MONITORING OF RUSSIA'S ECONOMIC OUTLOOK:

TRENDS AND CHALLENGES OF SOCIO-ECONOMIC DEVELOPMENT

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GAIDAR INSTITUTE FOR ECONOMIC POLICY

РАНХиГС
РОССИЙСКАЯ АКАДЕМИЯ НАРОДНОГО ХОЗЯЙСТВА И ГОСУДАРСТВЕННОЙ СЛУЖБЫ ПРИ ПРЕЗИДЕНТЕ РОССИЙСКОЙ ФЕДЕРАЦИИ

Monitoring of Russia's Economic Outlook: trends and challenges of socio-economic development. 2018. No. 9 (70). May / S. Belev, A. Bozhechkova, A. Burdyak, P. Trunin, M. Khromov. Edited by: V. Gurevich, S. Drobyshevsky, P. Kadochnikov, V. Mau, and S. Sinelnikov-Murylev. Gaidar Institute for Economic Policy, Russian Presidential Academy of National Economy and Public Administration. 17 p. URL: http://www.iep.ru/files/text/crisis_monitoring/2018_9-70_May_eng.pdf

TRENDS AND CHALLENGES OF SOCIO-ECONOMIC DEVELOPMENT

Russia's development strategy until 2024, set out in a Presidential Executive Order of May, has been introduced for discussion and elaboration against the backdrop of a new round of geopolitical escalation, with the global economy possibly being affected harder than ever in recent years.

The re-imposition of U.S. sanctions against Iran announced on the heels of sanctions against Russia and then vast "tariff" claims against foreign trade partners goes as far as to inducing structural effects on the global economy, thereby having, as a minimum, an effect on energy prices and flows, leading to cancellation of contracts signed by lead trans corporations in various sectors and, therefore, a likely remaking of markets. As a maximum, the effect is taking an institutional form because the de facto dependence on the U.S. financial and monetary system is more and more apparently becoming a de jure dependence on U.S. political decisions.

It's difficult to measure both the degree of sequence in which the U.S. Administration is implementing the announced measures and "the degree of resistance" of nations and companies suffering from the measures. That said, it seems logical to point out two trends which thus may, to some extent, prevail in the Russian economic policy.

The former would suggest a relaxation of the fiscal rule on the back of ongoing accelerated extra inflow of oil and gas revenues and because of the need to raise money to implement the Strategy 2024 and the need to compensate for losses induced by new sanctions. The latter, by contrast, may come from increasing global economic and political unsteadiness, namely new threats of sanctions as well as a much greater reliance upon the geopolitics of increasingly overheated hydrocarbon markets, with quotations undermining, for example, the relevance of the OPEC/non-OPEC output cut deal.

The Bank of Russia's policy will be guided by the above risks, according to our experts' analysis of the central bank's recent decision to keep the key interest rate unchanged. The central bank suspended its monetary policy easing in response to increasing geopolitical and economic uncertainty as well as heightened risks of inflation on the back of the rouble's depreciation in April 2018. In April, however, price movements represented an insignificant short-term response to a weaker rouble as individuals' inflation expectations remained low.

However, a steady depreciation of the nation's currency in the medium term would inevitably lead to a ramp-up in inflation. The rouble's depreciation against the U.S. dollar in April by more than 10% can add 1–1.5 p.p. to the inflation rate and therefore guide it close to the target rate (4%) at year-end. Furthermore, an internal source of inflation risks is growth in real wages (up 9.5% in Q1 2018). This all determines key interest rate movements: according to the central bank, a neutral level of the key interest rate is estimated at 6–7%, which, according to our experts, cannot be achieved sooner than in 1.5–2 years due to high risks of new external shocks.

Our experts' analysis of the banking sector's Q1'18 financial performance shows that the regulator can influence almost all profit components in the banking sector through the key interest rate (which determines largely banks' interest earnings), accumulation of reserves (representing a great deal of all bank reserves) of large banks bailed out by the central bank, and mutual approval by the Finance Ministry and the regulator of foreign currency purchases in the FX market.

The banking sector's financial performance improved earlier in the year compared with previous year's performance. No losses were incurred from FX revaluation – the rouble, in contrast, was on the rise, and there was no need to increase sharply loan loss provisions, which hit profits hard in 2017. However, there was an apparent decline in the yield of regular bank operations: banks' interest earnings were dragged down by falling interest rates in the Russian financial system. The past year saw the weighted average interest rate on rouble-denominated retail loans drop 2.5–2.6 p.p. (depending on loan tenor) as well as the interest rate on corporate loans with a maturity of one year or less. Interest rates on loan-term corporate loans representing the bulk of banks' credit portfolio saw the highest decline of 2.9 p.p. (from 11.9% p.a. in Q1 2017 to 8.9% p.a. in Q1 2018). Interest rates on retail bank deposits declined at much slower pace. Therefore, falling interest rates slashed banks' interest earnings but failed to help much in saving on interest costs.

Debates regarding fiscal projects contemplating, among other things, raising tax rates are underway amidst falling interest and inflation rates.

