109.2	111.7	112.1	113.2

Source: Rosstat, authors' estimates.

the pass-through effect of the ruble's exchange rate into prices¹. Thus, according to our estimates, by the end of 2015, consumer prices will rise by up to 13.2% per annum, including due to the delayed pass-through effect. ●

1 Yu. Ponomarev, P. Trunin, A. Ulyukayev. Exchange Rate Pass-Through in Russia. *Voprosy Ekonomiki*. Moscow, 2014, No 3.

4. REGIONAL BUDGETS: TIGHTENING OUR BELTS

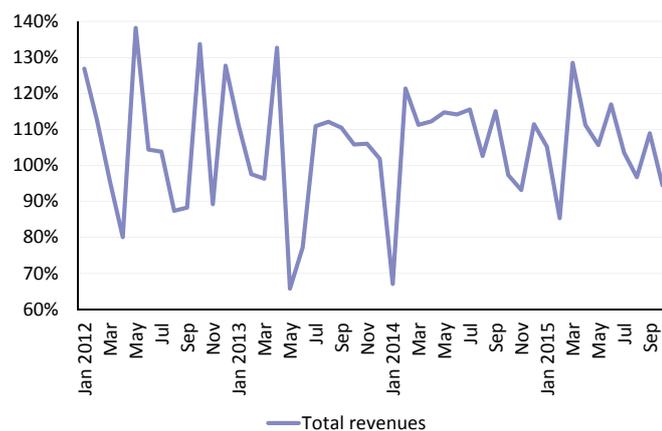
A.Deryugin

Even lower growth rates of budget expenditure offset relatively low revenue growth rates of the consolidated regional budgets which gradually becomes the main tool for ensuring regional and local budgets balance and so far allows keeping debt level under control. Regional budgets execution is under major strain in relatively poor regions which face a significant contraction of revenues.

According to preliminary data in intervening ten months of 2015, consolidated budgets of the constituents of the Russian Federation came to 106.4% against the same period of last year¹ (Fig. 1). Solely seven constituents of the Russian Federation have registered this indicator above the inflation level in the course of twelve months (15.6%): in Lipetsk region (116.8%), Leninograd region (118.3%), Karachaevo-Cherkessk Republic (115.9%), Republic of Tatarstan (116.0%), Khanty-Mansiisk Autonomous district – Yugra (122.8%), Sakhalin region (151.2%) and Chukotka Autonomous district (136.2%). In the meantime, the consolidated budgets revenues of twenty-six regions have failed to reach last year level.

In September-October 2015, regional consolidated budgets revenues varied respectively – by 8.9% (September 2015 against September 2014) and – 5.6% (October 2015 against October 2014). On the whole as of the period-end for H2 (since July to October 2015), revenues increment barely came to 0.6%. Maintaining such low revenues growth until the end of the fiscal year can result in setting another “record” by real revenues volume. Previous record was set in 2014 – 12.2 of GDP (by average 13.8% over recent ten years).

Volatility of the proceeds generated by the corporate income tax whose rates in September-October constituted 141.8% and 97.5%, respectively, explain high volatility of the regional consolidated budgets revenue (Fig.1). Thereby, proceeds generated by the corporate income tax have gone up following significant contraction posted in July-August to 66.6% and 82.5% compared to the corresponding period of last year. Reviewing the whole period since the start of the year, as of the period-end for ten months their growth came to 111.7% (107.7% minus Sakhalin region) which is above the total revenue growth rates (Fig. 2).



Source: calculated on data released by Federal Treasury
 Fig. 1. Growth rates of total revenues of consolidated budgets of RF constituents, % to same indicator last year

¹ Hereinafter, unless otherwise specified, all given data without account of regions of Crimean federal district.

4. REGIONAL BUDGETS: TIGHTENING OUR BELTS

Volatility of proceeds from the corporate income tax is due to the fact that the tax base has been hardly predictable since the turn of the year.

