MONITORING OF RUSSIA'S ECONOMIC OUTLOOK:

TRENDS AND CHALLENGES OF SOCIO-ECONOMIC DEVELOPMENT

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MAIN TRENDS AND CONCLUSIONS

The nervous sentiments in the global oil market have been out of sync with an overall positive global economy on the back of positive news from the United States, Europe and even from Japan, which is not quite the case with oil-dependent economies facing feverish mood swings.

The optimism inspired by bullish oil prices for the last few weeks has started to wane as the price rally has come to an end, the market barely managed to digest the dramatic news: Iraqi Kurdistan could potentially lose the export channel via Turkey and therefore be posed with the real threat of losing control over most of the production; the biggest mass arrests, resembling a shoot-out in a fuel storage, in Riyadh; finally, Venezuela and its key state-run oil company are close to default, with export supplies facing possible arrests and the domestic oil industry facing further degradation.

However, while this chain of market destabilizing events represents rather an upward price vector, the most recent forecasts of the Russian Ministry of Economic Development (MED) and OPEC on rapid growth in the U.S. shale production in the coming 5–7 years have only made things even more confused. The prediction is in sharp contrast to the assumptions in recent months that the shale production method has started to stagnate.

This context, as applied to the Russian economy, just increases the relevance of the conclusion that the existing energy export model is futile and the expectations of growth the model can supposedly trigger as a result of positive trend reversal are unfounded.

Our experts have concluded that the GDP growth of 2017 is just a corrective (recovery-driven) and therefore unstable growth. Unsolved structural issues and high costs (that began to stunt growth rates as early as when the oil price was high), low effectiveness that is also reflected by wages growing faster than productivity (it was not until 2015–2016 that the trend reversed, but it has recovered this year), provide no reasons for a serious economic growth to be possible.

Neither are there reasons to be optimistic after evaluation of cyclic production factors. Household consumption still remains weak, the retail trade turnover and consumption of paid services in the first three quarters of 2017 increased 0.5% and 0.2%, respectively (the increase in consumer lending can hardly speed up demand; the debt burden on household income has already reached the U.S. level), net exports saw a marginal contraction though. In other words, the components that represent two thirds of GDP remained unchanged. Therefore, the expected GDP growth in 2017 can be achieved by increasing inventories, by own account consumption of households (consumption within households) and of inbound consumers (tourists, migrants, etc.). The authors believe this can hardly evidence a steady growth, coming up with the following conclusion: “Furthermore, the above listed factors will be depleted this year and therefore promote no growth in 2018”.

The central bank assumes an annual economic growth of 1.5–2.5% under the scenarios set force by the Draft Guidelines for the Single State Monetary Policy in 2018 and for 2019 and 2020. When analyzing the Draft Guidelines, our experts have noted that the monetary policy will continue to focus on holding the inflation rate at 4%. The inflation-reduction stage is over, and therefore the focus has been shifted on maintaining the achieved inflation rate and on lowering inflation expectations. The most significant factor of efficient control over inflationary processes is market players' confidence in the monetary authorities' ability to maintain inflation rates low. Should such confidence exist, occasional price hikes in the consumer market would not spin the inflationary spiral.

According to the experts, the Bank of Russia in the coming years will be faced with the key challenge of striking an equilibrium between a moderately tight monetary policy aimed at reining in inflationary processes and efforts to lower interest rates, which would encourage a recovery of investment and output. On the one hand, the space available for lowering the key interest rate makes it possible to ease the monetary policy. On the other hand, inflation expectations are yet to be anchored, and therefore potential inflation upsurges may again elevate inflation expectations. Our experts agree with the regulator's stance whereby involuntary return to restrictive monetary policy led by consumer price acceleration would have had much more adverse effects on the economy than a policy of interest rates gradual descent.

Overall, the experts consider the monetary authorities' policy and the principles underlying the regulator's policy to be adequate, placing a special emphasis on the regulator's openness in elaborating on its stance. They assume, however, that both (baseline and alternative) scenarios are business-as-usual scenarios by nature that are based on similar assumptions, and therefore there is no substantial difference between them. In this context, it would be reasonable to consider scenarios assuming a given set of potential risks (capital flight that may be facilitated by, for example, Fed's and ECB's tight monetary policy; a foreign exchange market trends driven by worsening external economic conditions) as well as risks that may arise from the problems facing the Russian banking system.

The authors of a paper on the Russian banking sector, more particularly on a decision to place Bank Otkritie and Binbank into resolution via The Fund for Banking Sector Consolidation, have concluded that the decision was reasonable enough. They have also pointed to the fact that dealing with banking crises and bailing out big systemic banks has become a common international practice (e.g., in the United States, UK, France). Furthermore, evidence has been presented of the Bank of Russia's policy to rescue banks rather than their owners. A decision to recap banks using the central bank money (via The Fund for Banking Sector Consolidation) rather than the federal government money (out of the federal budget) was reasonable enough due to the central bank status as a mega regulator of the financial market, and because it is the Bank of Russia that can minimize inflationary risks that may arise from a big money-printing to help rescued banks stay solvent.