Although Russian Prime Minister Dmitry Medvedev said recently that there were no plans to raise personal income tax rates, the issue was until recently extensively debated and is likely to be put on the table again in the future. Our experts' estimates from an analysis of potential effects of change in personal income tax rates, including the most frequent proposal of raising the same to 15% from 13%, appear to be quite relevant in this respect. The analysis includes scenarios of raising tax rates or raising them along with the introduction of a universal tax deduction equal to the subsistence level, or, ultimately, a similar tax deduction for those whose income is above the subsistence level. Our researchers conclude that none of the options can be regarded as satisfactory due to either adverse fiscal effects (revenues for the budget are too small) or adverse social effects (worsening conditions for lowest-income population groups).

Our experts published an article estimating the efficiency and scale of social support in relation to housing and utility was studied based on data for 2013–2017. They concluded that targeted support (housing and utility subsidies based on the proportion of respective expenses in relation to family income) was reduced. The proportion of persons entitled to social protection (benefits) shrank as well, with benefits provided according to "category" of recipients (for example, war veterans, persons suffered from repressions, etc.) regardless of their income or costs of such services.

In addition, growth in housing and utility bills over four years was twice as fast as that in incomes and faster than growth in respective benefits and subsidies. The proportion of persons entitled to housing and utility benefits dropped from 26% to 24% as the proportion of families entitled to housing subsidies fell from 6.4% to 5.7%. Benefits and subsidies, taken together, covered (based on 2017 data) 14.5% of accrued housing and utility bills due from individuals, compared with 18.2% in 2013. The number of housing and utility subsidy recipients decreased in most of the regions, whereas the number of families entitled to such subsidies increased in 20 subjects of the Russian Federation, thereby evidencing, according to our experts, that at least some of the regions provide adequately targeted support to households.

1. IMPACTS OF NEW EXTERNAL SHOCK ON RUSSIA'S MONETARY POLICY

A.Bozhechkova, P. Trunin

The Bank of Russia's Board of Directors decided in April to keep the key interest rate unchanged on the heels of new sanctions on Russia that affected seriously the Russian rouble. The exchange rate pass-through to prices can guide, sooner than it was expected, inflation closer to its 4% target rate. There remain high risks of further escalation of geopolitical tension, leading to heightened uncertainty about developments on the economic scene.

On 27 April 2018, the Bank of Russia's Board of Directors decided for the first time since July 2017 to keep the key interest rate unchanged at 7.25%. The stepwise monetary policy easing was suspended due to increasing geopolitical and economic uncertainty as well as heightened risks of inflation on the back of the rouble's depreciation in April 2018.

As of end-April 2018, the inflation rate stood at 0.4% (0.3% in April 2017), reaching 2.4% year-on-year (4.1% y-o-y in April 2017), far below the target rate of 4% (*Fig. 1*). As a reminder, the inflation rate hit an all-time low of 2.2% in January–February 2018, with a slight uptick to 2.4% in March. Price movements in April represented an insignificant short-term response to a weaker rouble.

A growth in foodstuff prices (0.4% month-to-month in April 2018 compared with 0.6% month-to-month in April 2017) was largely responsible for accelerating the inflation rate in April. The growth was induced by depleted fresh fruits and vegetable stocks as well as higher sugar prices. Non-food prices increased 0.4% month-to-month in April 2018 (up 0.2% month-to-month in April 2017). Motor gasoline prices (up 1% over March 2018) and tobacco products (up 0.7% over March 2018) took the lead in price growth rates. Paid services to individuals increased 0.3% month-on-month in April 2018 (up 0.2% month-on-month in April 2017). A 3.0% increase in prices of outbound tourism services contributed noticeably to the increase in paid services.

The core inflation (an indicator excluding changes linked to seasonal and administrative factors) stopped slowing in April, posting 1.9% year-on-year by April 2017 (1.8% y-o-y in March 2018).

Individuals' inflation expectations in April hit its lowest level since the onset of monitoring, with a 7.8% median one-year ahead expected inflation rate in April 2018 (8.5% in March 2018), according to InFOM's survey published by the Bank of Russia. Central bank's estimates based on an inflation expectations survey provide another evidence that individuals continued to have low

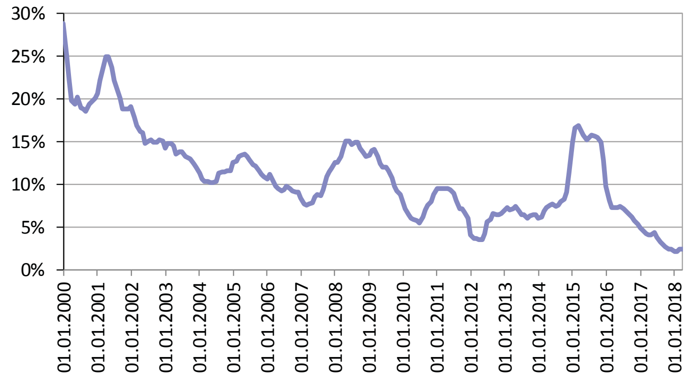

Fig. 1. CPI growth rate in 2011–2018, percentage change over the past 12 months

Source: Rosstat.