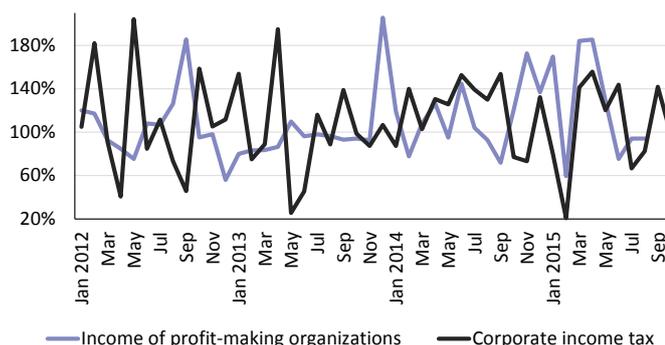
Such disparity is very noticeable in certain regions: even year-to-date proceeds generated by this tax vary greatly from 24.6% in the Republic of Mordovia to 307.1% in the Byriat Republic. Taking account of the fact that the corporate income tax accounts for a quarter of the total volume of the consolidated budgets revenues of the constituents of the Russian Federation, its volatility affects total projected budget revenues which makes regions overcautious regarding budget planning and execution.

Other major regional and local budgets revenues grew below the corporate income growth rates. Rather stable personal income tax following a slight splash registered in June-August when it demonstrated growth rates at no less than 105.0% has lost its momentum barely adding in September-October 3.9% and 0.7%, respectively against last year nominal values. Overall, this corresponds to the payroll growth slowdown (Fig. 3).

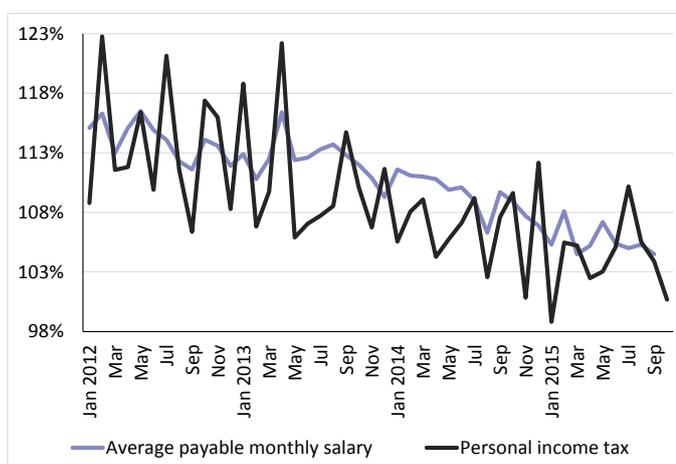
In October 2015, solely excises demonstrated growth rates of 114.9% among other main revenue sources. Meanwhile, corporate property tax (70.8%), non-tax proceeds (99.5%) and non-repayable transfers from other budgets (81.3%) have failed to reach the last year level ensuring general negative dynamics of the consolidated budgets revenues.

It is unlikely that outlook will drastically swing until the end of current fiscal year. Regional budgets revenues growth rates will be determined by the current trends observed in the growth rates of corresponding tax bases which recently have not been demonstrating upward trends. Tax revenues will not be fully assisted by the federal budget transfers whose volume according to the Federal budget Law shall contract by 12.3% by yearend against last year.

Despite high level of inflation as well as the need to fulfill “May decrees” of the President which envisage wages and salaries growth for a wide category of budget sphere employees, contraction of the revenue base both of regional and local budgets and financial assistance from the federal budget, uncertainty with the estimates of corporate income tax proceeds and reduced possibilities to attract borrowings are pushing regions to tighten their fiscal policy. For example, regional consolidated budgets expenditure growth as of the period-end for ten months has come to barely 102.5% and in September-October 2015 – 94.8% and 86.8% against the same months last year.



Source: authors' calculation on data released by Federal Treasury and Rosstat.
Fig. 2. Income growth rates of profit-making organizations and profit tax proceeds, %



Source: authors' calculation on data released by Federal Treasury and Rosstat.
Fig. 3. Growth rates of personal income tax and average monthly nominal salary, %

Current surplus of budget revenues growth over budget expenditure has kept at bay public debt growth. Over the period from January to September 2015, it has gone up by 4.0% in absolute terms. However, as a rule debt grows in the course of December together with a drastic increment of expenditure. In 2013 and 2014, debt growth over first nine months did not exceed 4.1% and as of the yearend hiked by 28.6% and 20.2%, respectively.

