MONITORING OF RUSSIA'S ECONOMIC OUTLOOK:

TRENDS AND CHALLENGES OF SOCIO-ECONOMIC DEVELOPMENT

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TRENDS AND CHALLENGES OF SOCIO-ECONOMIC DEVELOPMENT

'The current emphasis on obtaining short-term profits is obviously divorced from the existing trends associated with notably intensified strategic risks'.

None of the threats generated by the combination of economic and geopolitical risks in recent years have ever looked as menacing as the massive attacks on the most important crude-processing plants of Saudi Arabia.

Nevertheless, firstly, the response of the global oil market to the said outrage was rather subdued, resulting in just a modest 10% spike in oil prices – despite the fact that the largest oil exporter's output was thus reduced by half for an indefinite period of time. Secondly, everybody's attention was mainly focused on the benefits derived by the oil exporters, including Russia, from the geopolitical risk premium into the price of oil, as well as from the discussion of and speculations as to whether or not oil prices would exceed $ 100 per barrel in the event of a further rise in tensions in the Persian Gulf region.

However, as far as the crude suppliers are concerned, the case in point is not some abstract risk premium, but the very real strategic risks faced by them. Geopolitical threats taking place on such a massive scale, let alone the possibility of a significant rise in prices, can become a catalyst for a very important process already manifesting itself in the global economy, namely a considerable reduction in the share of hydrocarbon raw materials. While at present this process is predominantly determined by considerations that have to do with environment protection (which were sufficient for a 'leftward' shift in the forecasts as to the onset of the shrinkage of demand for oil, the timing of it being shifted from the 2040s to the 2030s), the arbitrary price of $ 100 per barrel and the attacks on the oil infrastructure will maximally boost the trend towards using alternative energy sources, as well as a switchover to oil deposits other than those in the Near East (beside the USA, this is primarily Canada). As a result, oil prices will plunge to an incomparably lower level, and the period of a global downfall in the demand for oil will become much nearer.

A similar process (with rather similar details) involving similar participants, similar algorithms and a similar global effect, including the disintegration of the Soviet Union and the disappearance of the Eastern bloc, was taking place in the 1980s.

By no means all the effects observed at that time can be reproduced at present, but it should be said that the current emphasis on obtaining short-term profits is obviously divorced from the existing trends associated with notably intensified strategic risks.

Having again raised its benchmark interest rate, the Federal Reserve System explains its recent decision to this effect by the existence of 'external risks'. All other things being equal, this decision can be considered to be positive, first of all, for the developing economies, although many developing countries, including Russia, associate external risks with none other than the USA.

'The stability/growth balance in the Russian economy, as before, will be strongly tipped towards stability'.

When analyzing the medium-term forecast issued by the RF Ministry of Economic Development, our experts point not only to external, but also to internal risks as the main factor responsible for the downward adjustment of many of the previously set targets. Having taken into account the weaker than expected results of H1 2019, the Ministry downgraded its own forecasts for the entire current year (the external trade turnover, expenditures on final consumption, investment), but retained its forecast that Russia's GDP growth rate would stand at about 1.3%, while cutting its target for GDP growth in 2020 (from 2% to 1.7%).

The experts also believes that the debt service ratio on retail loans is notably growing, which is fraught with increasing debt non-payments. Moreover, **a considerable decline in consumer loan financing, which is likely to happen in 2020, will have a negative impact on consumer demand**.

Alongside declining external demand, even the downgraded forecast issued by the RF Ministry of Economic Development appears to be rather doubtful. And if the external conditions turn out to be more favorable, the authors believes that the combination of rigid monetary and budgetary policies will keep the stability/growth balance strongly tipped towards stability.

'The short-term risks to budget sustainability are minimal, but in view of the very low cash budgets of some of the ongoing federal projects (implemented as part of national projects), there exists some risks that the planned targets for the current year might not be met'.

Having analyzed the results of implementing the RF federal budget in H1 2019, our experts emphasize that **the revenue increase by 0.4 p.p. of GDP (hereinafter relative to the same period of the previous year) was predominantly caused by a significant rise in the VAT rate**. Due to the simultaneous cut in the expenditure side of the federal budget by 0.9 p.p. of GDP, the federal budget surplus thus increased by yet another 1.3 p.p. of GDP, as a result of which it reached 3.3% of GDP. The non-oil-and-gas deficit of the federal budget also experienced a notable drop.

'Although the consolidated budget revenue of RF subjects continues to demonstrate growth, its rate is on decline'.

While estimating the situation with regard to regional budgets over January-July 2019, our experts note that although the **consolidated budget revenue of RF subjects has continued to demonstrate growth (by 12.6% in nominal terms on the corresponding period of 2018), its rate has been declining**. In their opinion, this movement pattern correlates with the low economic growth rate across the economy: the revenue dynamics could not evolve independently of the latter for a sufficiently long period of time. Meanwhile, **the differentiation between 'rich' and 'poor' regions, in terms of their revenues, is becoming increasingly broad.**

The mean debt burden of RF subjects has been shrinking (21.5% of regions' revenue), but it is approximately twice higher for 'poorer' regions (44.8%). A high debt burden in excess of 100% of revenue is still being shouldered only by Mordovia, whereas 3 years ago such a situation was observed in 9 RF subjects.

'It is feasible to gear the fertility support measures targeting families with multiple children according to regional specificities, and to develop new approaches to promoting the frequency of third and subsequent births'.

An analysis of the year-end data for 2018 resulted in our experts' conclusion that **the birth rate continues to decline, while the number of families with mul-**

tiple children continues to climb. The number of regions where the increasing incidence of births of third and subsequent children coincided with declining numbers of births of first and second children has increased. This trend implies that the number of families with many children (and the share of children born in such families in the total number of births) will be on the rise.

The experts note that a high incidence of multiple children families is a typical feature of regions with low socioeconomic indices. However, judging by the dynamics observed over recent years, among the leaders in the number of multiple children families we can now see regions with a variety of economic parameters. Consequently, **the government support measures designed to promote the incidence of third and subsequent births cannot be uniform, and so should be geared according to regional specificities**.