According to the experts, however, this context rises questions about the banking sector supervision framework. Two goals have been named for a reform that should be undertaken, according to the experts, in the medium term. The goal number one is adequate optimization of bank costs on coordination with the regulator. The goal number two is to increase the effectiveness of regulator's control over banks' financial standing. Both goals can in part be achieved by introducing a framework of electronic online interaction between banks and the regulator.

Nevertheless, despite apparent problems the banking sector can be regulated on an online basis, including, as required, urgent interventions. From this perspective, the regulation of labour market is by nature incomparably more complex, and information about the market, e.g. when it comes to labour migration, is difficult enough to obtain.

When analyzing the migration dynamics, our experts also have considered permanent migration, temporary migration and internal migration in Russia. When evaluating the situation in the first eight months of 2017, the experts have noted that migration has started again recouping the demography-driven natural decline in the population, however, positive net migration has hit the lowest values in the last few years (due to the decline in the migrational exchange between Russia and Ukraine), totalling 37,000 persons during the period, which would have been sufficient to offset the natural decline, but the Russian population increased mere 32,900 vs. 182,000 persons a year earlier.

Internal migration flows as well as the number of migrants within Russia in 2017 do not differ much compared to the same period of 2016. A similar picture can be seen in regions, with the same centres of attraction.

Temporary migration has contracted from the previous year. There were 10.2 million temporary foreign migrants in Russia (marking a five-year low for late summer/early autumn), most of which (85%) were nationals from CIS countries, 8.7 million persons as at 1 October 2017, basically from Middle Asian countries and from Ukraine. The number of migrants from developed countries decreased by 2.6 times from the pre-crisis readings.

In early October 2017, Russia had 4.1 million labour migrants, i.e., foreign nationals seeking employment (0.2 million less than in early 2016). The labour migrants flow declined only from the two CIS countries, Ukraine and Moldova. Labour migrants had 1.75 million valid documents (work permits and patents) authorizing migrants to work in Russia, and there was about one million persons who may be employed without having to obtain such documents (nationals of EEU (Eurasian Economic Union) member countries). That is, about two thirds of migrants who declared themselves labour migrants could be legally employed. The number of migrants wishing to be legally employed in the Russian labour market is increasing, albeit not fast enough, as evidenced by a growing number (bigger than in 2016) of registered work permit applications and particularly patents. In the first nine months of 2017 migrants contributed Rb 38.4bn (monthly patent payments) to regional budgets, adding Rb 3.5bn to the amount registered in the previous year, most of which are payments by migrants from Uzbekistan and Tajikistan (86% of registered patents). However, Russian employers are slow in responding to this wish, as evidenced by the decreasing number of notices on labour contracts with foreign migrants received by migration authorities in 2017.

1. ECONOMIC GROWTH IN 2017: A RECOVERY-DRIVEN, CORRECTIVE, UNSTABLE GROWTH

A.Vedev, S.Drobyshevsky

The ongoing revival of Russia's positive economic growth rates in 2017 was anticipated by an overwhelming majority of experts. A certain correction was reasonably expected following the 2015/16 decline in GDP and in investment and a drastic fall of living standards for the first time in 15 years. The key question to answer is: whether the growth is nothing but a corrective growth or the Russian economy has entered a new trend of steady growth?

The Russian economy was faced with three negative shocks in 2014, namely (1) falling crude oil prices, (2) sanctions against Russia and Russia's countersanctions, and (3) decelerating structural growth rates, deeper structural problems that piled up over 5–6 years and contributed to the poor effectiveness of a model based on the expansion of final demand as a key factor of economic growth. In 2011–2013, when crude oil was traded at more than $100 per barrel, Russia saw its GDP growth rates decelerate consistently and the Russian innovation sector entered a downturn phase.

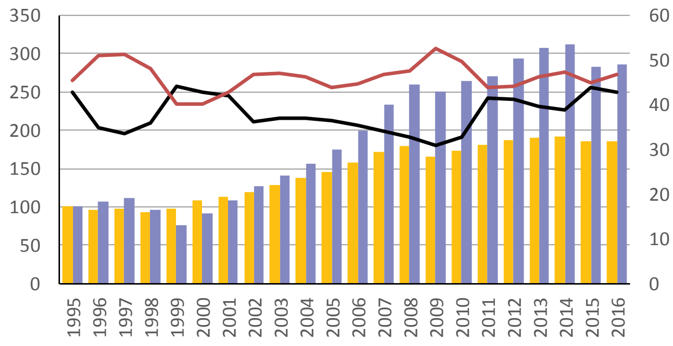

Fig. 1. Gross profit and payroll as a % of GDP (right-hand axis)
Source: Rosstat.