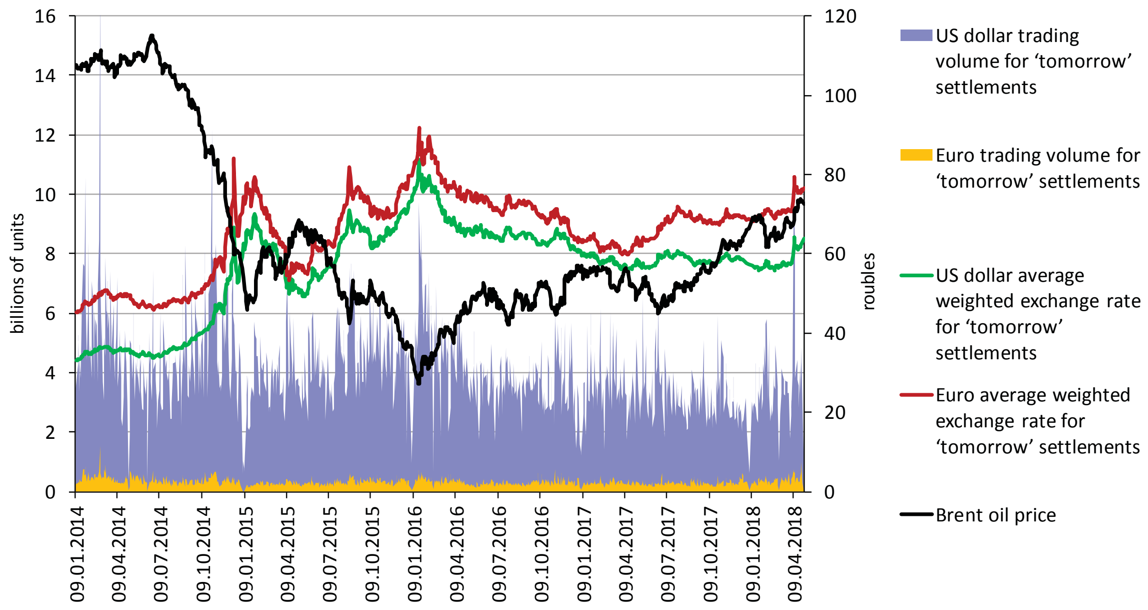

Fig. 2. Movements of Rouble/Dollar and Euro exchange rates, FX market trading volume, Brent oil price
Sources: Russia's central bank, Finam.

inflation expectations despite high volatility of the exchange rate induced by tougher sanctions: inflation in March–April was estimated at 2.1–2.2%.

Consumer demand recovery spurred by growth in real wages against the backdrop of slowing inflation continues to be an internal source of inflation risks. In January–March 2018, for instance, real wage growth rates averaged 9.5% (1.8% year-on-year in January–March 2017). In addition, the retail trade turnover increased by an average of 2.2% year-on-year in January–March 2018 (it decreased by an average of 1.6% y-o-y in January–March 2017), which appeared to be driven by higher consumer lending.

A steady depreciation of the nation's currency in the medium term (*Fig. 2*) would inevitably lead to a ramp-up in inflation despite a minor short-term response of prices to a weaker rouble. In April 2018, the rouble lost 10.8% against the U.S. dollar, sliding to 63.5 roubles per dollar as a result of tough U.S. sanctions imposed early in April. With rouble's depreciation like this, the inflation rate can pick up 1–1.5 p.p. and therefore come close to the central bank's target rate at year-end. Furthermore, the rouble tumbled in April, when crude oil prices climbed 10.2% to $74.6 a barrel, the highest level in recent years. The escalation of geopolitical tension can become a factor of further rouble's depreciation that can be even worse if energy prices fall.

The Bank of Russia, therefore, has to be more careful about cutting the key interest rate against a backdrop of heightened uncertainty. This apparently suggests that a long period of monetary policy easing is coming to an end. According to the central bank, a neutral level of the key interest rate is estimated at 6–7%, which, however, cannot be achieved sooner than in 1.5–2 years due to high risks of new external shocks.

2. OPERATING INCOME: DOWNWARD TREND CONTINUES

M.Khromov

Banking profit in early 2018 remained at the level of the previous year. Herewith, notable decrease in net banking operating income due to interest rates reduction was offset by no losses incurred from currency revaluation. The reason was in termination of the national currency appreciation.

In Q1 2018, the Russian banking sector financial performance amounted to Rb 352.2 bn. Return on assets (ROA) over that period constituted 1.7%, and return on equity (ROE) came to 16.7% in annual terms.

Compared to Q1 2017, banking income has gone up by Rb 14bn and profitability practically has not changed. However, the banking sector financial performance in early 2018 has significantly improved in comparison with 2017. Then return on assets constituted merely 1.0% and return on equity – 9.4% in annual terms.

The structure of main profit components in banking sector has formed in the following way (*Fig. 1*) – the yield of regular bank operations[1] in Q1 2018 amounted to Rb 495 bn, increment of loan loss provisions – Rb 141 bn and losses from revaluation of accounts denominated in foreign currency – Rb 2bn.

The structure of the main profit components in the banking sector was the following (*Fig. 1*): the yield of the regular bank operations in Q1 2018 amounted to Rb 495bn, increment of loan loss provisions – Rb 141bn, and from revaluation of accounts denominated in foreign currency – Rb 2bn.