1. ECONOMIC GROWTH: THE FORECASTS ARE DOWNGRADED

A. Vedev

The medium-term forecast released by the RF Ministry of Economic Development has been altered by downgrading the economic indices compared with its April version. However, the growth rate of real GDP for 2019 has been left unchanged (1.3%), and its index for the next year has been decreased from 2% to 1.7%. As far as the budgetary process is concerned, the GDP indices in nominal terms have likewise been reduced, thus translating into expectable revenue cuts. In this connection, it would also be reasonable to expect a shrinkage of expenditure, to be followed by a shrinkage of domestic demand.

In view of the bleak results of H1 2019, the RF Ministry of Economic Development revised its key indices for the current year. Some social indicators for 2019 were adjusted, and first of all, the growth of real disposable personal income was reduced from 1.0% to a negligible 0.1%. The very weak domestic demand (as estimated by the Ministry) determined a plunge of retail turnover from 1.6% to 1.3% in 2019, and from 2.1% to 0.6% in 2020. The weakness of aggregate demand, according to the RF Ministry of Economic Development, was the upshot of a simultaneous toughening of the budgetary and monetary policies. As for budget expenditure, its actual execution as of 1 July amounted to only 42.6% of its planned target, which represents the worst result since 2012. A tougher budgetary policy not only has not been offset by monetary policy adjustments, but also translated into a negative effect on aggregate demand.

In September and December 2018, the Bank of Russia twice raised its key rate, to 7.75%, thus seriously upgrading the medium-term market expectations as to its further movement pattern. One of the reasons behind that step was the raise of the basic VAT rate from 1 January 2019, followed by a compensatory raise of the key rate as a ‘preventive’ anti-inflationary measure. However, the fears concerning a secondary effect of the raised VAT rate on inflation proved to be ungrounded.

The growth rate of final consumption expenditure in 2019 was downwardly adjusted to 1.0% vs. 1.4% (the estimate for April 2019). Meanwhile, its positive growth rate has been sustained only by consumer loans.

The growth rate of consumer lending (22–24% per annum) is significantly higher than that of nominal personal income (4–5%). This means that the household expenditure on loan servicing is increasing at a notable pace. This index is very important, because it may trigger an increase of non-payments (bad debt). The RF Ministry of Economic Development expects a sharp plunge of the growth rate of consumer lending. The Ministry notes that at the same time, the high growth rate of debt in the retail lending segment (about 2% of GDP) is unstable, and results in economic growth volatility in the medium term. Thus, after its input of 2% in consumer demand in 2018, as early as 2020 the input index may become negative, at the level of 6%, in case the negative scenario should be realized. This statement reflects the expectation, on the part of the RF government’s economic bloc, that the role of the Russian banking system in domestic demand growth may become less prominent.

1. Economic Growth: The Forecasts Are Downgraded

First of all, according to the latest version of the RF Ministry of Economic Development's forecast, we may expect a decline of the growth rate of consumer lending from 24% to 4% (year-on-year) as early as next year. While the input of consumer lending to domestic final demand growth in 2019, as estimated by the Ministry, will amount to RUB 1.7 trillion, in 2020 it will shrink to a mere RUB 0.4 trillion. As a result, consumer demand can be expected to sharply decline to 0.6%. In view of the expected plunge of external demand (in response to declining prices of oil and global economic slowdown), the GDP growth rate can hardly be expected to stand at 1.7% in 2020. Beside a slower growth rate of consumer lending, the RF Ministry of Economic Development expects the interest rates to decline at a faster rate, alongside a revival in the corporate lending segment. Given that that over the past two decades, the relative share of bank loans as a source of financing for capital investment has never been above 10% of total financing volume, and that the private sector's activity is rather low due to the shrinking external and domestic demand coupled with the traditional risks associated with doing business, it is unlikely to expect a faster growth of lending to non-financial enterprises.

Over January-July, investment in fixed capital gained only 0.6%, and so its year-end growth index can be expected to be at 2.0% instead of the expected 3.1%. A relevant factor influencing the worsening movement pattern of the investment index was the shrinkage of budget investment expenditure (11.4% in January-June, year-on-year); the RF Ministry of Economic Development estimates its negative input in the movement pattern of investment in fixed capital over the course of H1 2019 to be 0.9 p.p.

Instead of investment growth by 7% in 2020, it is expected, nevertheless, to stay at a high rate of 5%; in the medium term (until 2024), the growth rate of investment will hover within the range of 5.3–6.5%. This is an ambitious plan, which can be implemented on condition of a dramatic budgetary and monetary policy easing. Any revival of private investment activity in the nearest future is unlikely, due both to the low domestic demand and a possibility of worsening external situation.

It should be additionally noted that from the point of view of prospects for economic growth, the structure of investment has also been deteriorating. The most notable downfall during the crisis was demonstrated by the volume of investment in machinery and equipment (by 30%, followed by a rise by only 17%), while the movement patterns of investment in buildings and structures, as well as of other types of investment, were more stable. Importantly, investment in machinery and equipment critically depends on the ruble's forex movement pattern, and is least of all dependent on import substitution.

A rigid budgetary rule predetermines the ruble's depreciation in a situation where oil prices remain stably high. Evidently, a weak ruble provides Russian companies with no additional advantages. The target for oil and gas exports have been drastically adjusted, from growth by 6.2% to decline by 2.3%. Similarly, the targets for imports have been downgraded, from growth by 2.3% to decline by 0.4%. It should be reminded that investment goods take up 30% of imports, while intermediate goods (spare parts) account for 40%.

Today, it is obvious that the stability/growth balance has been strongly tipped towards stability.