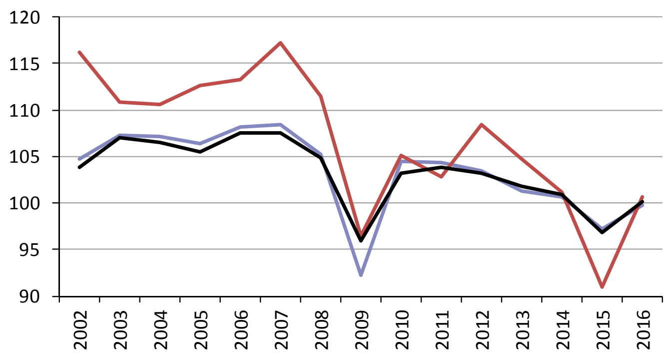

Fig. 2. Growth rates of real GDP, real wages and labour productivity, %

Source: Rosstat.

The economic downturn amid high crude oil prices was driven largely by deteriorated effectiveness and increasing costs in the Russian economy. The increase in labour costs was represented by a payroll growing proportion in GDP and by shrinking profits. The 2015/16 fall of real wages by more than 10% led arithmetically to a bigger share of profit in GDP, and therefore an investment resource became available for enterprises. However, fixed investment increased 4.8% in H1 2017 as real wages were up by 2.5% in the first three quarters of 2017, and enterprises saw their profit decline by 8.5% in January–August. In other words, the growth in costs resumed on the back of uptrend.

Furthermore, the poor effectiveness of the model in place is evidenced also by persistently faster growth rates of real wages over labour productivity, except in 2015, when a visible correction of real wages took place. An equilibrium was established in 2016, whereas the decline in effectiveness re-

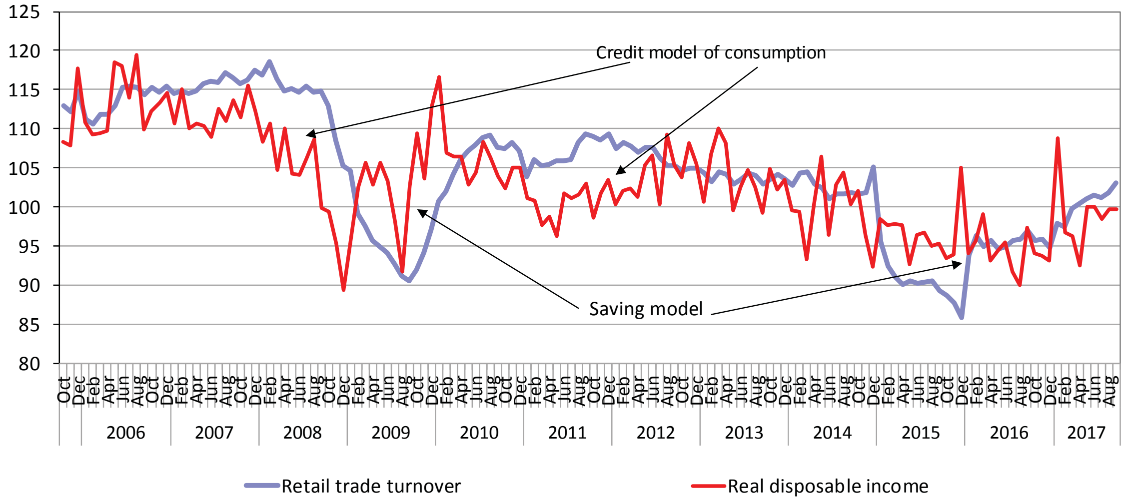

Fig. 3. Growth rates of real retail trade turnover and household real disposable income, % change over the same period previous year

Source: Rosstat.

sumed in 2017 – real GDP and labour productivity were growing at a slower pace than real wages.

The decline in households' final demand was a key factor in the GDP deceleration driven by both the decline in household real disposable income and the increase in propensity to save.

In 2017, households gradually departed from the saving behaviour model that is mostly seen in times of crisis. Household real income contracted by 1.2% in the first three quarters of 2017, whereas the retail trade turnover increased 0.5%. A certain upturn was observed in retail lending. Retail credit outstanding in banks increased 7.6% in the first three quarters of 2017 after two years of stagnation, including 6.75% decline in 2015 and zero dynamics in 2016. Not only were mortgage loans on the rise, but also car loans and unsecured loans increased.

The growth in consumer lending cannot be regarded as a factor that can speed up demand. As early as 2013, Russia caught up with the USA regarding the debt load on household disposable income, however, households' credit outstanding in banks represented 85% of GDP in the United States versus a mere 16% in Russia.

