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Monthly Monitoring of Socio- Economic Situation and Perceptions of the Population

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MAIN CONCLUSIONS

- In July 2018, the Federal State Statistics Service (Rosstat) published its first GDP estimate for Q1 2018, according to which the volume of Russia's Q1 2018 GDP in current prices amounted to Rb 22,239.4bn. Its physical volume index was 101.3% relative to the same period of 2017, while the GDP deflator for Q1 2018 was 106.8% relative to prices in Q1 2017.
- According to estimates released by the RF Ministry of Economic Development, in May 2018, GDP grew by 2.1% on the same period of last year. Having taken into account new data on industrial production, the Ministry upgraded its estimates of GDP growth in April to 2.2%. The main contributors to economic growth acceleration in April and May compared with the previous months of 2018 were the processing industry, the transportation industry, and wholesale and retail trade.
- In May 2018, the manufacturing output index for the basic types of economic activity was 103.7% relative to the same period of 2017. The Industrial Production Index for May 2018 was 103.7% relative to May 2017.
- According to data released by the Bank of Russia, in April 2018, Russia's foreign trade turnover (calculated on the basis of the balance of payments methodology) amounted to \$ 57.2bn in actual prices. In April 2018, Russia's foreign trade turnover with far-abroad countries amounted to \$ 50.2bn in current prices, which represented a 30.1% rise on April 2017, while her foreign trade turnover with CIS counties amounted to \$ 7.0bn, or 20.9% higher than in the corresponding month of last year.
- In May 2018, wholesale trade turnover amounted to Rb 6,178bn, which represented a 3.3% rise on May 2017; small entrepreneurship subjects accounted for 39.2% of wholesale turnover. In May 2018, retail trade turnover amounted to Rb 2,507bn, which represented a 2.4% rise on May 2018 (in comparable prices), while in January-May 2018 it amounted to Rb 12,025.1bn, or 2.4% higher than in the corresponding period of last year.
- In May 2018, the combined loan portfolio of the banking sector was 6.7% larger than in May 2017. The combined loan portfolio's components demonstrate diverse behaviors:

the growth-rate of the real sector's debt continued to decrease (a 2.6% growth over the course of 12 months), while the volume of retail loans continued to grow at an accelerated pace, primarily due to the ongoing rise in housing mortgage lending.

- In May 2018, retail trade turnover amounted to Rb 2.5 trillion. Relative to May 2017, it increased by 2.4% in comparable prices. The retail trade turnover of food products, beverages and tobacco products rose by 2.0%, and that of non-food products – by 2.7%. The growth rate of retail trade turnover decreased relative to the previous month primarily due to a drop in the growth rate of the retail trade turnover of non-food products (from 3.8% in April 2018).
- In June 2018, the rate of consumer price inflation increased by 2.3% relative to May, including by 3.7% in the non-food segment and by 4.1% in the services segment. It should be added that for the first time since 2013 the rate of non-food inflation was on the decline (-0.2% relative to the previous month).
- In May 2018, the number of persons in the labor force amounted to 76.1m, which represented an increase by 103 thousand persons relative to May 2017. This increase is attributed to the ongoing growth of the level of economic activity of the population.
- In May 2018, the unemployment rate (according to the ILO methodology) hit its historic low of 4.7%, which represented a 0.4 pp. drop on May 2017. The rate of registered unemployment remained unchanged at 1.0%.
- The pay level of employees, according to preliminary data released by Rosstat, amounted to Rb 43,815, which is 7.3% above the corresponding index for the same period of last year in real terms.
- In May 2018, the growth indices of real disposable money income, real charged wages and salaries, and real allotted pensions amounted to 0.3%, 7.3% and 0.8% respectively. The rise in real disposable money income was hampered by a number of factors, including a decline in real property-related income, entrepreneurial income and secondary employment income, as well as by the increasing share of social contributions in the structure of income.

- In January-May 2018, the share of income spent on goods and services in the structure of personal money income utilization amounted to 77.3%, notably higher than in January-May of 2015-2017.
- In January-May 2018, the share of money income allocated towards savings amounted to 6.4%, which represented a drop on 2013 and 2015-2017, attributed to a number of factors, including a notable growth in individuals' accounts payable.
- According to data released by Rosstat, in Q2 2018, the proportion of persons who evaluated their financial situation as 'bad' or 'very bad' amounted to 23.2%, which represented a drop on Q2 of 1999-2017.
- According to data released by the Public Opinion Foundation, in June 2018, the proportion of persons who stated that they had just enough money to buy food and nothing else, or even less than enough money to buy food, amounted to 37%, which represented a drop on June 2016. At the same time, the proportion of persons who were able to buy household appliances increased from 22% in June 2016 to 30% in June 2018.
- There is a continuing trend towards a slow decline in positive views of the economy, which reached their peak in March 2018. However, these views are not determined by the actual economic situation of the population, which has slightly improved on the whole.
- The proportion of employed persons facing high risk of unemployment, wage delays and pay cuts is about the same as it was last month, although it has declined relative to the corresponding periods of the years 2017 and 2016.
- Changes in the economic behavior of the population have become manifest in a considerable rise of investment in human capital, which is likely to be related to the rise in expenses caused by the costs of student enrollment in higher education institutions.

This monitoring has been conducted since 2015. It is based on the analysis of statistics regularly released by Rosstat, the RF Treasury, and the Central Bank of the Russian Federation. The estimates presented in the sociological section are derived from the special population monitoring survey conducted by the Institute for Social Analysis and Prediction of the Russian Presidential Academy of National Economy and Public Administration.

1 ANALYSIS OF THE CURRENT ECONOMIC SITUATION

The macroeconomic indices of the current economic situation

In July 2018, the Russian Federal State Statistics Service (Rosstat) published, for the first time, its estimation of Russia's GDP for Q1 2018, in which GDP at current prices for Q1 2018 is estimated at Rb 22239.4bn,¹ the *GDP physical volume* index at 101.3% relative to the same period in 2017, and the GDP deflator index at 106.8% relative to Q1 2017's prices.

It is noteworthy that the estimation of the dynamics of GDP use elements shows that the Q1 2018's final consumption expenditure at constant prices (at *2016 prices*) stood at 102.2% compared to the same period in the prior year. At the same time, the final consumption expenditure increased by 2.7% for households, 0.5% for the government (public administration) and 6.1% for non-profit institutions serving households². The consumption at current prices rose more considerably in a less uniform manner. For example, the year-to-year household and government final consumption expenditure increased by 4.9% and 11.2%, respectively (see Figure 1).