2. THE FEDERAL BUDGET: VAT SHARE IN TAX REVENUES UP

T. Tischenko, S. Belev

The federal budget revenues by H1 2019-end moved up by 0.4 p.p. of GDP against the same period of the previous year, first of all, due to increased VAT rate from 18 to 20%. Simultaneously, expenditures have contracted by 0.9 p.p. of GDP. As a result, the federal budget was executed with surplus amounting to 3.3% of GDP. However, these results do not give occasion for optimism especially from the point of view of risks for the revenues part of the budget. For example, oil prices can go down, excises are not the significant source of the budget replenishment and the VAT rate increase has adversely affected domestic consumption and imports.

One should expect significant growth of expenditure in H2 as long as cash execution especially of certain national projects was lagging behind during H1. Consequently, the federal budget surplus can decline.

According to recent reports released by the Federal Treasury, the federal budget revenues have increased by Rb 932.2 bn to 18.6% of GDP in H1 2019 (Table 1) compared the same period of the previous year. Oil and gas revenues have gone up by Rb 186.9 bn however against GDP they have contracted by 0.3 p.p. The share of oil and gas component in the structure of the federal budget revenues for January-June constituted 43.1% under the average Urals price of 65.63 USD/bbl[1] against 45.6% during the corresponding period of 2018 at Urals price of 68.83 USD/bbl.

Growth of the non-oil and gas component for the period under review amounted to Rb 736.3 bn or 0.7 p.p. of GDP. Actually, execution of the revenue part for H1 constituted 47.3% of the forecast annual volume (for H1 2018 – 44.3%) of which oil and gas revenues – 50%and non-oil and gas revenues – 45.5% against 43.6 and 44.9% for January-June of the previous year.

Expenditure against 6 months of 2018 in absolute terms increased by Rb 175.1 bn and in share of GDP decreased by 0.9 p.p. of GDP under comparable levels of cash execution of the budget (42.2 against 45.9%).

The federal budget surplus at the end of H1 2019 amounted to 3.3% of GDP (Rb 1,695.8 bn) up 1.3 p.p. or Rb 748.1 bn more than the surplus balance of the budget execution for the same period of 2018. One should separately note the ongoing contraction of non-oil and gas deficit from 6.3% of GDP to 4.7% of GDP or by Rb 561.1 bn.

During January-June 2019, tax revenues (*Table 2*) moved up by Rb 805.5 bn against H1 2018. The share of tax revenues in the overall volume of the federal budget collection amounted to 92.4% against 93.0% in the previous period. Growth of tax proceeds was due to mainly receipts from MET and VAT which demonstrated increase by Rb 462.7 bn and Rb 500.7 bn, respectively against the same period of 2018 respectively.

Growth of proceeds from MET is due to the effect that the ruble devaluation was stronger (in H1 2019 on the average Rb 65 to 1 USD, in H1 2018 it averaged

1 According to Explanatory note to the draft of the 2019 federal budget and for the planned period of 2020 and 2021, the average Urals annual price in 2019 was forecast at 63.4 USD/bbl.

2. The Federal Budget: VAT share in tax revenues up

Table 1

Main parameters of the federal budget in H1 2018–2019

Index	H1 2018			H1 2019			Change, H1 2019 / H1 2018	
	Rb bn	% GDP	in % of annual volume	Rb bn	% GDP	in % of planned annual volume**	Rb bn	p.p. of GDP
Revenue, including:	8626.7	18.2	44.3	9549.9	18.6	47.3	923.2	0.4
- oil and gas	3935.0	8.3	43.6	4121.9	8.0	50.0	186.9	-0.3
-non-oil and gas	4691.7	9.9	44.9	5428.0	10.6	45.5	736.3	0.7
Expenditure, including:	7679.0	16.2	45.9	7854.1	15.3	42.2	175.1	-0.9
interest	383.5	0.8	47.6	356.4	0.7	41.8	-27.1	-0.1
Non-interest	7295.5	15.4	45.8	7497.7	14.6	42.1	202.2	-0.8
Surplus/Deficit	947.7	2.0		1695.8	3.3		748.1	1.3
Non-oil and gas	-2987.3	-6.3		-2126.1	-4.7		561.2	1.6
*For reference: GDP (in current prices, Rb bn) **	*47 262*			*51 200*				

*Preliminary estimates for H1 2019
** With amendments according to the Federal Law of 18 July 2019, No. 175-FZ
Sources: RF Finance Ministry, Rosstat, Federal Treasury, own calculations.

Table 2

Proceeds from the main taxes to the federal budget in H1 2018–2019

Index	H1 2018			H1 2019			Change	
	Rb bn	% of GDP	in % of actual annual volume	Rb bn	% of GDP	in % of forecast annual volume	Rb bn	p.p. of GDP
Total tax revenues. including:	8019.8	17.0		8825.3	17.2		805.5	0.2
Profits tax	457.7	1.0	46.0	585.8	1.1	51.9	128.1	0.1
VAT on products sold in RF territory	1752.6	3.7	49.0	2059.6	4.0	50.0	307.0	0.3
VAT on products imported into RF territory	1105.5	2.3	45.2	1299.2	2.5	44.7	193.7	0.2
Excises on goods produced in RF territory, including:	415.9	0.9	48.3	205.0	0.4	20.9	-210.9	-0.5
excises on crude oil for refining	0.0	0.0		-175.1	-0.3		-175.1	-0.3
excises on goods imported into RF territory	41.6	0.08	43.3	40.0	0.08	41.2	-1.6	0.0
Mineral Extraction Tax	2679.2	5.7	44.2	3141.9	6.1	51.4	462.7	0.4
Revenues from foreign economic activity	1567.3	3.3	42.2	1493.8	2.9	49.9	-73.5	-0.4

Sources: Federal Treasury (recent reports), own calculations.

Rb 59 to 1 USD) (*Fig. 1*) although the average crude oil price was lower by 3 USD/bbl. In 2019, the underlying value of the MET rate remained at Rb 340 per ton, the ruble exchange rate dynamic was highly influential in the change of the final rate value. Besides, the crude oil prices began falling from June 2019. If the oil prices stabilize at the lower levels, one should expect decline of proceeds from MET in H2 compared to H2 2018.