Thus, although the Russian economy has succeeded in adapting itself to two of the three shocks (i.e. to falling crude oil prices and to economic sanctions), the accumulated structural problems still remain to be addressed. In addition, there are factors that constrain our optimism about cyclic component's possible contribution to GDP growth rates. First of all, household consumption is weak, the retail trade turnover and consumption of paid services in the first three quarters increased 0.5% and 0.2%, res-

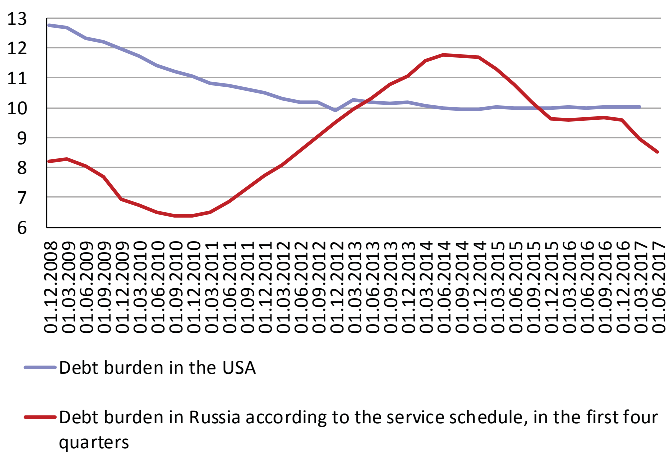

Fig. 4. The ratio of payments related to servicing credit outstanding in banks (interest payment and principal repayment) to household disposable income, %

Source: Bank of Russia.

pectively. Net exports saw a marginal contraction. That is, the components that represent two thirds of GDP remained unchanged. It appears that the expected GDP growth of more than 2% in 2017 can be achieved by increasing inventories, own account consumption of households (consumption within households) and of inbound consumers (tourists, migrants, etc.). In our view, there is every reason to suppose that the ongoing growth is a recovery-driven, corrective and unstable growth. Furthermore, the above listed factors will be depleted this year and therefore promote no growth in 2018.

2. BANK OF RUSSIA CONTINUES ITS MODERATELY TIGHT MONETARY POLICY

E.Goryunov, P.Trunin

The monetary policy priority for the coming years is to maintain the inflation rate at 4%, according to the Draft Guidelines for the Single State Monetary Policy in 2018 and for 2019 and 2020. Monetary authorities will continue to pursue a moderately tight monetary policy, but the objective of lowering inflation to the target rate has actually been achieved, and the objective of holding inflation and inflation expectations at the level they are now has come to the fore.

The Russian central bank, as it is rightly stated in the Draft Guidelines, cannot become a long-term driver of economic growth because of lack of tools for structural transformation of the Russian economy. Nevertheless, the Bank of Russia endeavours, within the scope of its competence, to promote financial sustainability, steady money circulation and a consistently low rate of inflation, thereby creating conditions suitable for economic growth in the long term. This suggests that the regulator has no plans for major updates to its policy course in the coming years and the Bank of Russia will continue to pursue the same monetary policy.

The Draft Guidelines assume that the central bank will stick to the same strategy, adhering to inflation-targeting approach. Furthermore, the regulator's monetary policy will focus on securing the achieved inflation rate because the target rate has been achieved.

The disinflationary policy has succeeded because the inflation rate has descended from double-digit rates to the target rate amid drastic worsening of terms of trade, sanctions and economic downturn, without posing a threat of economic collapse and without any visible increase in unemployment. The inflation curtail stage is over, and the next stage objective is to ensure that the inflation rate and inflation expectations are fixed.

The regulator has a strategic goal of lowering inflation expectations, as it is repeatedly stated in the Draft Guidelines. Inflation expectations, although they are difficult (or even impossible) to monitor, play a prominent part in economic processes. An increase in the anticipated inflation rate leads to higher interest rates for end borrowers because investors include the respective premium into the cost of borrowing. Similarly, elevated inflation expectations lead to growth in wages and in producers' costs because employees keep in mind a potential price growth when negotiating their salary. Inflation expectations alone do not constitute the factor of ongoing inflation: if households expect prices to rise in the future, they would cut on their spending in favour of current consumption, thereby boosting total demand and encouraging a price growth.

According to modern scientific concepts, the most significant factor of efficient control over inflationary processes is economic agents' confidence in the monetary authorities' ability to maintain inflation rates low (the so-called anchorage of inflation expectations). Should such confidence exist, occasional price hikes in the consumer market would not spin the inflationary spiral and the overall dynamic of consumer prices turns out to be firmer.

In our view, the Bank of Russia in the coming years will be faced with the key challenge of striking an equilibrium between a moderately tight monetary policy aimed at reining in inflationary processes and efforts to lower interest rates, which would encourage a recovery of investment and output. On the other hand, the inflation rate is already close to the target value and therefore the Bank of Russia needs not to keep interest rates at a higher level. The space available for lowering the key interest rate makes it possible to ease the monetary policy and to support growth recovery. On the other hand, inflation expectations are yet to be anchored, and therefore potential inflation upsurges may again elevate inflation expectations, shattering the Bank of Russia's reliable-regulator image.

In addition, the substantial inflation deceleration of 2017 was driven by temporal factors related to both the exchange rate dynamics spiked by better terms of trade and a heavy crop. One may agree with the central bank's stance whereby a premature interest rate cut followed by involuntary return to restrictive monetary policy led by consumer price acceleration would have had much more adverse effects on the economy than a policy of relatively high interest rates and of interest rate gradual descent. In such a context, the policy should be eased in a graduated manner.