¹ Short-Term Economic Indicators of the Russian Federation (Russian and English versions). May 2018./ ROSSTAT. – [Electronic resource]. URL: http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/publications/catalog/doc_1140080765391

² The use of Gross Domestic Product (GDP) in Q1 2018./ Rosstat. – [Electronic resource]. URL: http://www.gks.ru/bgd/free/B04_03/lssWWW.exe/Stg/d03/128.htm

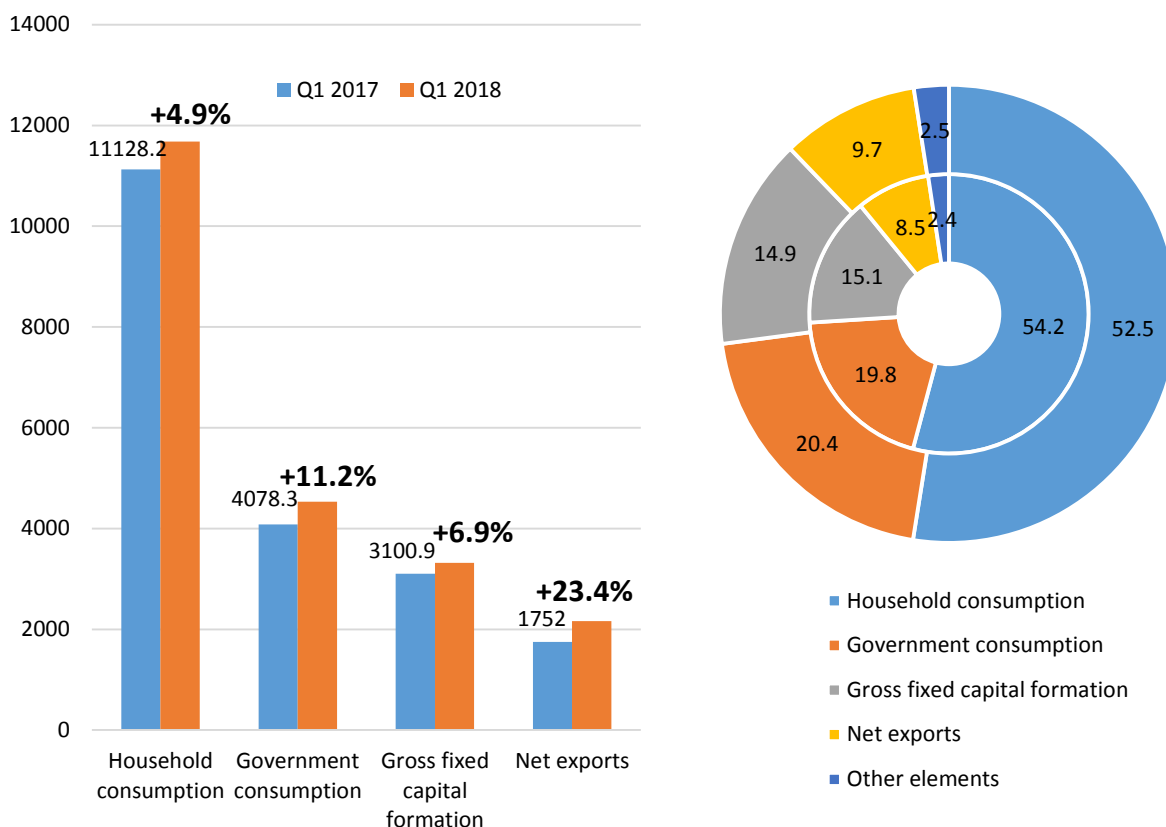


Figure 1 – Structure of elements of GDP use (on the right) and dynamics of values of various GDP use components (on the left) in Q1 2017 and in 2018

Although net exports saw the highest increase (up 23.4% compared to Q1 2017), their proportion in the GDP structure was less significant (an increase of 1.2 percentage points to 9.7% of GDP in Q1 2018). Household consumption represented the highest proportion (52.5% of GDP) in the GDP expenditure structure (as compared to 54.2% a year earlier).

According to estimates from the Russian Ministry of Economic Development³, Russia's GDP in May 2018 was 2.1% up from the same period in the prior year. Considering new data on industrial production, the GDP growth estimate for April was revised up to 2.2%. The principal contributors to the economic growth in April-May, compared to the preceding months of 2018, were the manufacturing industry, transport, wholesale and retail sectors.

In May 2018, the *goods and services output index* by type of economic activities stood at 103.7% while in January-May 2018 it was 102.9% compared to the same period of 2017. In

³ Economic picture. June 2018 / The Ministry of Economic Development of Russia. – [Electronic resource]. URL: http://economy.gov.ru/wps/wcm/connect/6199b307-3102-42ca-935c-19b05d2d398b/180704_econ_picture.pdf?MOD=AJPERES&CACHEID=6199b307-3102-42ca-935c-19b05d2d398b

May 2018, the industrial production index (IPI) stood at 103.7% compared to the same period in 2017, while in January-May 2018 it was 103.2%⁴.

According to the Russian central bank, the monetary supply (M2) was equal to Rb 43121.7bn as of 1 May 2018, 11.5% up from 1 May 2017 and 1.8% up from 1 April 2018 with an increase in consumer prices of 2.4% and 0.4%, respectively.

In April 2018, according to data from the Bank of Russia, Russia's foreign trade turnover (following the BoP methodology) stood at \$57.2bn at then effective prices, including \$36.2bn for exports, \$20.9bn for imports. A point to note is that Russia's foreign trade turnover with far-abroad (non-CIS) countries amounted to \$50.2bn at current prices in April 2018, posting an increase of 30.1% from the same month in the prior year, and with CIS countries it attained \$7.0bn or 20.9% up from the same month in the prior year. The balance of trade remained at a positive value of \$15.3bn.