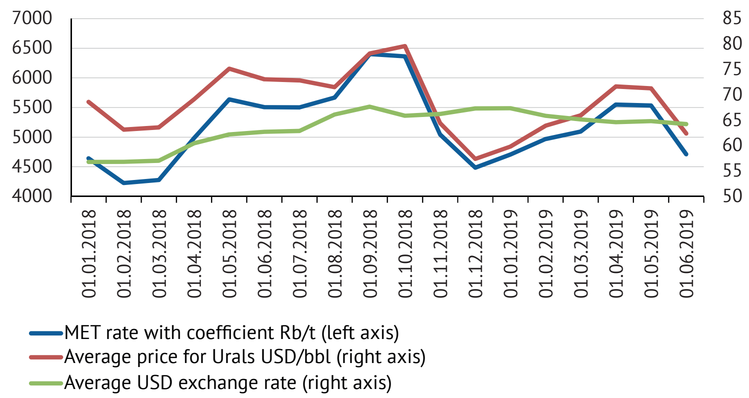

Fig. 1. MET rate, USD rate, Urals price

Sources: FTS, own calculations.

The effects of the general VAT[1] rate increase from 18% to 20% as of January 2019 were released only in Q2 due to the tax payment procedure[2]. The VAT proceeds for Q1 2019 were originated from the taxable transactions made in Q4 2018 when the effective general VAT rate stood at 18%. The VAT payments for Q2 2019 were made at the VAT rate of 20%. Meanwhile, the VAT proceeds could have been affected by a change in consumers' behavior who at the prospect of the general VAT rate rise as of January 2019 and related thereto price growth could carry part of their spending to late 2018. The turnover of food products (to a lesser degree affected by the general VAT rate increase), and non-food goods constituted in January 2019 around 75% of the turnover registered in December 2018[3].

Regarding retail turnover of food and non-food products, January 2018 compared to December 2017 saw the same 75%[4]. These data demonstrate that there was no significant tax base carry back between January 2019 and December 2018. Partly this was due to anticipated price growth observed in H2 2018 which in its course somewhat hampered consumer demand.

Damped although still positive tax base dynamic expressed in constant prices together with increased general VAT tax rate ensured additional receipts to the federal budget from VAT on goods sold on the territory of the country to the tune of Rb 300 bn.

As of H1-end 2019, proceeds to the revenues part of the federal budget from VAT on goods imported to the RF territory have also increased adding a little under Rb 200 bn or 0.2 p.p. of GDP against H1 of the previous year. Imports in USD terms have moved up insignificantly and the USD exchange rate was seen a little bit higher compared to the same period of the previous year which led to the growth of the VAT tax base regarding imports. However, imports growth rates tuned out to be below the level of the same period of the previous period.

Thus, increase of the general VAT rate was the main reason for non-oil and gas revenues growth into the federal budget. Presumably, as of year-end the share of VAT in the tax revenues of the federal budget will increase from 35% to 40%.

Receipts growth from the profits tax was due to the fact that according to the data released by Rosstat, income of the profitable organizations moved up in Q1 2019 by around 40% compared to Q1 2018.

Contraction of proceeds into the federal budget in January-June of the current year compared to the same period of the previous year is registered on the foreign economic activity by 0.4 p.p. or by Rb 73.5 bn under comparable levels of cash execution of the budget as well as on domestic excises which volume decreased by 0.5 p.p. of GDP or Rb 210.9 bn. This is the outcome of the tax maneuver implementation in the oil and gas sector. Moreover, its implementation envisages introduction of the so called 'negative excise'. Its aim is to check fuel prices fueled by the increase of general MET rates by way of actual subsidizing of crude oil refining via reduced excise on petroleum products under fulfillment of certain conditions. Without the effect of the 'negative excise' which led to the contraction of proceeds by 0.3 p.p. of GDP or Rb 175.1 bn, revenues on domestic excises would have amounted to Rb 380 bn or 0.7 p.p.

1 Preferential VAT rates (for instance, 10% on certain types of food stuffs, drugs, and baby goods, etc.) have stood unchanged.
2 According to p. 1 Art 174 of the RF TC VAT payment to the budget is done on a monthly basis before 25th during the quarter following the reporting period, by equal instalments of the tax amount calculated on the tax base for the previous quarter.
3 Adjusted to food and non-food inflation.
4 Adjusted to food and non-food inflation.

Table 3

Federal budget expenditure in H1 2018–2019

	H1 2018			H1 2019			Change	
	Rb bn	% of GDP	in % of real annual volume	Rb bn	% of GDP	Cash execution, %	Rb bn	p.p. of GDP
Total expenditure, including:	7679.0	16.2	45.9	7854.1	15.3	42.2	175.1	-0.9
Nationwide issues	530.6	1.1	42.2	532.1	1.0	33.1	1.5	-0.1
National defense	1434.5	3.0	50.7	1354.3	2.6	42.6	-80.2	-0.4
National security and law-enforcement	853.0	1.8	43.3	867.1	1.7	38.6	14.1	-0.1
National economy	823.6	1.7	34.3	828.7	1.6	29.7	5.1	-0.1
Housing and utilities	77.1	0.2	51.8	118.3	0.2	50.2	41.2	0.0
Environment protection	66.1	0.1	57.0	107.2	0.2	57.4	41.1	0.1
Nationwide issues	402.0	0.9	55.6	400.5	0.8	45.7	-1.5	-0.1
Culture and cinematography	42.1	0.1	44.4	41.6	0.1	29.6	-0.5	0.0
Health care	225.2	0.5	41.9	312.6	0.6	44.0	87.4	0.1
Social policy	2337.8	5.0	51.0	2447.7	4.8	50.4	109.9	-0.2
Physical culture and sport	23.7	0.1	37.1	19.5	0.0	27.6	-4.2	0.1
Mass media	35.6	0.1	40.2	34.2	0.1	40.4	-1.4	0.0
Government debt servicing	383.5	0.8	47.6	356.4	0.7	41.8	-27.1	-0.1
Inter-budgetary transfers	444.0	0.9	40.5	434.0	0.8	44.9	-10	-0.1

Sources: Federal Treasury, own calculations.

of GDP and the cash execution would have constituted 38.8% against the real value (taking into the consideration negative excise 20.9%).