The central bank assumes a moderate economic growth of 1.5–2.5% under the scenarios for 2018–2020, with crude oil prices ranging within $42 and $60 per barrel. The principal inflation-driven risks come from oil price behaviour, the effects of fiscal policy in place and an increase in labour-market shortage. However, both (baseline and alternative) scenarios are business-as-usual scenarios by nature that are based on similar assumptions, therefore there is no substantial difference between them. In our view, the scenarios should differ largely to be indicative of the regulator's policy in various contexts. For example, the anticipated Fed's and the ECB's tight monetary policy may lead to capital flight, but no such scenario is considered in the Draft Guidelines. There are more risks which the central bank would have to deal with, particularly with next year potential tightening of U.S. sanctions against Russia, which may lead to drastic capital flight, rouble depreciation and inflation acceleration.

Furthermore, the Draft Guidelines do not consider risks that may arise from the problems facing the Russian banking system. Under the circumstances, when a few big financial institutions are faced with challenges, it would be reasonable to analyze these threats and to enter a banking sector monitoring provision to the document.

The Draft Guidelines also lack a detailed description of the foreign exchange market, and there is no exchange rate projection in the described scenarios. Although the regulator sets no exchange rate targets under a free floating regime, both the description of general trends that the Bank of Russia anticipates in the foreign exchange market in the period under review and the action plan in case of worsening external economic conditions are of interest.

Overall, the monetary authorities' policy, as described in the Draft Guidelines, appears to be prudent, and the principles underlying the regulator's policy appear to be in line with the modern monetary policy theory. We believe that a special welcome should be given to the openness that the regulator demonstrates while describing the central bank's stance. Transparency is a key factor of a successful inflation targeting policy.

3. BANK OTKRITIE AND BINBANK: WAS THERE AN OPTION OTHER THAN BAILOUT?

S.Drobyshevsky, P.Trunin, M.Khromov

Some of Russia's big private banks were faced with the risk of banking license revocation in August–September 2017. The financial resolution of Bank Otkritie and of Binbank was implemented using a new mechanism – The Fund for Banking Sector Consolidation.

The selected resolution option by putting the money of the state-owned entity called The Fund for Banking Sector Consolidation directly into rescued banks can be regarded under the circumstances as optimal solution given that the Russian central bank has gained a 3-year experience in financial resolution of banks (license revocation and reimbursement of insured bank deposits out of The State Agency for Deposit Insurance (SADI), SADI-assisted financial resolution of banks, other banks assistance in resolution of rescued banks). In this particular case, the selected option is first of all based on the size of banks. Banking license revocation could have caused a bank run, which is not affordable for SADI: The Deposit Insurance Fund has been almost fully depleted over the past 1.5–2 years, and new bank contributions to the deposit insurance framework are insufficient to reimburse the insured deposits in banks faced with license revocation. Such reimbursements are currently financed through Bank of Russia's loans that are also used for solvency recovery procedures. However, such procedures tend to cost more than reimbursement of insured deposits. Regarding other banks assistance in resolution of rescued banks, any bank's involvement in the resolution of Binbank or Bank Otkritie would have encountered serious challenges amid a stagnating market, that is, regulator assistance would have been required again.

Bailing out big systemic banks or financial corporations faced with the risk of default has become a common international practice since the crisis of 2008: there are few examples including AIG in the USA, four of the five big private banks in the UK, Credit Agricole in France, etc. This is a new trend facing the international practice of dealing with banking crises (by contrast, the previous most common practices involved the deposit insurance framework and sale of bankrupt banks to strong private players) that has emerged because of increasingly high risk of bank losses, systemic implications and a lack of banks amid crisis that are reliable enough so that the regulator can be sure they will not run the risk of default after assuming the liabilities of bankrupt banks. In this context, increasingly strong participation of the state in the banking sector is considered as a provisional measure.

Furthermore, crisis-driven situations have largely contributed to system-wide imperfection of the banking supervision principles in force, particularly the applicable Basel requirements that prevent banks from disguising problems amid inflation-driven growth of nominal balance-sheet values, the applicable credit restructuring procedure, and the existing framework of prudential standards. This is a global issue facing the prudential supervision that will be solved in part after a complete transition to the Basel III framework. Note, however, that owners and managers of Russian rescued banks enjoyed support of the Russian government and of the central bank: including direct loan-based support and approvals of business expansion through acquisition of new companies as well as involvement in financial resolution of other banks, thereby encouraging their misbehaviour. However, had it not been for a drastic inflation deceleration, these banks could have most likely stayed solvent for long enough and might have possibly "lived to" recovery from stagnation in the bank lending market and to the onset of steady economic growth.