Rosstat's survey of business activity of Russian enterprises (excluding small-sized enterprises) showed that the business confidence index (BCI) in June 2018 increased from December 2017 for mineral extraction enterprises (from -2% to 3%) and manufacturing enterprises (from -5% to -2%), whereas it dropped for suppliers of electricity, gas and steam as well as for air conditioning enterprises (from 3% to -6%)⁵. In June 2018, 12% extracting industry enterprises said they experienced benign economic conditions, 76% said their economic conditions were satisfactory, while 10% manufacturing enterprises said they were benign and 74% said they were satisfactory. Twenty three percent of extracting industry enterprises and 30% manufacturing enterprises expected their economic conditions to improve in the next six months. Moreover, upbeat responses outnumbered by 19 percentage points those expecting the economic conditions to deteriorate in the extracting industry and by 24 percentage points in the manufacturing industry.

In May 2018, the wholesale turnover stood at Rb 6178.0bn or 103.3% relative to the same month in 2017, with small business entities representing 39.2% of the wholesale turnover. In May 2018, the retail turnover amounted to Rb 2507.0bn or 102.4% (at comparable prices)

⁴ Socio-Economic Situation in Russia: January-May 2018 / Rosstat. – [Electronic resource]. URL: http://www.gks.ru/free_doc/doc_2018/social/osn-05-2018.pdf

⁵ Business activity of Russian enterprises in June 2018 / Rosstat. – [Electronic resource]. URL: http://www.gks.ru/bgd/free/B04_03/lssWWW.exe/Stg/d03/125.htm

relative to the same period a year earlier, and it stood at Rb 12025.1bn or 102.4% in the first five months of 2018. According to data from Rosstat's business survey and business activity of retailers⁶, the business confidence index (BCI), a measure of business activity in the retail sector, stood at 4% in Q2 2018. The index increased for 49, declined for 31 and remained unchanged for five subjects of the Russian Federation. Respondents pointed to a lack of individuals' effective demand and a high level of taxes as the principal factors affecting retailers' activity.

Banks' credit portfolios in May 2018 surpassed by 6.7% the value seen in May 2017. The credit portfolio composition was driven by heterogeneous dynamics: the increase in real sector debt continued to slow (a 2.6% growth over 12 months), whereas the consumer lending portfolio continued to gain pace on the back of, first of all, housing mortgage loans with a 12-month increase of 21.9% in outstanding mortgage loans. The total retail portfolio increased 17.9% year-over-year in May 2018 (16.5% up in April 2018 from April 2017).

Retail sales and consumer prices

The retail turnover in May 2018 stood at Rb 2.5 trillion, an increase of 1.5% from April; including an increase of 1.7% in the food product turnover, including beverages and tobacco, and of 1.4% in the non-food product turnover. It will be convenient to recall that sales turnover declined by 0.9% month-to-month in April 2018, however, the growth resumed, as was previously projected, in that month. That was most likely due to a seasonal factor, because the retail turnover was 101.9% in May 2017 (including 101.7% and 102.1% turnover of food, beverages and tobacco and non-food products, respectively) versus 98.7% in April of the same year.

An interesting point to note is that regardless of increase/decrease in the retail turnover, its composition remained almost unchanged over the entire period under review (since 2013), varying within a range of 1%. In May 2018, for example, food commodities, including beverages and tobacco products, accounted for 48% of sales turnover, and non-food products made up

⁶ Including small-sized enterprises (excluding micro-sized enterprises)

52% of sales turnover. By way of comparison, the proportion represented 48.8% and 51.2%, respectively, in May 2017, and 47.7% and 58.3%, respectively, in May 2013.

Since the beginning of 2018 (January-May), the retail turnover in money terms stood at Rb 12 trillion or 102.4% relative to the same period in the prior year as a whole. The turnover of food, beverages and tobacco stood at 101.9%, and the turnover of non-food products was 102.9%. The value fell 0.6% in the same period a year earlier. Therefore, there was a marked evidence of managing the fallout from the recent economic crisis.

In May 2018, the year-on-year dynamics of retail turnover at comparable prices slowed somewhat down compared to April (102.4% versus 102.7%) on the back of decline in the sale turnover of non-food products. For example, the retail turnover stood at 103.4% in April and at 102.7% in May, according to updated data from Rosstat. At the same time, the growth rate in sale turnover of food, beverages and tobacco remained unchanged for three consecutive months (102%) (see Figure 2).

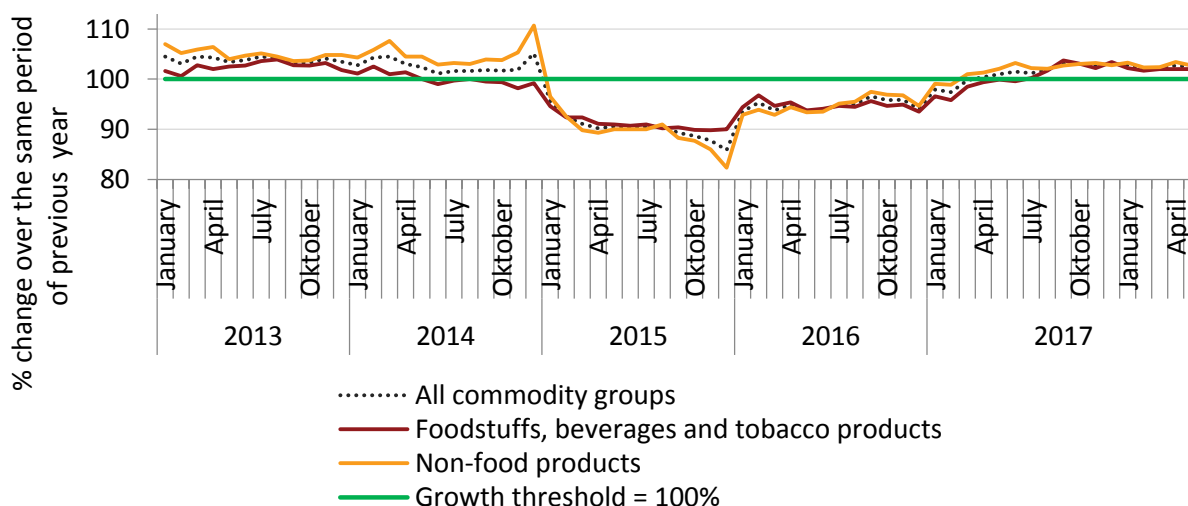


Figure 2 – Monthly dynamics of retail turnover and its components at comparable prices, % change over the same period previous year⁷

The retail turnover at comparable prices stood at 103.4% since May 2016, including 101.9% for the turnover of food products including beverages and tobacco, and 104.9% for non-food products. The 2-year value remained positive for three consecutive months and more so, continued to increase. By way of comparison, in May 2017, the 2-year growth in sales

⁷ Source: Reports on 'Socio-Economic Situation in Russia' in 2013-2018. Rosstat (according to updated data).

turnover at comparable prices was negative (94.5%). Therefore, 2018 has been seeing a constant growth in retail turnover for the first time in the post-crisis period.