It should be noted, proceeds from excises on tobacco products and on gasoline decreased by another 0.1 p.p. of GDP. The federal budget revenues on import excises have not changed relative GDP and came to 0.08% of GDP.

Regarding classification of the federal budget expenditure for H1 2019 against corresponding period of 2018 (*Table 3*) the following changes are observed:

- decrease of spending in shares of GDP on national defense and social policy by 0.4 and 0.2 p.p. of GDP respectively, and regarding each of the sections "Nationwide issues", "National defense and law enforcement", "National economy", "Education", "National debt servicing" and "Inter-budgetary transfers."
- increased spending by 0.1 p.p. of GDP on "Environment protection", "Health care", and Physical culture and sports";
- the rest of the sections saw no changes of spending in shares of GDP.

Relatively low level of cash execution of the budget both for the first half of the current year and for the previous one is registered on sections "National economy" (29.7%), "Culture and cinematography" (29.6%), and "Physical culture and sports" (27.6%).

Regarding the federal projects being implemented in the framework of the national projects the real budget execution for January-June 2019 amounted to Rb 558.8 bn or 32.4% of the approved spending including adjustments (Rb 1,723.0 bn). With reference to a number of federal projects there were practically no spending: project "Road traffic safety" saw solely cash execution at 1.8%, "Digital state management" – 4.4%, and "Each child success" – 6.7%. Exceptionally low cash execution of the federal projects threatens the achievement of planned goals for the current year.

On the whole, the risks of the budget sustainability in the short term perspective are minimal. Meanwhile, it is doubtful that the achieved level of non-oil and gas deficit can be maintained on the threshold of higher level of cash execution of expenditures in H2 of the year.

3. REGIONAL BUDGETS FOR JANUARY-JULY 2019: GROWTH OF REVENUES SHIFTS INTO LOW GEAR

A. Deryugin

Fast increase of regional consolidated budgets amid low economic growth rates could stay for long. And such turning points was not slow in coming: following 22.6% growth as of first four months of 2019, increase of tax and non-tax regional revenues registered in May-July came to barely 1.4% and most likely will remain low till the end of the year.Despite the shift of priorities in the state budgetary policy the structure of the regional budgets expenditures for the first 7 months of 2019 does not practically change from the corresponding period of 2017. In its turn, deceleration of regional growth rates through the year-end will exercise downward pressure on the growth of their expenditure obligations.

Solid performance of the regional budgets balance facilitated further contraction of the average debt burden of RF subjects which constituted 21.5% of the regional revenues volume returning to the 2009–2012 level. Nevertheless, average and low income regions report twice as high debt burden.

Revenues

As of 7 months-end of 2019, total volume of the consolidated budgets revenues of the RF subjects against the same period of 2018 moved up 12.6% which is above the inflation rates for the same period.

Main sources of revenues were: corporate income tax, which registered 20.3% receipts growth (this was due to income growth in spheres outside of extraction of fuel and energy resources, and, first of all, trade, transportation, power sector, construction, and real estate transactions); excises (20.0%); taxes of total income (14.4%).

Somewhat slower increase was posted by interbudgetary transfers from other budgets (by 12.4%), non-tax revenues (by 11.1%), PIT (by 9.1%). Tax on assets of the organizations came to 96.5% against the same period of 2018 which was due mainly to the exemption of the movable property from early 2019 from corporate income tax.

Eighty-one subjects of the Russian Federation saw consolidated budgets revenues for 7 months of 2019 to exceed the level of the corresponding period of the previous year. Negative revenue growth rates posted by Kaluga region (99.7% of the last year level), Republic of Khakassia (89.3%), and Republic of Sakha (99.7%) was owing to high income growth rates posted for 7 months of 2018. Solely Republic of Ingushetia (93.9%) demonstrates low growth rates of the budget revenues for the third year running.

Income inequality between high and low income regions has been observed for the third consecutive year. For example, growth rates of tax and non-tax revenues of the consolidated budgets of high income (rich) subjects (13 subjects not getting leveling subsidies in 2019), average income (41 subjects), and low income (poor) subjects (31) over 7 months of 2019 relative to the corresponding period of 2018 constituted 114.0%, 111.0%, and 107.2% respectively. This trend demonstrates that the incentives system included in agreements on untargeted financial assistance to regions does not result in the reduction of special economic inequality.

3. Regional budgets for January-July 2019: growth of revenues shifts into low gear

In the context of low growth rates of the Russian economy as well as tight budgetary policy, the indexes of regional budgets execution from the start of the year looked more than optimistic. Obviously, amid the absence of macroeconomic reasons for growth of the revenue base such situation could not have lasted long. High growth rates of budget revenues seen for 7 months of 2019 were prevailing for the start of the year. As of first 4 months-end growth amounted to 22.6% and during the following 3 months – barely 1.4%. Proceeding from this trend one can expect in the nearest future termination of the period ongoing from early 2018 when growth of regional budget revenues significantly exceeded economic growth.

Expenditures

Increase of expenditures of the consolidated budgets of RF subjects for 7 months of 2019 against the same period of 2018 came to 10.9% which is above the inflation level and somewhat below the budget revenues growth rtes.

Expenditure increase was observed in 80 regions and in 70 of them expenditure growth exceeded inflation for the same period.

Expenditure growth was the highest in Sebastopol (141.5% against last year) and Chukotka Autonomous Region (136.0%), and those who demonstrated expenditure reduction most were Republic of Mordovia (80.3%) striving to reduce its huge government debt, Republic of Khakassia (93.8%), and Ingushetia (97.3%) which faced low growth rates of current revenues as well as Republic of Altai (97.4%) whose indexes are due to high base posted last year.

Reduction of government debt was positively reflected on the expenses for its service which led to their share in the expenditure structure to drop as of 7 months-end of 2019 to 0.9% hitting the seven months minimum for the given period.