Regional public debt pattern remains on hold: credit organizations loans and budget loans constitute 36.7% and 37.8% of the total volume. Increase of the volume of budget loans granted to regions aimed at fighting crisis since the start of the fiscal year has somewhat phased out credit organizations' loans (as of early October their share fell from 42.5% to 37.6%, and a share of budget loans went up from 31.0% to 37.3%). This made debt service relatively cheaper. On the other hand, we can expect recovery in a share of commercial loans by yearend unless the government takes a decision to allocate additional transfers or budget loans to regions envisaged in the federal budget for the current year. There will be a shortage of funds to cover December deficit which will result in the recovery of commercial loans share.

In 2014, events were evolving according to this scenario. It should be noted that contraction of the proceeds generated by the corporate income tax to a greater extent related to relatively poor regions. Taking into account the fact that redistribution of adjustment transfers (subsidies to level fiscal capacity of the RF constituents) executed with the help of retrospective indices of tax bases will lead to somewhat understatement of financial assistance against the level they would have been calculated parting from the current tax base or current real tax revenues. In the wake of the crisis, this feature of the methodology of subsidies redistribution which serves as an incentive for economic development will trigger additional deterioration in poor regions. ●

5. MIGRANTS ARE LOSING INTEREST IN RUSSIA

Yu.Florinskaya, N.Mkrtchan

According to the split year data, in 2015 positive migration balance in Russia will be below 2013–2014 indicators. Herewith, mobility of the Russian population does not remain at a low level: the scale of internal migration captured by statistics will exceed four million persons. It will be higher than in the 2000s and will reach the 1980–1990s level. The number of foreign labor migrants starts to fall. This data can already be treated as a loss of interest in the Russian labor market emanating from a small part of labor migrants. Looking forward, the number of foreign citizens from EEU member states will remain high in Russia and migration from other CIS member states will be falling. In the meantime, the procedure for foreign workers' legalization on the Russian labor market is getting worse in 2015.

Long-term migration

Captured by the Russia statistics **cross-border migration** upward trend over recent years (since 2011) seems to be close to terminate in 2015. If in 2011 the number of arrivals to Russia went up by 86%, in 2012–2014 – by 15–20% annually, than in the intervening eight months of 2015, it has grown by 7.5% in comparison with the corresponding period of the previous year. The number of departures continues increasing but also at a slow pace than in previous years: by 15.9% over January–August against the same period of 2014 (Fig. 1).

At the present stage of the demographic situation in Russia when the results of the natural migration of the population are balancing at virtually zero, cross-border migration practically totally ensures population growth at the level of 250–300 thousand persons annually. According to the split year data, it is prematurely to draw definitive conclusions regarding a decline of the positive migration balance in Russia. However, its indicators are obviously below 2013–2014 levels. Changes in the migration balance observed with major migration partners was differently directed in 2015 (Table. 1).