The sales turnover at comparable prices slowed for three years (since May 2015) (overall by 3.2%, by 4.4% for sales turnover of food, beverages and tobacco, by 2.1% for non-food products). The decline was greater than in April (-2.1%). A point that can be noted, however, is that the slowdown in retail turnover on a triennial basis since 2018 is an all-time low since the beginning of monitoring.

The consumer price index (CPI) stood at 102.3% year-on-year in June 2018, including 103.7% for non-food products and 104.1% for services. The decline in prices of food products (99.8%) needs to be noted separately. By way of comparison, the value stood at 100.4% in May 2018. Also, the CPI for non-food products and for services increased from May by 0.3% and by 0.1%, respectively (see Figure 3).

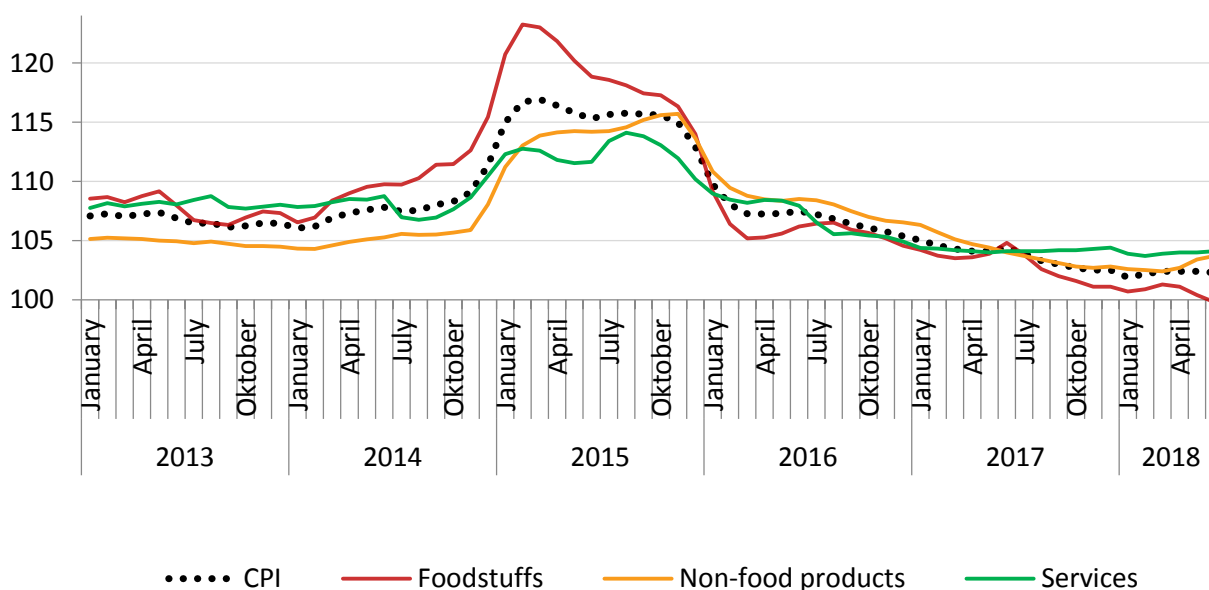


Figure 3 – Composite consumer price index (CPI), indices of prices of food, non-food products and services, % change over the same period previous year⁸

In H1 2018, the greatest year-on-year decline in prices occurred for white sugar sand (a decline of 14.5%), cereal products and legumes/beans (down by 12.6%) as well as greengrocery

⁸ Source: Consumer price indices in the Russian Federation in 1991-2018. Rosstat.

products, macaroni, noodles and similar farinaceous products, meat and poultry, hen eggs, sunflower oil (a fall of 0.3-5.3%). In contrast, prices of bread and bakery products, milk and dairy products, fish and seafood, butter increased 2.3-4.5%.

In June and in May this year, the most pronounced month-to-month decline was seen in prices of hen eggs (-4.6%), plus there was a 0.1-0.2% decline in prices of milk and dairy products (in particular baby milk powder, liquid milk, sour cream (0.2-1.1%)), macaroni, noodles and similar farinaceous products, and butter. Prices of noodles and similar farinaceous products remained at the previous month's level.

At the same time, there was an increase in prices of bread and bakery products (0.1-0.4%), fish and seafood (including live and chilled fish (1.2-1.4%), gutted frozen fish (0.5-0.6%)) as well as cereal products and legumes/beans.

Prices of greengrocery products rose by 0.6%. This category of commodities, according to data from Rosstat, saw a price rise of 19-23% for carrots, white cabbage, red beat root, of 11.1% for bulb onion, of 4.4-5.9% for potatoes, apples and lemons. At the same time, prices of cucumbers and tomatoes dropped considerably by 25.5% and 23.9%, respectively. Also, there was a decline in prices of bananas (-3.4%), garlic (-3.1%), oranges (-1.7%), grapes (-1.6%).

Year-on-year non-food prices dropped in H1 2018 only for medicines (-2.6%) and television and radio goods (-1.7%). The most pronounced rise in prices of other non-food products occurred for tobacco (9.1%) and petrol (8.1%). Prices of other goods varied within a range of 0.5-3.6%.

In June 2018, non-food prices changed insignificantly compared to the preceding month. Petrol prices suffered the highest growth. The month-to-month Consumer Price Index (CPI) for other commodities varied within a range of -0.3% and 1%.

The highest price rise in the services sector in the first half of the year (relative to the same period in the prior year) occurred for outbound tourism services (+7.8%), education (+7.7%), plus there was a 3.9% increase in medical, utility, cultural, communications, insurance and early childhood education services. Inflation for other types of services stood at 2.7-3.3%, except the insurance sector where prices dropped by 1.2%.

Month-to-month prices dropped only for insurance services (-0.4%). Prices of some services increased with the highest rise for health and leisure services (7.1%), passenger

transport services (4.3%) and outbound tourism services (1.9%). Prices of other categories of services rose 0.1% to 0.3%.