Table 1

Functional structure and dynamics of expenditure of the consolidated budgets of RF subjects, %

	Expenditure structure			Growth	
	2017	2018	2019	2019/2017	2019/2018
Nationwide issues	6.2	6.4	6.3	23.7	10.2
National security and law-enforcement	1.0	1.1	1.0	26.9	7.7
National economy, including:	17.8	17.7	17.7	21.3	11.3
Agriculture and fisheries	2.6	2.2	2.0	-7.0	1.6
Transportation	4.5	4.5	4.1	10.4	1.0
Road facilities (Road funds)	6.7	6.8	6.9	25.4	12.4
Other issues in the sphere of national economy	4.0	4.2	4.7	45.6	25.5
Housing and utilities	8.4	7.8	8.5	22.7	20.2
Environment protection	0.2	0.3	0.3	46.5	-1.1
Education, including:	27.8	28.3	28.0	22.5	9.6
Pre-school education	7.4	7.6	7.5	23.4	10.0
General education	13.7	13.8	13.9	23.1	10.9
Secondary vocational education	2.2	2.2	2.2	20.7	8.4
Other issues in the sphere of education	4.4	4.6	4.4	20.1	5.7
Culture and cinematography	3.6	3.9	3.8	26.3	7.2
Health care	7.8	8.1	8.1	26.8	10.5
Social policy	22.8	22.6	22.6	20.5	10.9
Physical culture and sport	2.4	2.3	2.3	15.8	10.5
Mass media	0.5	0.4	0.5	30.2	19.9
Government and municipal debt servicing	1.5	1.1	0.9	-23.8	-5.6
Expenditures, total	100.0	100.0	100.0	21.7	10.9

Source: calculated on data released by the Federal Treasury.

Somewhat dropped (1.1%) expenses on environment protection which was due to their high level seen over 7 months of 2018 (*Table 1*). Expenses on housing and utilities (up 20.2%) and on mass media (up 19.9%). On the whole, despite new priorities in the government budget policy formulated in the Presidential Decree of 5th May 2018 No. 204 "On National Goals and Strategic Tasks for the Development of the Russian Federation for the period through 2024"as well as implementation of national projects which led to a shift in the structure of financial assistance provided to the regions (increase of targeted component), the structure of expenditure so far barely differs from the expenditure structure for 7 months of 2017.

Slowdown of growth rates of subjects' revenues through the end of 2019 will affect the dynamics of their expenditures. For example, in May-July expenditures also demonstrated growth slowdown: 8.9% after 12.7% as of first 4 months-end. Against the backdrop of strong slowdown of tax and non-tax revenues growth, regions will further reduce spending growth rates trying to maintain the budgets' balance.

Balance and government debt

Improvement of the regional fiscal balance boosted the decrease of their government debt which as of the July-end amounted to Rb 2.0 trillion falling by 8.6% from the start of the year or by 6.6% from July 2018.

From July 2018 to July 2019 government debt decreased in 67 RF subjects and moved up in 18 RF subjects. Since the turn of the year government debt fell most in Krasnodar Krai (Rb 29.6 bn), Nizhniy Novgorod (Rb 12.2 bn), and Sverdlovsk region (Rb 12.0 bn) and increased most in Sakha Republic (Rb 7.0 bn), Khabarovsk Krai (Rb 3.0 bn), and Kaluga region (Rb 1.1 bn).

As a result, the average debt burden of the subjects of the Russian Federation decreased to 21.5%[1] back to the level of 2009–2012 (*Fig. 1*). Nevertheless, this was to a large extent due to decrease of debt burden posted by high income subjects which anyway was not large (8.7%), meanwhile medium and low income regions it remains significantly higher – 36.5% and 44.8% respectively. High debt burden exceeding 100% of tax and non-tax revenues remained solely in the Republic of Mordovia (222.6%) meanwhile three years ago there were 9 such subjects. At the end of July 2019, the structure of government debt mainly consisted of budget credits which share came to 49.6% of the total government debt somewhat decreasing in comparison with July 2018 (51.7%). Correspondingly, the share of more expensive in servicing bonds (26.6%) and credits originated by credit organizations (20.4%) went up. In the context of refusal to issue new budget loans as well as restructuring of debt on previously issued ones the process of smooth phasing out of budget loans by the commercial ones will be observed in the future.

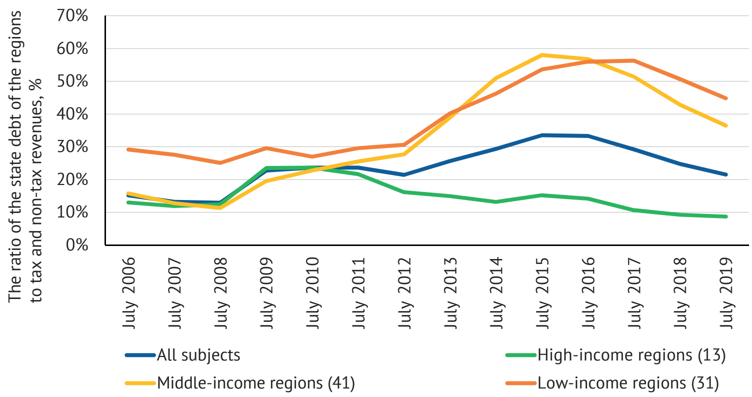

Fig. 1. Debt burden of the RF subjects with various level of fiscal capacity, %

Sources: own calculations based on data released by Finance Ministry and Federal Treasury.

1 Determined as a ratio of government debt volume to the volume of tax and non-tax budget revenues of a subject of the Russian Federation.

4. REPRODUCTIVE ACTIVITY DYNAMICS IN REGIONS: GROWTH IN THE RATE OF LARGE FAMILIES AMID THE DECLINE IN THE BIRTH RATE

K. Kazenin

The final data for 2018 point simultaneously to the continued decline in the birth rate and growth in families having many children: the number of regions where the rate of birth of the third child and any subsequent one soared amid the decline in the birth rate of the first and second child has largely increased. The immediate consequence of this trend is growth in the number of families having many children and the share of children born in such families.