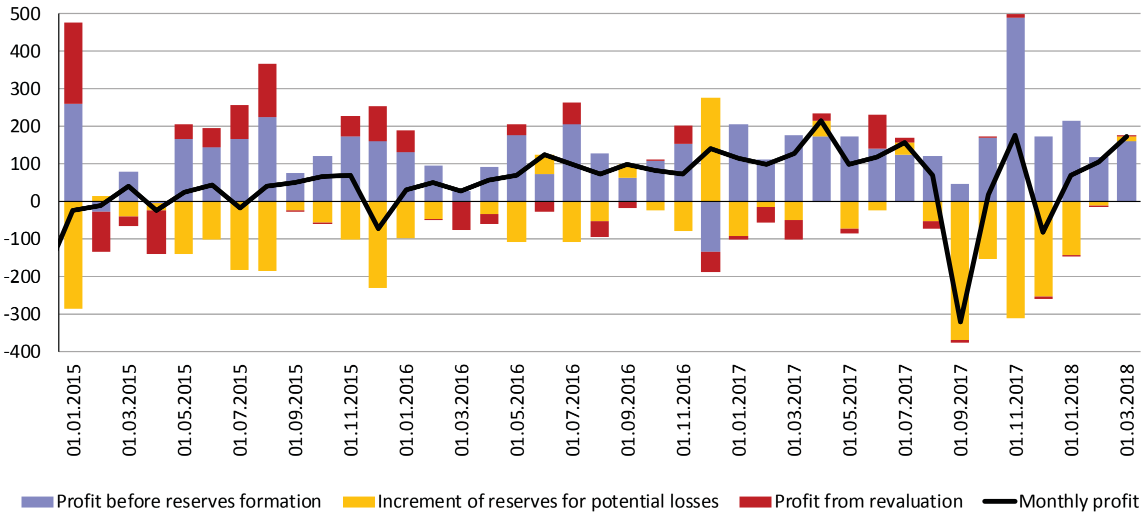

Fig. 1. Main components of monthly banking income, Rb bn

Source: Bank of Russia.

1 Income minus operations with reserves and revaluation of accounts denominated in foreign currency.

While comparing such enlarged structure of main profit components in the banking sector with the same period of the previous year the following trends should be noted.

Firstly, and this is the key trend – notable decrease in the yield from regular bank operations proceeds from which contracted over a year by Rb 101bn or by 17% in the nominal terms. Correspondingly, in relation to bank assets the yield from regular bank operations contracted from 3.0% seen in Q1 2017 to 2.4% seen in Q1 2018. Subsequently, the yield growth reported in the official banker's books was forms owing to the dynamics of other components of banking financial performance – change in reserves for loan loss provisions and net income from revaluation of accounts denominated in foreign currency.

Banks' interest earnings were dragged down by falling interest rates in the Russian financial system which was the main factor for a decline in the yield of regular bank operations. For example, the past year saw the weighted average quarter key rate set by the Bank of Russia to fall by 2.4 p.p. from 10.0% to 7.6%. Decline of interest rates on loan operations even exceeded the dynamic of key interest rate. The past year saw weighted average interest rate on ruble denominated retail loans with length of up to a year drop 2.6 p.p., and for retail loans with length over a year by 2.5 p.p. the same as the weighted average interest rate on corporate loans with a maturing of one year.

Interest rates on loan-term corporate loans representing the bulk of banks' credit portfolio saw the highest decline of 2.9 p.p. (from 11.9% p.a. in Q1 2017 to 8.9% p.a. in Q1 2018). In the meantime, interest rate on the retail loans denominated in rubles with maturity of one year declined by 0.7 percentage point (from 6.2% to 5.5%) and on long term deposits – by 0.9 percentage point (from 7.4% to 6.5%). Therefore, falling interest rates slashed banks' interest earnings but failed to help much in saving on interest costs.

Growth of reserves for loan loss provisions seen in early 2018 slowed down by 10% compared to early 2017 when their increase constituted Rb 156bn for a quarter. In Q2 2017, precisely sharp growth of reserves for loan loss provisions triggered notable contraction of banks' income. This was due to the onset of resolution of a number of large private banks[1], which resulted in exposing significant volumes of toxic assets. At 2017 year-end results, the total volume of reserves for loan loss provisions peaked Rb 7trillion or 8.1% of all bank assets. This ratio hit an all-time maximum of 8.4% for the first three months of the current year on the back of ongoing growth of formed reserves and insignificant contraction of total bank assets.

Dynamic of net income from revaluation of accounts was the most notable. Losses incurred from revaluation seen in early 2017 were due to Russian ruble's appreciation against foreign currencies which triggered a decline in ruble equivalent of bank assets denominated in foreign currency. As a result, banks' losses seen in Q1 2017 amounted to Rb 101bn on the back of revaluation of foreign currency accounts. In Q1 2018, exchange rate dynamics was more stable which triggered decrease of banks' losses on this account to Rb 2bn for a quarter.

Later in the year the dynamic of banks' income will be determined by the same factors – Bank of Russia interest rate policy, large banks resolution, as

1 FC Otkrytie, Binbank, and Promsvyazbank.

well as by the ruble exchange rate dynamic. The yield of regular bank operations continue falling. Even if the Bank of Russia slows down reduction of the key rate, the new loans this year all the same will remain at 2–3 p.p. cheaper against last year and the potential for a decrease of interest rates on raised money has been practically run out. Therefore, decrease of the interest margin will be in medium term negatively affect operating income.

At the same time, as far as the Bank of Russia controls resolution of the largest private banks, the regulator can affect practically all components of the banks' income. Change in the key rate affects the amount of net interest income of the banking sector.

Resolution of the largest private banks determine their dynamic of creation of loan loss provisions which constitutes a notable part of the total loan loss provisions of the banking sector. Ruble's exchange rate is formally independent from the Bank of Russia, however, the Finance Ministry purchases of foreign currency most like are coordinated with the currency market regulator because they significantly affect the stability of the whole financial system.