Utility tariffs were raised on 1 July 2018 in all the regions, a regular (annual midsummer) increase in utility tariffs, with growth rates equal to or less than the fixed upper threshold set on a region-by-region basis, reflecting previous year's rates of inflation. The year of 2017 was marked by a record-high consumer inflation in Russia, however, prices of services outpaced prices of food and non-food products. In light of this as well as because of the fact that indexation for 2014-2018 is determined by long-term indices by region, the highest increase permissible in utility tariffs may turn out to be beyond the average consumer inflation in a given subject of the Russian Federation, and this year's utility services are likely to remain one of those facing the highest price rise.

High indices of changes in the amount individuals spend on utility bills in H2 2018 are provided for by laws and regulations⁹ of the Republic of Sakha Yakutia and St. Petersburg (6%), Kemerovo Oblast and the Republic of Bashkortostan (5.9%), Kirov Oblast, Novgorod Oblast and in Moscow (5.5%), Tomsk Oblast (5.2%). The lowest upper indices are set in the Republic of North Ossetia and Novosibirsk Oblast (3%), the Republic of Dagestan, the Republic of Kabardino-Balkaria and in Pskov Oblast (3.3%). Upper indices of changes in the amount of spending on utility services take on intermediate values in the rest of subjects of the Russian Federation.

The proportion of recipients of the targeted social aid (consumer housing and utility subsidies) dropped in 2017 from the previous year despite of growth in utility tariffs and of personal income stagnation. Under federal laws, the upper threshold of spending on utility services is now set for subsidy eligibility purposes at 22% of aggregate family income. The threshold, however, is lower than the said value in a few higher-income subjects of the Russian Federation, such as Yakutia (up to 15%), St. Petersburg (up to 14%), Moscow (up to 10%). A proposal is now under consideration to set at the federal level the highest share – equal to or less than 15% of the aggregate family income – that is permissible for individuals' spending on

⁹ Executive Order No. 2353-r. "On the Establishment of Indices for Changes in Individuals' Spending on Utility Services in 2018" dated 26 October 2017 / The Government of Russia. – [Electronic resource]. URL: <http://government.ru/docs/29888/>

housing and utility bills. According to the authors of a respective bill¹⁰, this will help to ensure equality of rights of individuals' eligibility, regardless of place of residence, for the social aid for utility services while adhering to the equality, targeting and means-test principles. Regional differentiation will be reduced and targeted aid to socially vulnerable individuals will increase, of which a family housing and utility subsidy is the most efficient tool.

No changes whatsoever will be made with regard to the procedure for establishment by a given subject of the Russian Federation of regional standards for the required living floor space used for calculating subsidies, the cost of utility services and the highest threshold permissible for individuals' spending on housing and utility bills in the aggregate family income. The permissible upper threshold is lower for families with a per capita income below the fixed minimum subsistence level (*just like it was established in the old version of the act*) according to a correction factor equal to the per capita family income/minimum subsistence level ratio.

The authors of the bill use Rosstat's data on the distribution of Russia's population by income level to estimate government's extra expenditure on consumer housing and utility subsidies under new rules. The above document specifies that extra spending on the provision and allotment of the subsidies out of the federal budget to the budgets of subjects of the Russian Federation will be equal to Rb 35bn. In 2017, consumer housing subsidies worth Rb 70.3bn were granted to 5.7% Russia's households¹¹, and therefore the draft bill implies at least a 1.5-fold increase in volumes of this type of targeted social aid. Expanding the housing subsidies program will also serve as a tool of poverty alleviation in Russia. The new federal act, if enacted into law, will, presumably, take effect on 1 January 2019.

Labour market dynamics

The labour force totalled 76.1 million persons in May 2018, an increase by 103,000 persons over May 2017 (see Figure 4). The increase was due to a higher level of individuals' economic activity, an uptick of 0.2 percentage points in January-May this year over the same period in the prior year, with economic activity increasing among both the *working-age and beyond-working-age population*. As a result, the labour force continued to increase in the first

¹⁰ Federal Draft Bill No. 432772-7 "On Amendments to Article 159 of the Housing Code of the Russian Federation" / KonsultantPlus

¹¹ Provision of housing and utility subsidies to individuals /Rosstat. – [Electronic resource]. URL: http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/population/housing/#

half this year even amid population ageing. On the other hand, had it not been for the increase in economic activity, the labour force would have lost 200,000 persons in the first five months this year.