A high rate of large families is typical of the regions with low socioeconomic indices. For this reason, the state support of large families is becoming a particularly relevant objective. However, in terms of the dynamics of families having many children, the leader-regions as regards growth in the number of large families vary by economic parameters. Most of them are situated in the following three geographic zones: the Far East, the North-West and the Central Federal District.

The noticeable differences between constituent entities of the Russian Federation as regards observable growth in families having many children raise an issue about the expediency of regional birth rate support measures aimed at promoting the birth rate of the third child and any subsequent one. This issue has no common solution and requires the regional specifics to be taken into account.

The number of regions with high growth rates of large families has increased

According to the data for 2018, with the overall decline in the birth rate observed, the number of regions where the birth rate of the third child and any subsequent one is growing and, consequently, large families are becoming a widespread phenomenon has largely increased.

Shown in *Fig. 1* are the dynamics of the average regional ratio of the total birth rate (RTBR) across the federal districts in the 2012–2018 period[1], while presented in *Fig. 2–4* are the dynamics of this index only as regards the birth of the first child (RTBR1), the second child (RTBR) and the third child and any subsequent one (RTBR3+), respectively[2]. It is evident that the decline in the birth rate of the first child was of a constant nature across all the federal regions in the specified period, while, the birth rate of the second child, which was on the rise till 2015 included, started to go down. In 2018, its decrease on the previous year across the RF regions amounted on average to 3.46% (11.9% in 2017). In 2018, out of 85 regions growth in the birth rate of the second child was observed only in 9 regions (including three regions where it was less than 1%). Generally, the decline in the birth rate of the second child has remained for a second consecutive year to be the prevailing trend across the regions.

However, the trend of the birth rate of the third child and any subsequent one was quite the opposite of the general trend: in 2018 it increased across all

1 The selection of the time length is justified by the fact that from 2012 in most RF regions the statistics on different birth orders, rather than the total number of births alone started to be developed (in 2011 and 2012 such data were available in respect of 74 regions and 80 regions, respectively, while from 2015, in respect of all the regions of the Russian Federation).

2 The data on the birth rate of children of different birth orders in 2018. See: K.I. Kazenin and A.I. Raksha. The Dynamics of the Birth Rate across the RF Regions in 2018: The Main Trends // Russia's Economic Development. 2018. No. 8. P. 71–78.

the federal districts with growth observed in a larger number of regions than in 2017. In 2018, the average change in the birth rate of the third child and any subsequent one across the regions amounted to +2.77% against -0.61% in 2017; the number of regions where the birth rate of the third child and any subsequent one rose in 2018 as compared to the previous year was equal to 64 regions against 35 regions in 2017.

It is not the largest increase in the period under review: in 2014 growth in RTBR+3 across the regions amounted on average to 7.77% on the previous year, while the number of regions where it declined was equal to 4 out of 82. However, at that time the birth rate of children of "higher" orders used to grow across the regions simultaneously with growth in the birth rate of the second child and not amid the reduction of the latter as it was observed in 2018. Thus, the final data on the regional birth rate in 2018 point to the consolidation of the two oppositely directed trends: the decline in the birth rate of the first and second child and growth in the birth rate of the third child and any subsequent one.

The absolute rate of families having many children is higher in economically depressed regions

The analysis of correlation between RTBR3+ and different socioeconomic parameters of constituent entities of the Russian Federation makes it feasible to assess factors which the level of the birth rate of the third child and any subsequent one across the regions is related with. Among the parameters reflecting the economic well-being of households in regions, significant positive correlation of RTBR3+ with the share of people whose income is below the minimum subsistence level, as well as the negative correlation with the share of regions' gainfully employed people at the age of 15–72 years old and with the number of sq. meters of floorspace per one resident of the region have been found[1]. Also, a significant correlation with the share of the rural population in a region, which factor is consistent with the general expectation of a higher birth rate in rural areas was established.

The established correlations with the socioeconomic parameters suggest that the high absolute rate of large families is currently more typical of RF regions with a quite unfavorable socioeconomic situation, however, this pattern is not a new one for 2018; it has been constantly observed throughout the past decade. It means that large families are more widespread in regions where, with households' economic situation taken into account, the state support of large families is becoming of crucial importance.

According to the research into the birth rate in Russia in the past decade, the differences in reproductive activities across the regions after the start of payment of the maternity capital in 2007 were largely related with the differences in economic conditions which influenced the need in the maternity capital[2]. However, taking into account the fact that most recipients of the maternity capital realize their right to it at the birth of the second child and not subsequent children, it is infeasible to explain in the same way the correlation between the socioeconomic indices and RTBR+3.

1 Taking into account the fact that the birth of a child in a certain year means that the parents made a decision to have a baby in the previous year or in the beginning (Q1) of the current year, the correlations with the previous year's socioeconomic indices were considered.

2 S.V. Zakharov The Regional Diversity of the Birth Rate After 2006 Has Increased // A.G. Vishnevsky The Population of Russia – 2012 (the 20th Annual Demographic Report). Moscow: The Publishing House of the Higher School of Economics. 2014. P. 158–173.

4. Reproductive Activity Dynamics in Regions

Alternative explanations can be based on the fact that in economically depressed constituent entities of the Russian Federation there is a need in measures of support of families with three and more children[1] or it is determined by the specifics of the social and cultural lifestyle pattern under which parents are not expected to make substantial investments in education of their children as in economically more developed regions, so, there are fewer restraints to growth rates of large families.

Growth leaders as regards growth rates of large families: the Far East, the North-West and the Center

It is noteworthy that the economically unfavorable situation never affected decisively growth in RTBR+3 (unlike the absolute level of this index) either in 2018 or in previous years. Specified in *Table 1* are the regions where percentage growth of RTBR in 2018 on 2017, as well as average annual percentage growth of RTBR3+ exceeded the limit of quartile 3 in the past five years. As is easy to see, in the past five years among the growth leaders there have been some regions where the indices of households' social and economic well-being are much higher than the nationwide ones: they include Moscow, St. Petersburg and Khanty-Mansiisk Autonomous Region.