3. THE CHANGE IN THE PERSONAL INCOME TAX: WILL IT BRING EFFECT?

S.Belev

No plans to raise personal income tax rates (PIT), Prime Minister Dmitry Medvedev said recently. However, this subject was until recently extensively debated and is likely to be put on the table again in the future. A rise of PIT rate can negatively affect the poorest citizens. It is envisaged to change it together with the introduction of a tax deduction amounting to the subsistence level. However, according to our calculations such change will not bring a notable fiscal effect.

This paper examines results from the following change in the PIT rate scenarios:

1. Raising the PIT rate;
2. Raising the PIT rate together with the introduction of a universal tax deduction amounting to subsistence level;
3. Raising the PIT rate together with the introduction of a tax deduction amounting to the subsistence level for individuals who declare income not exceeding the subsistence level.

Scenario 1

In order to calculate change in proceeds from PIT, it is necessary to take into account two effects: mechanical (tax rate growth effect) and behavioral (change in the amount of declared tax base reflecting the rate change). If it is sufficient to multiply new rate by the old tax base for the assessment of mechanical effect, then it is necessary to assess tax base susceptibility to the rate in order to assess the behavioral effect. This requires at least retrospective data on effect from the recent PIT rate changes. However, the latest change happened in 2001. In this regard allowing for only mechanical effect one can obtain an overestimated assessment of proceeds from PIT. Nevertheless, part of the effect from the base change is considered in a reduction of the payroll fund's share (PF minus insurance contributions) in GDP. According to Rosstat data, this share decreased in the context of increased rates of insurance contributions seen in 2011 and increased amid their partial reduction seen in 2012 (*Fig.1*).

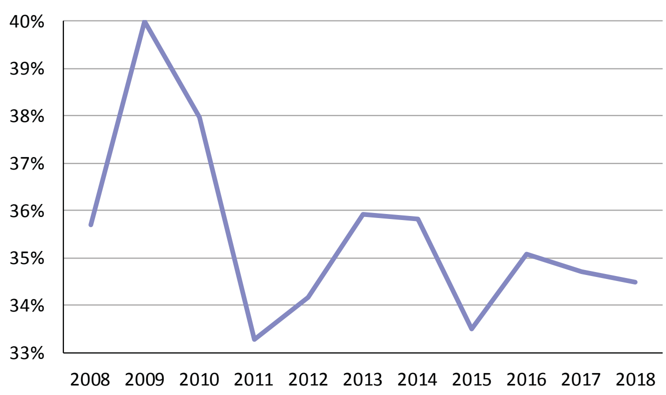

Fig. 1. Share of payroll fund minus insurance contributions in GDP in Russia in 2008–2018

Sources: Rosstat, forecast of the Ministry of Economic Development for 2018.

From 2012 the main part of employees get 67 kopeks from one ruble of labor costs paid by the employer (including insurance contributions)[1].

1 This share is calculated as (100% – PIT rate)/(100%+insurance contributions rate) = (100%–13%)/(100%+30%)=0. 67.

Raising the PIT rate from 13 to 15% will trigger insurance contributions rate growth from 30 to 33%. Following on from the retrospective data one can presume that the effect from the rate change would have resulted in a reduction of PF's share in GDP by mere 0.5 percentage point. In this case, given the share of payroll fund's share amounts to 34% in GDP the PIT rate growth by 2% would have given in 2018 proceeds growth by 0.53% of GDP in the context of total aggregate proceeds from PIT at 3.4% of GDP.

Scenario 2

In 2018, the subsistence level amounts to a little over Rb 11,000 per month for working population. According to Rosstat data regarding accrued wages allocation, the share of wages subject to taxation in the context of such tax deduction will be around 70% (according to data for 2017). Losses from the universal deduction will mount to around one third of proceeds from PIT. Taking into account the fact that the PIT rate growth to 15% will increase proceeds from PIT by 15%, the implementation of scenario 2 will not provide the sought fiscal effect. In order to "break even" according to this scenario, it is necessary to raise the PIT rate to 18%. Thus, the introduction of a universal deduction can result in large losses for budget revenues.

Scenario 3

In order to avoid large-scale losses of budget revenues triggered by the introduction of universal deduction, another mechanism can be applied – grant a deduction solely to those who earn not more than the subsistence level. This measure will create the so called gap in tax scale – a situation where growth of taxable income entails decrease of disposable ("net") income. If the taxpayer's income does not exceed the subsistence level (*Fig.2*), than his/her disposable income is equal to a taxable income. However, when once he/she earns a bit more when the total amount of income is instantly taxed in line with the rate. For example, if a person declares Rb 12 thousand income than his/her disposable income equals to 12*(100–13%) = Rb 10,440, in other words, less than he/she had declared Rb 11,000. In this case, income growth entails decrease of wellbeing.

Calculation of proceeds amid a tax deduction with such gap will require apart from calculation of PIT-exempt base also the consideration of behavioral effect residing in the fact that individuals will lack incentive to declare income above certain level of provided tax deduction. In our case a tax deduction amounting to Rb 11,000, the taxpayer can receive the same Rb 11,000 in two ways – by earning Rb 11,000 and earning 11/(100%–15%)*100% = = Rb 12,941[1].