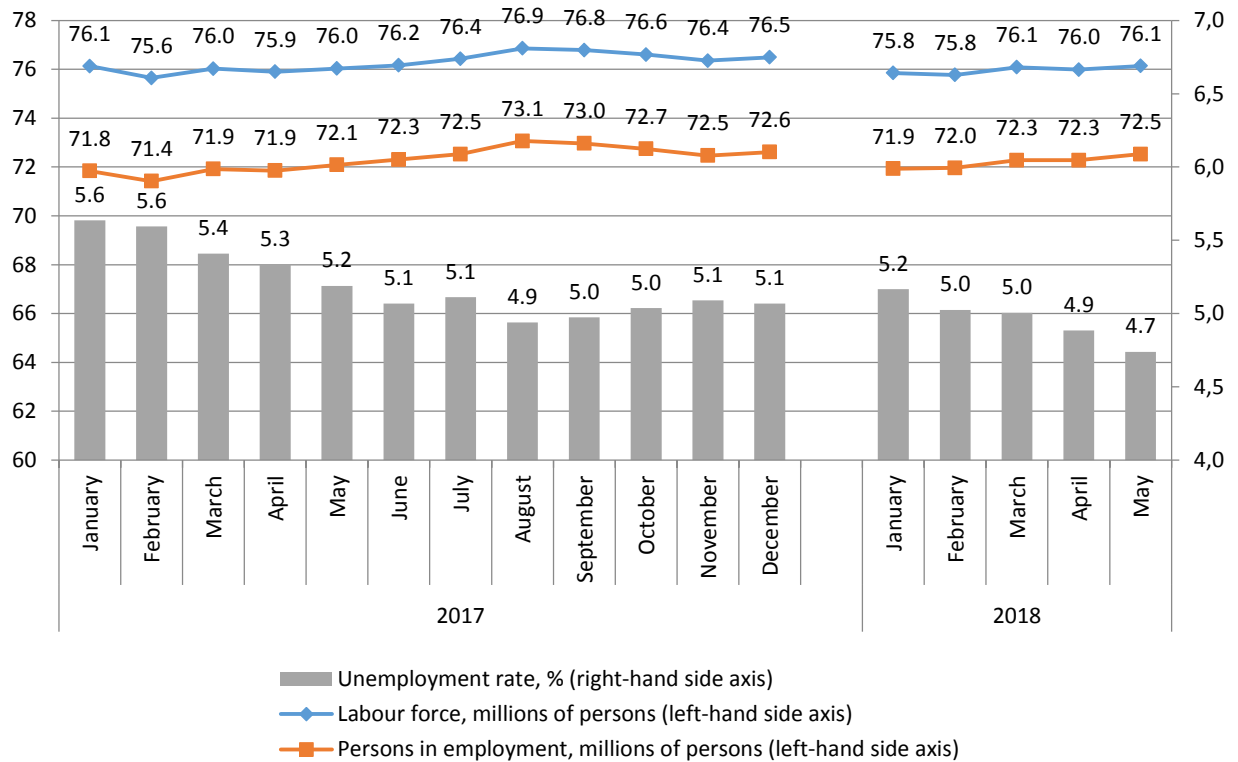


Figure 4 – Number of labour force, persons in employment (millions of persons) and unemployment rate (%) in 2017 and in 2018¹²

The unemployment rate (as measured by the ILO methodology) continued to slow rapidly. Its value in May 2018 reached 4.7%, a decline of 0.4 percentage points from the same period a year earlier, marking an all-time low in the modern Russian history. It is reasonable to expect that in June-August it will hit even lower levels driven down by the specifics of seasonal dynamics. At the same time, the rate of recorded unemployment continued to stay at 1.0%. Job vacancies in the public employment service (PES) had reached 1.68 million, therefore there were 51.9 persons holding the PES-registered unemployed status per each 100 job vacancies, a 16.6% decline from the value seen in May previous year.

¹² Source: Socio-Economic Situation in Russia. / Rosstat. A series of reports for 2017-2018.

In May 2018, employees' salaries, according to Rosstat's preliminary estimate, were 43815 roubles, an increase of 7.3% in real terms over the same period a year earlier (see Figure 5). The increase in April this year, according to data, was due to an increase in compensation for labour by industries such as manufacture of iron and steel products, manufacture of motor vehicles, manufacture of wearing apparel, railway transport and pipeline transport, public administration. At the same time, in April, there was a decline, compared to March, in nominal wages in some sectors such as healthcare (1.5-1.9%) and manufacture of refined petroleum products (25.2%). The sectors were the principal drivers of growth in the first few months this year.

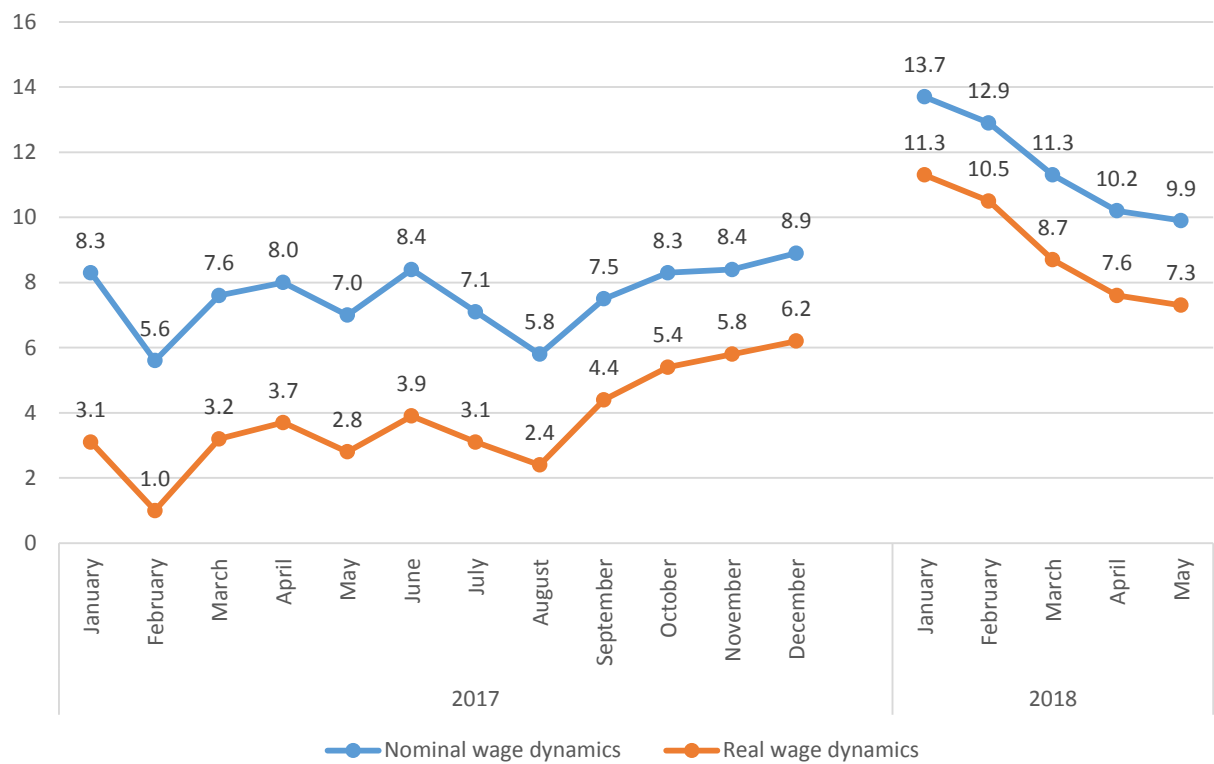


Figure 5 – Growth in nominal and real wages, % change over the same period previous year¹³

¹³ Source: Socio-Economic Situation in Russia. / Rosstat. A series of reports for 2017-2018.

2 THE HOUSEHOLD SECTOR SITUATION:

STATISTICAL ANALYSIS AND SOCIOLOGICAL MONITORING

Incomes, Poverty and Inequality

In May 2018, disposable cash income of households, real accrued wages and salaries, and real allotted pensions increased by 0.3%, 7.3%, and 0.8%, respectively (Figure 6).