At the same time, this country's different geographic zones are presented unevenly among the growth leaders. Among the leaders (for the past five years), regions of the Far Eastern Federal District, the North-Western Federal District and the Central Federal District are presented more prominently.

Table 1

Regions with growth in RTBR3+ above quartile 3 for 2018 and 2014–2018

Change in RTBR3+ in 2018 on 2017, %		Average annual change in RTBR3+ in 2014–2018, %	
Jewish Autonomous Region	21.37	Magadan Region	25.91
Kalmykia	14.53	Sakhalin Region	11.19
Republic of North Osetia-Alania	12.26	Nenets Autonomous Region	10.89
Republic of Altai	10.06	Jewish Autonomous Region	9.09
Omsk Region	8.68	Khanty-Mansiisk Autonomous Region	8.66
Chukotka Autonomous Region	8.48	Vladimir Region	7.96
Kabardino-Balkaria	7.99	Chukot Autonomous Region	6.53
Samara Region	7.66	Leningrad Region	6.21
Yamalo-Nenets Autonomous Region	7.60	Kaluga Region	6.13
Mordovia	7.53	St. Petersburg	6.07
Kaluga Region	7.46	Murmansk Region	5.92
Saratov Region	7.40	Samara Region	5.89
Vladimir Region	7.29	Moscow Region	5.80
Moscow	7.22	Moscow	5.560
Khabarovsk Territory	7.08	Yamal-Nenets Autonomous Region	5.52
Republic of Crimea	6.88	Tambov Region	5.46
Yaroslavl Region	6.44	Ulyanovsk Region	5.45
Ulyanovsk Region	6.28	Yaroslavl Region	5.24
Stavropol Territory	6.01	Khabarovsk Territory	5.23
Buryatia	5.45	Tula Region	5.19
Udmurtia	5.38	Karelia	4.97

Source: calculations based on the Rosstat's data.

1 For review of these measures, see: V.N. Arkhangelskaya, Yu.V. Zinkina, A.V. Korotayev, S.G. Shulgin. The Modern Trends in the Birth Rate in Russia and the Effect of the State Support Measures // Sociological Research. 2017(3). P. 43–50.

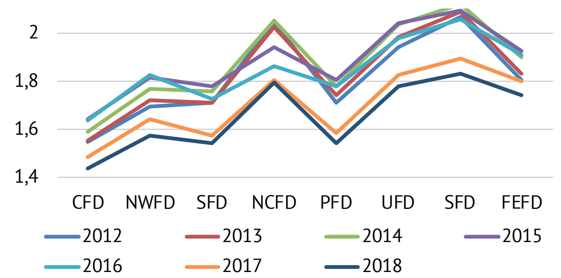

*Fig.1 The average regional values of the ratio of the total birth rate across the federal districts of the Russian Federation, 2012–2018**

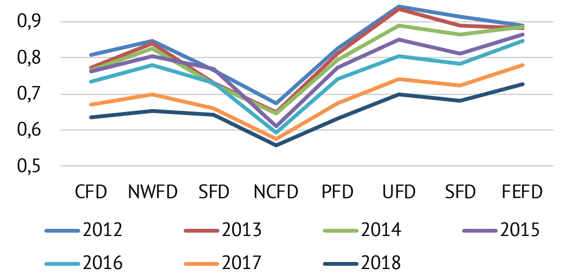

Fig. 2. The average regional values of the ratio of the total birth rate across the federal districts of the Russian Federation as regards the first child, 2012–2018

* Henceforward the Republic of Crimea and the city of Sevastopol have been included in the calculations regarding the Southern Federal District since 2015. In calculations, Buryatia and the Zabaikalye Territory were assigned to the Siberian Federal District (in November 2018 they were transferred into the Far Eastern Federal District).

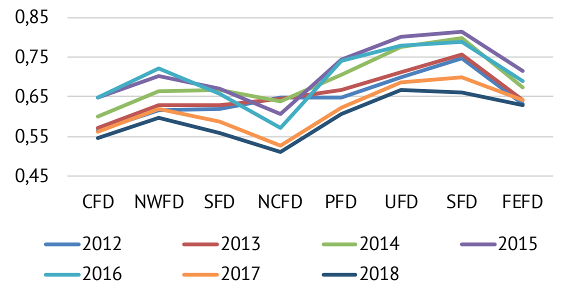

Fig. 3. The average regional values of the ratio of the total birth rate across the federal districts of the Russian Federation as regards the second child, 2012–2018

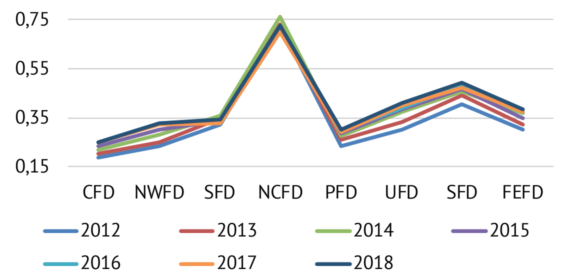

Fig. 4. The average regional values of the ratio of the total birth rate across the federal districts of the Russian Federation as regards the third child and any subsequent one, 2012–2018

The factors which have an effect on the distribution of the regions by the current growth rates of large families need be examined individually. Proceeding from the data on the demographic development of other countries with the general level of the birth rate close to that currently observed in Russia, it is hard to expect the situation – where growth in the rate of birth of the third child and any subsequent one prevails amid the decline in the birth rate of the first and the second child – to be stable.

According to the data of the Human Fertility Database on the birth rates in countries of the Western, Central and Eastern Europe in 1960–2010, none of those countries experienced growth in the birth rate of the third child and any subsequent one amid the decline in the birth rate of the first and second child for more than five years. However, there are no grounds to project automatically this pattern onto Russia.

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