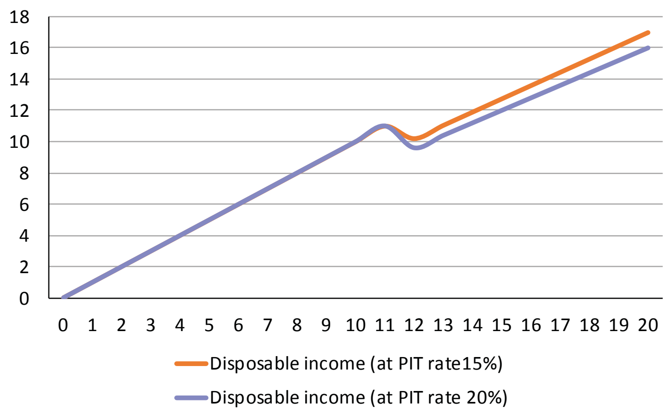

Fig. 2. Taxable income (horizontal axis) and disposable income (vertical axis) at different PIT rates and a tax deduction amounting to the subsistence level solely for individuals declaring not more than the subsistence level

Source: own calculations.

1 In general terms, this sum equals a threshold of provision of a tax deduction divided by one minus PIT rate.

The taxpayers will choose the lowest earning out of two options because that will not require any major efforts from them. That is why one should expect that they will reduce their labor efforts and the taxpayers with declared income in the range of Rb 11,000 to Rb 12,941 will stay out. Moreover, the upper boundary can be exceeded depending on the behavior of the people choosing between leisure and consumption. As a rule, it constitutes 5–10% on top in other words the upper bound will be around Rb 13,600–14,200. This means that around 4% of the PIT tax base would be exempted, in this case losses in consolidated budget revenues would amount to over 0.1% of GDP under the PIT rate of 15%. In the end, this would have given the budget additional revenues in the amount of around 0.4% of GDP. However, it should be noted once again that the levelling effect of this scenario is doubtful because it creates a "poverty trap" for those who earn at the subsistence level.

4. PAYMENT FOR HOUSING AND PUBLIC UTILITIES SERVICES IN 2014–2017: TARIFFS UP, SOCIAL ALLOWANCE DOWN

A.Burdyak

The number of housing allowance recipients in 2017 moved down against 2013. The percentage of individuals benefiting from social protection (benefits) has also contracted. Bills for housing and utility services went up twice against income, average allowance for housing and utility services grew slower than tariffs.

Real disposable household income has been falling during four years in a row. According to survey findings, respondents name housing and utility costs among the most biting expenses. Really, growth of housing and utility services tariffs was outpacing price growth on other goods and services especially in H2 2017 when inflation as a whole was the lowest ever[1]. The government has launched targeted program of housing allowance aimed at burden mitigation on household budgets. In the event of high share of spending on housing and utility services in income (federal threshold amounts to 22% and the threshold is lower in certain regions), a household is allegeable for an allowance. Its cushioning ability will be revealed when household income goes down, for example, at childbirth.

A notable part of the households gets social assistance apart from housing and utility allowance. In mid-2000-s, specific categories of population, for example veteran workers or former political prisoners, received benefits in the form of 50–100% allowance for utility costs. At present, citizens receive social assistance in cash; however, specific categories of citizens allotted an allowance independently of their income or spending on housing and utility services.

According to Rosstat's survey "Sampling observation of household income and participation in social programs in 2017 (VNDN-2017)"[2], according to age distribution Russian households can be conditionally divided into four groups:

- 30% of working age households (this group boasts of 4.4% of low income families);
- 30% of family households with children under 15 years of age (there poverty hits 21%), including 7% of family households with children and pensioners (there poverty hits 18%);
- 40% of family households with at least one pensioner (this group numbers 2% of low income families).

Herewith, among the recipients of social assistance 84% are family households with pensioners including 10% of family households with pensioners and children under age 15. Family households with children constitute 18%

1 Russian economy in 2017. Trends and Outlooks / Ed by V. Mau, S. Sinelnikov-Murylev, A. Radygin; Gaidar Institute. – Moscow: Publishers Gaidar Institute, 2018. P. 326–333.

2 In January–February 2017, 160 thousand households were questioned by way of personal interview. Rosstat.

of social assistance recipients (with children and without pensioners – 8%), and working age households –8%.

Housing allowances[1] are being distributed in greater conformity with poverty risks: 30% of recipients are family households with children, 74% of family households with pensioners, and 6% of working age households.

Thus, social assistance measures and allowance for housing and utility services continue focusing on households of pensioners rather than on the most vulnerable in economic condition terms group – households with children[2].

This is due to the system's inertia – it is impossible to refuse outright from the execution of social obligations for welfare beneficiaries. It is true that the size of payments is gradually restricted, for instance by applying a standard consumption rate for utility services and transition to provision of targeted assistance will be a priority in the near future[3]. Moreover, regions with limited budgets were forced to minimize costs during crisis[4].

Have reduction of real household income and growth of tariffs on housing and utility services resulted in a greater number of targeted assistance recipients in the form of housing allowance? According to the data released by Rosstat, household cash income in 2017 against 2013 went up by 21% in nominal terms (from Rb 25,928.2 to Rb 31,477.2[5]). During the same period, households received bills for housing and utility services increased by 39.5% per capita (from Rb 1,598 to Rb 2,229). The size of social assistance per user went up by 16%, and the allowance amount per a household – by 33% (*Fig. 1*).