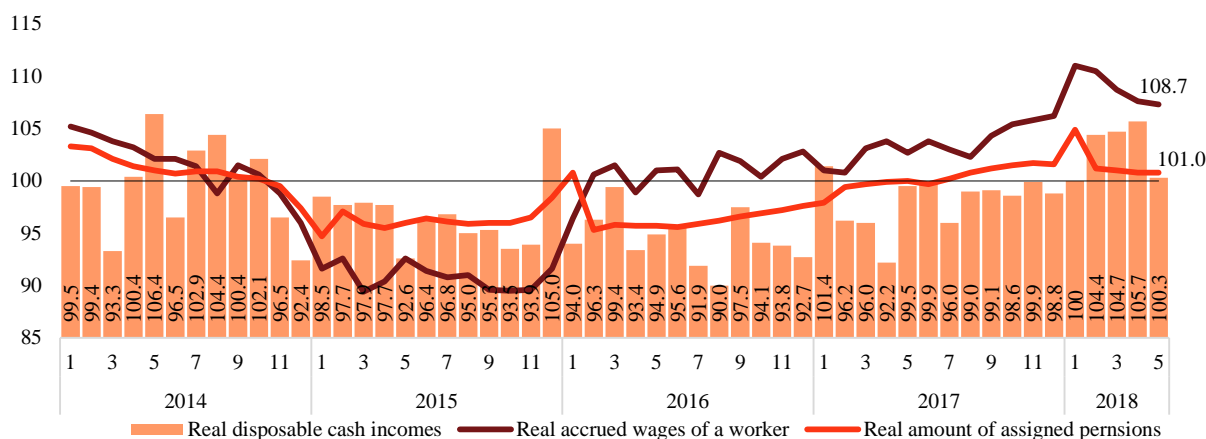


Figure 6 – Dynamics of real disposable cash income of households, real accrued wages and salaries, and real allotted pensions in 2014 – 2018, % change against the same period of the previous year¹⁴

Note: real disposable cash income of households for January 2017 and January 2018 do not include a lump sum cash payment to pensioners granted in January 2017 in the amount of Rb 5,000.

Figure 6 demonstrates decreasing growth of real disposable cash income of households seen in May 2018. Rosstat statistical analysis shows that the contraction of real disposable cash income in May compared to April was relatively traditional and happened practically every year during 1999 - 2018 with the exception of 2006 and 2007, when real disposable cash income in May hit 100.2% and 100.0% respectively against April.

On the whole, household income, wages and salaries, and pensions in January–May 2018 constituted 103.2%, 109.0%, and 101.7% in real terms, respectively against the same period in 2017. Thus, the growth of real disposable cash income of households lags significantly behind the real wages growth.

Such gap in the growth rate of income and wages can be explained by several factors.

¹⁴ Report "Short-term economic data – 2018", May 2018. /Rosstat – [Electronic resource]. URL: http://www.gks.ru/bgd/regl/b18_02/Main.htm

Firstly, the income structure includes off-the-book wages, entrepreneurial income and real property-related income, social payments and other sources of income in addition to real wages.

The overall amount of labor remuneration including off-the-book wages was not more than 2/3 of all income reported in Q1 2018 and increased only by 5.2% in real terms compared to the same period of the previous year, i.e. for comparison, real wages of corporate employees increased by 10.2% in Q1 2018 compared to the same period in 2017 (Figure 7).

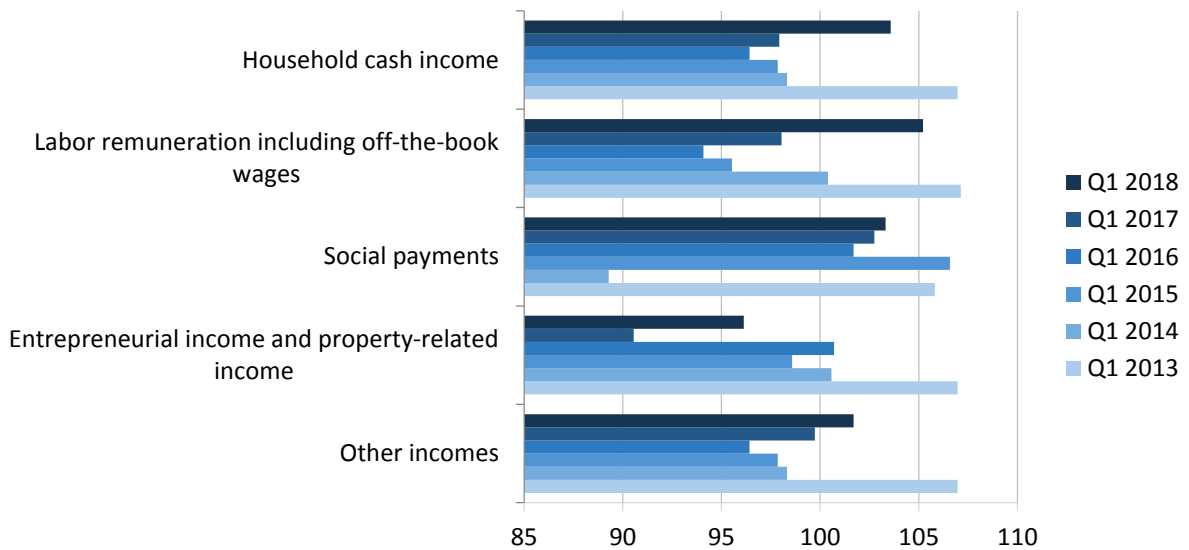


Figure 7 – Overall amount of household cash income and its components in Q1 2013 – 2018 in real terms, % to the respective period of the previous year¹⁵

Real accrued wages of corporate employees, individual entrepreneurs and other persons amounted to 107.8% in Q1 2018 compared to Q1 2017¹⁶ and was lower than the real wages of corporate employees (110.2%). It confirms once again the fact that growth of earned income of those who are not corporate employees was significantly lower than the wage growth of corporate employees.