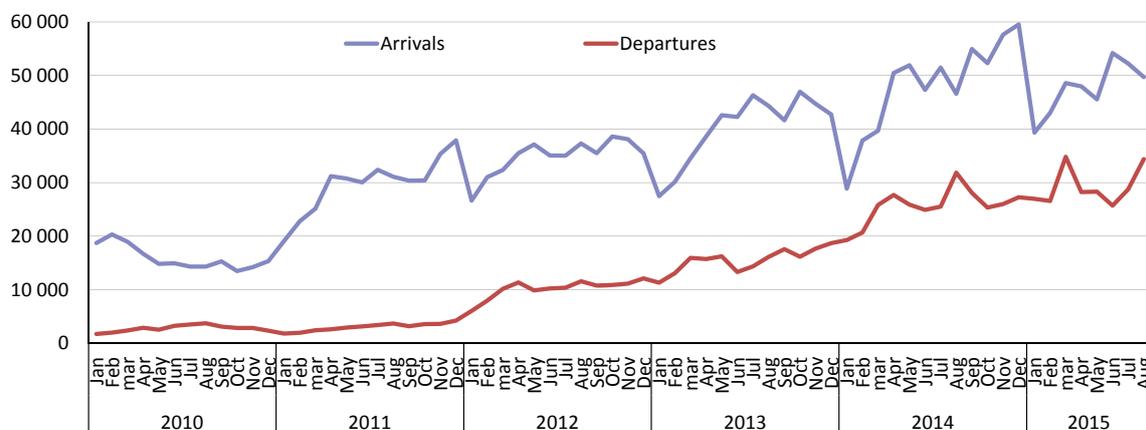


Fig. 1. Cross-border migration to Russia, 2010–2015, monthly data, persons

Table 1

NET CROSS-BORDER MIGRATION, JANUARY–AUGUST 2014 AND 2015,
THOUSAND PERSONS

	2014	2015
Cross-border migration, total	142.9	131.4
With CIS member states	135.4	128.8
Azerbaijan	9.1	7.1
Armenia	16.4	14.3
Belorus	4.5	2.8
Kazakhstan	24.8	20.6
Kirgizstan	10.4	4.2
Moldova	10.7	10.8
Tajikistan	11.8	4.6
Turkmenistan	1.2	1.0
Uzbekistan	26.6	-15.0
Ukraine	36.1	93.6
With far-abroad countries	6.1	2.6

Source: Rosstat, current registration data.

In light of the crisis in Ukraine, increase in migration balance with this country is followed by a negative migration balance with Uzbekistan, Tajikistan and Kirgizstan. Whether migration inflow from Ukraine will be growing in the months to come will depend on the situation in the eastern regions of Ukraine and whether the population which left those regions in search of asylum in Russia will repatriate. In the event, there is no mass repatriation of displaced persons to Ukraine then, even without increased migration between the two countries, Russia can get significant increase of arrivals as a result of delayed residence registration.

Russia preserves a small positive migration balance with far-abroad countries, but it is ensured by post-Soviet countries falling in this category: Georgia and the Baltic states. Russia has a negative migration balance with many other far-abroad countries. It is explained by the fact that Russian statistics underestimates the outflow of the population to far-abroad countries¹.

In 2015, the number of captured by statistics **internal migrations within Russia** continued growing: by 86.5 thousand persons or by 3.5% compared to January–August 2014. In the current year, the number of internal migrations captured by statistics will again exceed four million persons, in other words will be twice as high as in the 2000s and will reach the 1980–1990s levels.

Population continues concentrating in Moscow, Moscow region, Krasnodarsky Krai, Tyumen region and Crimean Federal district. Negative migration balance continues from the North and the East of the country as well as from North Caucasus. There are a few regions in Central Russia and Volga losing population as a result of migration. Despite positive migration balance, in January–August 2015, fifty regions of the country register negative migration balance.

Temporary migration of foreign citizens

The number of foreign citizens temporary arriving to Russia is falling: by the end of June 2015, there were 11.1 million foreigners in the country, as of

1 See: Denisenko M. Emigration from Russia to far-abroad countries. Demoscope Weekly, 2012, №513–514 <http://demoscope.ru/weekly/2012/0513/demoscope513.pdf>

end-August – 10.7 million, as of end-September – 10.6 million. On the one hand, this fact corresponds to a general trend of reduction of the number of foreigners in the autumn (against spring-summer growth), on the other hand, this year differs from the previous years not only by a weak expression of seasonal trend indicator but by a reduction of its absolute values (number of foreign citizens as of the end of September went down by 10% below 2014 data and by 6% below 2013 indicator).

Presumably, this data one can already treat as the loss of interest to the Russian Labor market by a small part of labor migrants (some failed to come in spring-summer for seasonal work and others departed not waiting for positive swings in the economy).

CIS member states still remain major contributors of migrants to the Russian Federation (first of all, labor migrants). They represent 83% of the total number of foreign citizens or 8.8 million persons (*Table 2*). However, trends vary within this group of countries: since the beginning of the year, the number of foreign citizens from EEU member states has grown (this refers to Kazakhstan, Belarus and Armenia; number of citizens from Kirgizstan began growing solely since August following this country's accession to EEU and has not exceeded indicators as of the turn of the year). Number of citizens from all other countries year-on-year went down; Ukraine stays separately: the number of its citizens still is rather high and it was increasing until August and then somewhat declined, possibly, due both to a lull in hostilities and to a cancellation of privileged regime of stay for Ukrainian citizens in Russia¹.