Bank recap directly via the central bank (The Fund for Banking Sector Consolidation (FBSC) rather than through the federal government (out of the federal budget) is, on the one hand, reasonable due to the central bank's status as a mega regulator of the banking sector and of the financial market (this function would be more reasonable for the central government if such policy, as applied to non-financial companies, is inevitable and recognized as optimal). On the other hand, it is the central bank as monetary regulator that can minimize inflationary risks that may arise from a big money-printing to help rescued banks stay solvent. The central bank can consider the size and the time of money-printing when estimating the daily structural liquidity surplus/deficit in the banking sector. Correction is therefore may be applied to the size of Bank of Russia's other liquidity provision/absorption operations that intend to offset the money-printing in support of banks. For instance, the size of liquidity surplus is currently almost in line with the values which were anticipated earlier in the year by the Russian central bank and intended to lead to the 4% target inflation. The liquidity via the federal budget channel has turned out to be less than expected, thereby allowing the Bank of Russia to increase lending to the banking system with no material changes in banks' projected liquidity. The Russian central bank keeps all the tools required to ensure that the key interest rate is in line with the target. Indeed, should there be additional net money-printing, the Russian central bank would have to, all other things being equal, maintain the key rate at a slightly higher level. However, should systemic issues occur in the banking system, macroeconomic implications would be far more serious.

The financial resolution of Binbank and Bank Otkritie is an explicit evidence of the Bank of Russia's intention to rescue the banks, not their owners. The owners have actually lost their interest in the banks after consolidation with the FBSC. In other words, the money has been given on a repayable basis, albeit no bonds have been issued, if we assume (according to the aforesaid new international practice) that the state's participation, via the central bank, in the banks' capital is provisional. Note that the money's repayable nature, i.e. the redemption of the money printed for the bank recap purpose, will be secured even if a state-owned bank (Sberbank, VTB) repurchases the FBSC interest, in which case the money that the banks are holding on the correspondent accounts with the central bank will be written off, and therefore the monetary base will shrink.

The issue of banking supervision reform is to be addressed in the medium term because it is the imperfect banking supervision that is largely responsible for the situation facing this sector. The reform should pursue at least two goals. The goal number one is adequate optimization of bank costs on coordination with the regulator as part of the supervisory function. The heavy regulatory burden on the banking sector is market players' long-standing, well-grounded complaint. Efforts should be made in order to organize the entire array of bank reporting, prevent duplication within the reports submitted to the Bank of Russia and within the reporting forms submitted to other government agencies.

The goal number two, which is closely connected with the gown number one, is to increase the effectiveness of regulator's control over banks' financial standing. Not only does excessive reporting increase bank costs, but it also impedes inspection authorities' control over bank status, allowing information to be manipulated to one's own benefit.

Both goals can in part be achieved by introducing a framework of electronic online interaction between banks and the regulator. Banks will therefore be able to limit themselves to one-off submission of any reporting information. In the meantime, representatives of regulator's various entities will have constant access to all the relevant information about the bank and will be able to monitor regulated entities on an online basis.

The introduction of the new framework will likely require substantial, albeit one-off, costs. In addition, a certain period of transition may be required, during which the supervisory burden on banks may increase because both the old and the new reporting frameworks will stay in force.

4. THE NUMBER OF MIGRANTS IS FALLING IN RUSSIA

Yu.Florinskaya, N.Mkrtchyan

The migration has started again to make up for Russia's population ebbs related to the natural population decline, but the positive migration balance is at the lowest level in the past few years. The total number of temporary migrants does not grow either, though the number of those who officially declared their labor migrant status has become somewhat higher; the number of migrants from the Central Asia is growing, while that from Ukraine and Moldova is decreasing.

The Long-Term Migration

Due to unfavorable changes in the demographic situation in Russia in 2017, the migration has started to make up for population ebbs caused by the natural population decline as it was observed in the first two decades of the post-Soviet period (*Fig. 1*). However, according to the Rosstat's data in the first eight months of 2017 the number of those who arrived in Russia decreased, while the number of departures increased as compared to the corresponding period of the previous year (migration growth saw a decrease of 37,000 people). The number of those who arrived was sufficient enough to compensate the natural population decline, but Russia's population growth amounted only to 32,900 people against 182,700 people a year before.

It seems that modification by the Rosstat of the migration accounting methods in 2011 (deemed as long-term migrants are now those who got registered at the place of their stay for the period of nine months or more) has ceased to have an effect on the registered volumes of arrivals and departures. However, in the past three-four years the migration dynamics depended much on extraordinary developments which triggered a wave of forced and urgent migration to Russia from Ukraine. A reduction of migration growth in 2017 as compared to the previous year can be explained by its decline, particularly, in the exchange with Ukraine. The wave of migration is getting weaker and the migration flow is close to the level of pre-crisis years. As regards other CIS states, migration growth is still at the level of 2016.