Housing and utilities tariffs (as cost reimbursable by households) throughout four consecutive years have been growing twice as high as income. Herewith, households' assistance should have been growing faster, however the amount of subsidy per household recipient was growing slower than tariffs.

Have the number of recipients increased?

As it appears from the data released by Rosstat, in 2009–2014, the

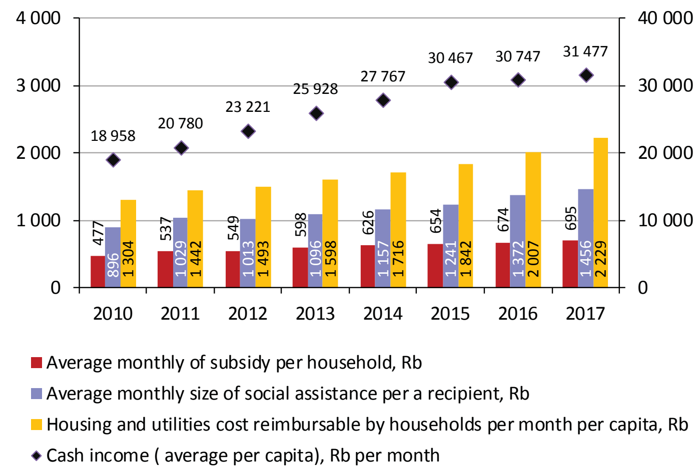

Fig. 1. Size of social assistance, subsidies, and housing and utility servicies for households and per capita cash, Rb per month

Source: Short-term economic indexes. March 2018. Rosstat http://www.gks.ru/bgd/regl/b18_02/Main.htm; Main indexes of housing and utilities sector reform. EMISS https://fedstat.ru/organizations/?expandId=1292875#fpsr1292875 [access as of 25.04.2018]

1 Only cave dwellers answered the question on allowance in VNDN-2017; all respondents were aware of receiving social assistance.

2 E. Grishina. Different aspects of poverty of households with children. EKO. 2018. No 3 (525) pp. 7-26; E. Grishina. Deprivation approach to the assessment of poverty of households with children in Russia and European countries. Financial Research Institute. Financial journal. 2017. No 4 (38), pp. 47-55.

3 Vladimir Putin's Address to the Federal Assembly. 01.03.2018. State Duma of the Russian Federation http://www.duma.gov.ru/news/26525/

4 N. Zubarevich, R. Khasanova, N. Mkrtchyan. Russian regions in 2017: social and demographic processes (based on findings from regular Monitoring INSAP RANEPA). Russia's Economic Developments. 2017. No.12. P. 85–98.

5 Taking into account a limp sum payment of 5 thousand rubles in January 2017.

share of households recipients of social assistance for housing and utilities constituted 26%, however recently it commenced slowly falling to 25% seen in 2015 and to 24% seen in 2017 (*Fig. 2*). It's worth paying attention to the fact that dynamics of recent years is due to a natural decrease of the old generation (benefit beneficiaries) and more modest procedure for benefits provision. Throughout the crisis of 2009–2010, the cover of households by measures of social assistance was not changing and the share of households receiving housing allowances on the contrary moved up easing the income decrease shock. In recent years, that sort of outcome was not observed throughout Russia as a whole – despite the real income decrease and tariffs growth, the share of households receiving housing allowances was gradually decreasing from 6.4% seen in 2013 to 5.7% of households seen in 2017.

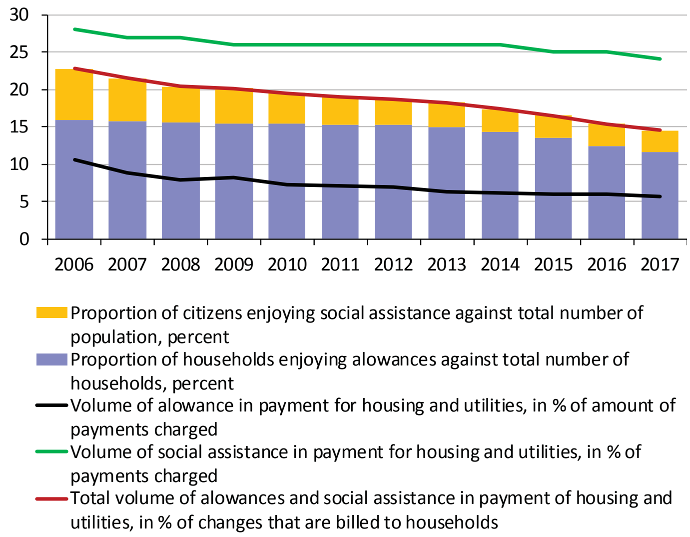

Fig. 2. Volume of social assistance and subsidies provided to households (in % to amount of payments chanrged for housing and utilities) and share of beneficiaries of these measures (%)

Sources: own calculation based on online collections Housing conditions of population. Rosstat http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/population/housing/# and Main indexes of housing and utilities sector reform. EMISS https://fedstat.ru/organizations/?expandId=1292875#fpsr1292875 [access as of от 25.04.2018]

Comparison of the volume of granted allowances and social assistance with the volume of charges that were billed to the households for housing and utilities services still more distinctly demonstrates a declining role of these programs. Over 2013–2017, payments via housing allowances contracted from 3.3% to 2.8% against total changes billed to the households; the role of social assistance for the same period decreased from 14.9 to 11.7%. On aggregate, these two measures in 2017 reimbursed 14.5% of payments meanwhile on the eve of the crisis of 2013 they constituted 18.2% of the total charges billed to the households for housing and utility services.