Identified trends have been proven true against the situation in pre-crisis year of 2013. The number of citizens from EEU member states has increased (except Kirgizstan which acceded EEU less than three months ago); signifi-

Table 2

ARRIVALS OF FOREIGN CITIZENS FROM CIS MEMBER STATES TO RF AS OF DATE, PERSONS

	13.11.13	20.01.15	07.06.15	02.07.15	31.08.15	05.11.15	2015 / 2013, %
Azerbaijan	621 221	579493	548048	555462	540164	532321	86
Armenia	480 640	480017	525602	532299	526298	504971	105
Belarus	382 736	517828	553633	568049	609254	634861	166
Kazakhstan	609 737	597559	668160	694455	696050	685841	112
Kirgizstan	562 357	544956	508213	519801	513083	526502	94
Moldova	563 580	561033	545516	547933	528452	517692	92
Tajikistan	1145713	999169	998910	1000723	978159	933155	81
Uzbekistan	2519354	2215780	2149897	2156651	2088350	1943384	77
Ukraine	1616 613	2417575	2579891	2631228	2585584	2566377	159
CIS, total	8501951	8913410	9077870	9206601	9065394	8845104	104
CIS less Ukraine	6885338	6495835	6497979	6575373	6479810	6278727	91

Source: FMS of Russia, TsBDUIG.

¹ On 1 August 2015, it was announced that preferential stay in Russia would be called for the citizens of Ukraine. However, in practice citizens of Ukraine had three months without leaving the Russian territory to process legal status and permits for residence. The last date for Ukrainians to prolong their temporary residence permits terminated on the 31st November 2015 (from then on, Ukrainians who have no work permits were subject to general procedure of stay for not more than 90 days within 180 days). Those who fail to prolong their status before 30 November will violate migration regime with a threat of subsequently being "blacklisted" for entry to Russia. Exception relates solely to displaced persons arriving from the south-eastern regions of Ukraine (city of Donetsk, Donetsk region, city of Lugansk, Lugansk region). Only for them privileges are kept.

cantly increased the number of the Ukrainian citizens, mainly, at the expense of arrivals from Southeast regions from the zone of hostilities; the number of citizens from all other countries have fallen. A significant reduction in the number of citizens was observed from such countries as Uzbekistan ((by 23%) and Tajikistan (by 19%) which have been major sources of labor migration to Russia. On the whole, the number of CIS citizens less Ukraine fell in November 2015 by 9% compared to early November 2013 and taking account of Ukrainian citizen has grown by 4%.

One may expect that the number of citizens from EEU member states arriving to Russia will remain high in the years to come (possibly, from Kirgizstan it will grow a little) and from other countries it will fall. The number of Ukrainian citizens will start decreasing (unless there is an escalation of hostilities).

If the number of temporary migrants from CIS member states on the whole has barely fell, than the number of foreigners from developed countries: EU, USA and Canada, etc., in other words, from countries which sent both tourists (about 60%) and highly qualified specialists, investors and businessmen, etc. has fallen substantially. As of early autumn, the number of foreigners from such countries compared to 2013 has shrunk by half and from the United States, Finland, Great Britain and Spain – by 60%. The number of tourists, private visitors, and commercial, business, study and labor arrivals is falling. This reduction has been steady for over a year and commenced since summer 2014.

One of major 2015 issues is deterioration with legalization of foreign workers on Russian labor market. There is an obvious trend when significant number of foreign labor migrants work in the shadow economy. This fact does not contribute to “healthy” competition between foreign and Russian workers. Over nine months of 2015, total number of issued work patents and permits has fallen by 44% compared to the same period 2014 (*Table 3*).

Table 3

NUMBER OF WORK PATENTS AND WORK PERMITS FOR MIGRANTS IN RUSSIA,
JANUARY-SEPTEMBER, PERSONS

	9 mo 2015	9 mo 2014	2015/2014, %
Work permits for foreigners *	172 335	965 856	18
Work permits for qualified* and highly qualified specialists	46 376	121 516	38
Patents**	1 479 673	1 943 810	76
Total	1 698 384	3 031 182	56

* Since 1 January 2015 issued solely to visa-required foreign citizens.

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

Source: FMSD of Russia, 1-RD form.

Apparently, radical changes introduced into the migration legislation in 2015 (replacing quotas for work for CIS citizens with work patents) have not produced projected results or, at least, were untimely in the wake of the economic crisis. ●

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