Among Russia's main migration-partner countries, the net migration increased largely with Belarus and fell dramatically with Azerbaijan and Moldova (*Table 1*). As regards Uzbekistan, migration growth never recovered to the level observed in 2011–2014 when that country was Russia's major migration donor. The positive migration

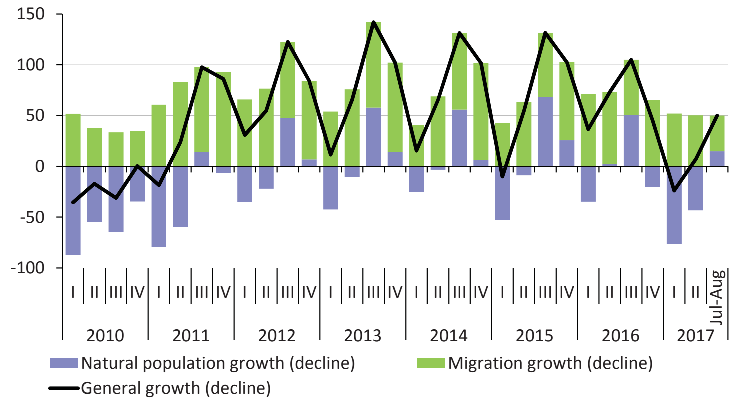

Fig. 1. Changes in the number of Russia's population by components, the quarterly data, 2010–2017

Source: Russia's Social and Economic Situation. Reports for 2010–2017.

balance outside the CIS was ensured almost entirely at the expense of Georgia and Abkhazia. Also, a considerable migration influx took place from Syria, Afghanistan, Vietnam, Turkey and India.

Table 1

GROWTH (DECLINE) OF RUSSIA'S POPULATION IN THE INTERNATIONAL MIGRATION, JANUARY–AUGUST, THOUSAND PERSONS

	January–August 2017	January–August 2016
International migration, total	137.5	174.5
Including with CIS states	134.5	169.6
Azerbaijan	4.7	7.0
Armenia	8.1	7.7
Belarus	6.4	1.4
Kazakhstan	17.8	20.7
Kirgizia	10.3	8.5
Moldova	5.6	9.4
Tajikistan	19.8	16.3
Turkmenistan	0.8	0.4
Uzbekistan	12.6	12.2
Ukraine	48.4	86.0
With other countries	3.0	4.9

Source: Russia's Social and Economic Situation. Reports for January-September 2017

In 2017, this indicator is going to be the lowest one since 2010 unless no dramatic upsurge takes place in migration growth in Russia's population.

The number of Russia's internal migrants did not virtually change, having increased by 10,900 people (0.4%) as compared to January–August 2016. The number of internal migrants did not change much since 2014 when due to the latest modification of the migration accounting methods no in-migration growth was statistically registered.

Migration growth (decline) across Russian regions did not undergo serious changes. A decrease in the positive balance of the international migration affected the number of regions which had a positive balance in January–August: their number fell from 41 in 2016 to 30 in 2017. In Russia, on the back of the internal migration the population concentrates in a small number of regions, while growth at the expense of the international migration is more evenly distributed across the country and compensates the population outflow in plenty of regions.

As in the past few years, the main magnet centers for migrants in Russia are still Moscow with the Moscow Region, St. Petersburg with the Leningrad Region and the Krasnodar Territory. Also, high migration growth was registered in Crimea, the Voronezh Region, the Kaliningrad Region and the Tyumen Region. Due to migration, the population of most regions of the Far Eastern Federal District, the Siberian Federal District, the North Caucasian Federal District and the Privolzhsky Federal District decreased. In January–August 2017, the highest negative migration balance in absolute terms was observed in the Omsk Region, the Republic of Dagestan and the Republic of Komi, the Khabarovsk Territory, the Maritime Territory and the Volgograd Region.

The Temporary Migration

In 2017, the temporary migration to Russia has somewhat decreased as compared to the index of 2016 (*Fig. 2*). The temporary migration indicator's seasonal upsurge which started this time earlier and seemed at first to surpass the level of the previous year came to a halt in the mid-summer and the number of such foreigners remained at the level of 10.2 million people for three months running. It is the smallest number of foreigners who came to Russia late in summer and early in autumn in the past five years.

Most foreigners are still CIS nationals (85%). As of 1 October 2017, their number amounted to 8.7 million which was 1.5% and 9% lower than last year and in 2014, respectively. The bulk of those migrants are nationals from the Central Asia and Ukraine (*Table 2*).

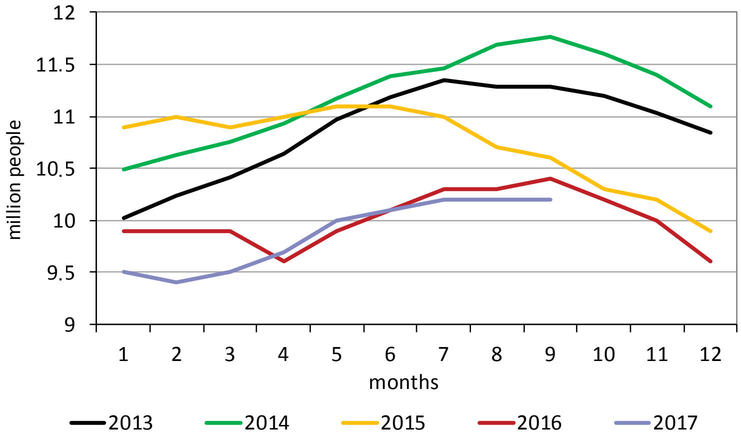

Fig. 2. Arrivals of foreign nationals to Russia at month-end, million people, 2013–2017