In the majority of regions as in Russia as a whole, there were less recipients of allowances in 2017 against the pre-crisis 2013. However, twenty subjects of the Russian Federation boast of increased number of households receiving allowances for housing and utility services over recent four year. Among them are Smolensk, Tambov, Kaluga, Ryazan, and Chelyabinsk regions (growth by 20% and more), city of Moscow, Tyumen region minus autonomous districts and Republic of North Ossetia-Alania (+17–19%), Kostroma region, Republic of Tyva, and Yamal Nenets autonomous district (+11–12%) (*Fig. 3*). Increase in the number of provided allowances reflecting a decrease in real household income and growth of tariffs on housing and utilities services evidences that at least some of the regions provide adequately targeted support to households[1].

1 T. Maleva, E. Grishina, E. Tsatsura. Regional systems of social protection: why and for what targeted measures are introduced. Region: Economics and Sociology. 2016. No.4 (92). P. 153–175.

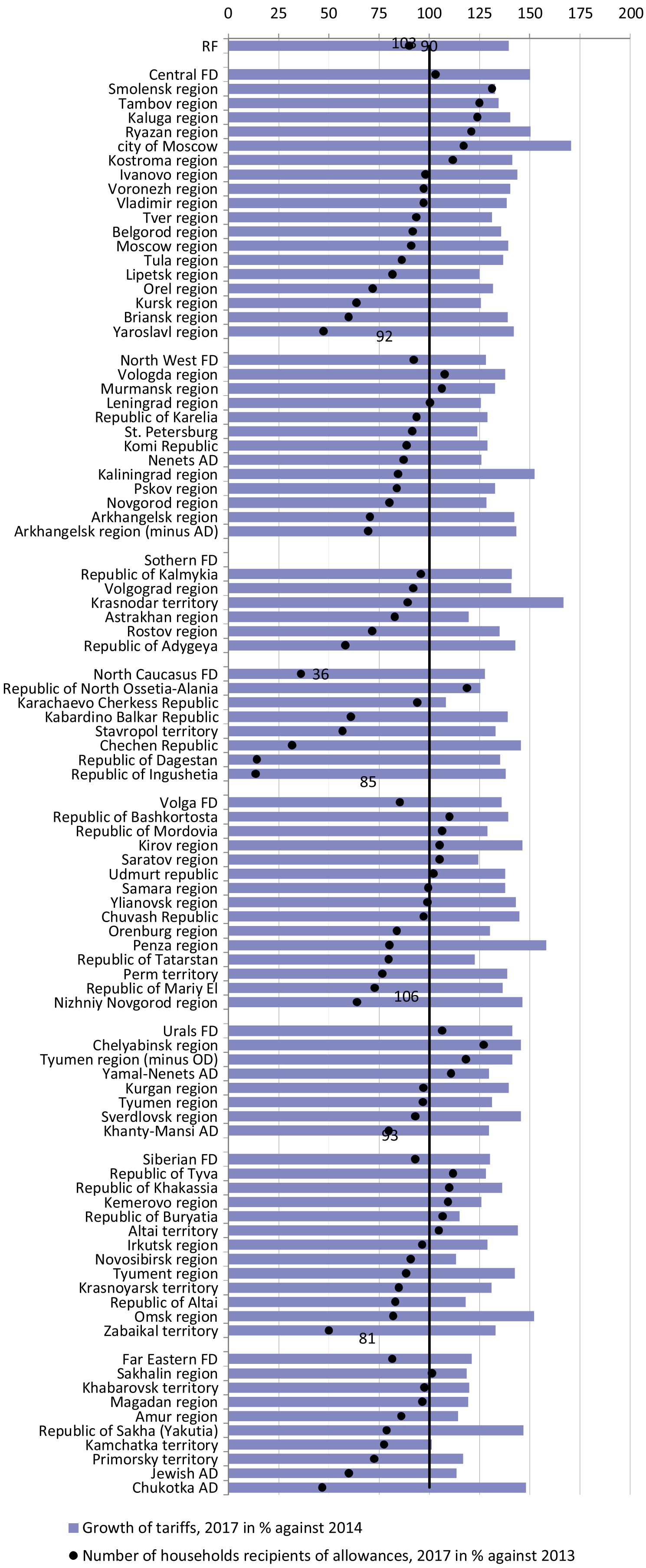

Fig. 3. Change in housing and utilities rates for the population and number of households getting subsidies by regions for 2013–2017, in %

Sources: Main indexes of housing-utilities sector reform. EMISS https://fedstat.ru/organizations/?expandId=1292875#fpsr1292875 [access as of 25.04.2018], own calculations.

AUTHORS

Sergey Belev, Head of the Budget Policy Department, Gaidar Institute; senior researcher, Budget Policy Laboratory, IAES, RANEPA

Alexandra Bozhechkova, Head of Monetary Policy Department, Gaidar Institute; senior researcher, Center for Central Banks Studies, IAES, RANEPA

Alexandra Burdyak, senior researcher, Standard of Living and Social Safety Net Laboratory, INSAP, RANEPA

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

Michael Khromov, Head of the Financial Research Department, Gaidar Institute

Designed by E.Nemeshaeva