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

Table 2

ARRIVALS OF FOREIGN NATIONALS IN RUSSIA FROM THE CIS AS OF THE SPECIFIED DATE, PERSONS

	02.10.14	01.10.2015	01.10.2016	01.10.17
Azerbaijan	615609	537475	531471	587527
Armenia	528699	518731	523124	515282
Belarus	489365	622786	741453	696261
Kazakhstan	583799	704535	613067	549199
Kirgizia	553675	519487	582863	618706
Moldova	584912	525903	490844	442743
Tajikistan	1152721	967751	999035	1076452
Uzbekistan	2455276	2038155	1779002	1898933
Ukraine	2593952	2596092	2581380	2333152
CIS, total	9558008	9030915	8842239	8718255

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

The number of arrivals in Russia of Uzbek and Tajik nationals is gradually recovering (though the maximum level seen in 2014 is not attained yet); the number of Kirgiz migrants is rapidly growing and has already surpassed that of Kazakh nationals, while the number of migrants from Ukraine and Moldova keeps falling.

Nationals of other countries still take little interest in Russia and the number of such migrants is decreasing (*Table 3*). As compared to the pre-crisis values, it diminished 2.6 times over, while in respect of individual countries (Spain, the US and the UK), 5-7 times over. Reduction of the number of migrants took place across all the groups irrespective of the purpose of a visit. Also, the number of those who arrived as tourists declined as compared to the beginning of October 2016.

By the beginning of October, 4.1m foreign labor migrants (96% of them were nationals from CIS states) whose purpose of visit was "work on hire" came to Russia (3.9m and 4.1m as of the same day in 2016 and 2015, respectively). Even statistically insignificant flow of labor migrants from the far abroad was subjected to further legislative reduction. Among CIS countries, there are two states – Ukraine and Moldova – wherefrom the flow of labor migrants is shrinking.

Table 3

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

	13.11.13	01.10.15	01.10.16	01.10.17
Germany	352335	148414	116948	114007
Spain	77200	23144	16011	15224
Italy	77193	34908	28114	24948
The UK	174061	50478	29739	24427
Finland	108312	47360	94557	72615
France	65559	38645	29697	27751
The EU as a whole	1177829	546341	513367	458133
The US	220086	68367	53978	46206

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

As of 1 October 2017, labor migrants were issued 1.75m valid documents for employment (work permits and patents) and another million of migrants had the right to work without such documents (nationals from member-states of the Eurasian Economic Union). It means that about two-thirds of those who declared on arrival that they were labor migrants could potentially work legally in Russia (it is somewhat higher than the level seen early in summer).

More and more migrants are seeking to be legalized on the Russian labor market (though the rate of legalization is not very high) and it is evidenced by growth in the number of executed labor permits (and particularly patents) as compared to 2016 (*Table 4*). However, migrants' aspirations to be legalized are not supported by Russian employers: the number of notifications on entering into a labor contract with foreign migrants – such notifications employers are obligated to submit to the immigration authorities – decreased as compared to the previous year and amounted to 1.2m during nine months of 2017.

Table 4

EXECUTION OF WORK PERMITS FOR MIGRANTS IN THE RUSSIAN FEDERATION, JANUARY–SEPTEMBER, PERSONS

		9 months 2014	9 months 2015	9 months 2016	9 months 2017
Work permits for foreign nationals*		993351	134657	95158	100394
including:	Work permits for skilled workers SW)*	97928	16213	9145	12530
	Work permits for high-skilled workers (HSW)	22485	29554	20217	16143
Patents**		1940521	1476090	1193811	1294880
Total		2933872	1610747	1288969	1395274

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

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

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

During nine months of 2017, migrants paid to regional budgets Rb 38.4bn (monthly payments for patents), that is, Rb 3.5bn more than in the same period of the previous year. As before, the larger portion of those payments is effected by migrants from Uzbekistan and Tajikistan: they accounted for 86% of all the executed patents during nine months.

AUTHORS

Alexei Vedev, leading researcher, Financial Research Department, Gaidar Institute; Head of the Structural Research Laboratory, IAES, RANEPA

Eugene Goryunov, researcher, Budget Sustainability International Department, Gaidar Institute; lecturer, chair of economics, the Faculty of Economics, RANEPA.

Sergey Drobyshevsky, Scientific Director, Gaidar Institute

Nikita Mkrtchan, leading researcher, Demography, Migration and Labor Market Department, INSAP, RANEPA

Pavel Trunin, Director of Center for Macroeconomics and Finance, Gaidar Institute; leading researcher, Center for Central Banks Issues, IAES, RANEPA

Yulia Florinskaya, leading researcher, Demography, Migration and Labor Market Department, INSAP, RANEPA

Mikhail Khromov, Head of the Financial Research Department, Gaidar Institute; senior researcher, Structural Research Laboratory, IAES, RANEPA

Designed by E.Nemeshaeva