¹⁵ Calculations based on data of the report “Social-economic situation of Russia – 2018” January-March 2018 r. /Rosstat – [Electronic resource]. URL: http://www.gks.ru/bgd/regl/b18_01/Main.htm

¹⁶ Calculations based on Rosstat data. Assessment of average monthly accrued wages of hired workers in organizations, individual entrepreneurs and others individuals /Rosstat – [Electronic resource]. URL: http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/wages/

At the same time, the entrepreneurial income and property-related income constituted 12.1% of the total amount of household cash income in Q1 2018 and decreased by 3.9% in real terms compared to Q1 2017 (Figure 7).

Secondly, growth of social payments' share in the structure of cash income represents a factor hampering the impact of the observed wages in cash income, which is related, inter alia, to the increase of population above working age receiving pensions and reduction of the number of the working age workers. Thus, the share of social payments in cash income amounted to 20.2% in Q1 2018 while in Q1 2004 -2017 it varied from 11.9% to 19.3%.

Thirdly, as the RANEPA Monthly Monitoring of Socio – Economic Situation and Perceptions of the Population for 2016 – May 2018 demonstrates that the employment in the informal sector continues to decline due to a slowdown observed in the secondary employment. Incomes from side jobs go down and can also hamper growth of household cash income against the backdrop of the wage growth of corporate employees.

Herewith, the decline of the property-related and entrepreneurial income in real terms, reduction of secondary employment income and growth of social payments in the cash income structure hamper growth of real cash income against growth of real wages of corporate employees.

The share of cash income spent on goods and services in the structure of cash income utilization amounted to 77.3% in January – May 2018, which was slightly above the level observed in the same period in 2015-2017 (Figure 8).

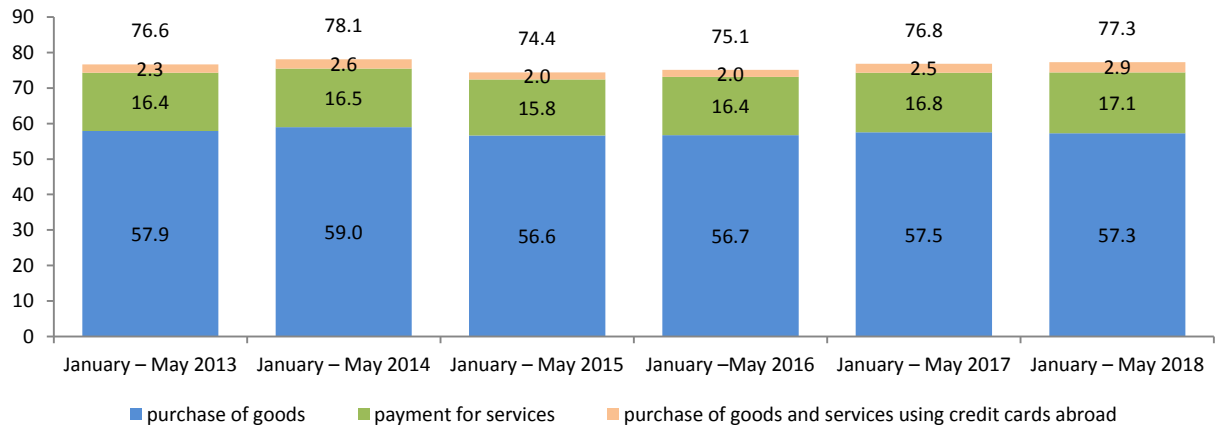


Figure 8 – Share of cash income spent on purchase of goods and services in January –May 2013-2018, %¹⁷

The share of income allocated towards savings in January – May 2018 amounted to 6.4%, which represented a drop on 2013 and 2015-2017 (Figure 9). The decline of the share of income allocated towards savings was due to the decline of “other savings” share, which resulted, inter alia, from growth of retail loan indebtedness. According to RF Central Bank data, loans granted to individuals increased by 7.3% in January – May 2018 compared to only 2.7% in the same period of 2017. In this context, the outstanding debt on retail portfolio dropped by 2.9% compared to its increase by 4.7% in the same period in 2017¹⁸. The share of income allocated on deposits and securities amounted to 3.6% in January – April 2018 being insignificantly higher the level of the same period of the previous year.

¹⁷ Report “Socio-economic situation in Russia – 2018” January-May 2018 /Rosstat – [Electronic resource]. URL: http://www.gks.ru/bgd/regl/b18_01/Main.htm

¹⁸ Central Bank of Russia, On the dynamics of banking sector development in the Russian Federation in May 2018. [Electronic resource]. URL: http://www.cbr.ru/analytics/bank_system/din_razv_18_05.pdf

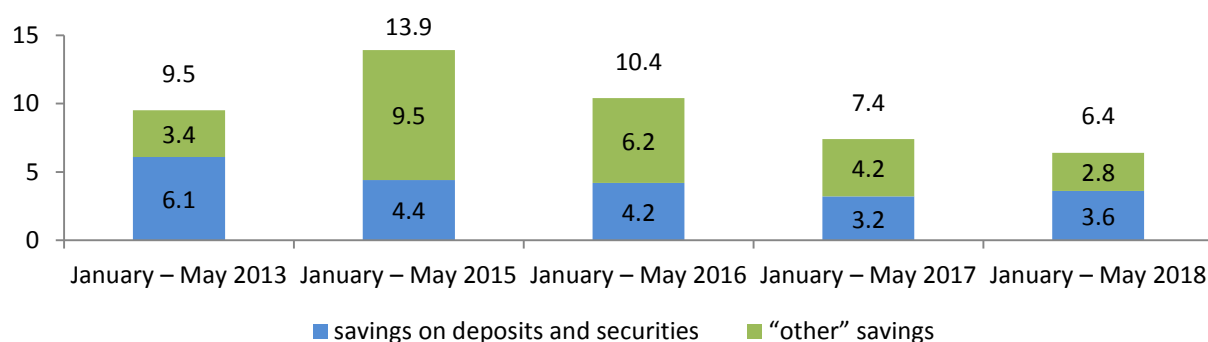


Figure 9 – Share of cash income allocated towards savings in January-May 2013- 2018, %¹⁹

Note: "other" savings include increase (decrease) on the accounts of individual entrepreneurs, increase (decrease) of loans debts, expenditures on purchase of livestock and poultry.

According to Survey of consumers' expectations findings released by Rosstat in April 2018, the level of subjective poverty nationwide with the proportion of people who evaluated their financial situation as "bad" or "very bad" amounted to 23.2% in Q2 2018, which represented a drop on Q2 of 1999-2017 (Figure 10). In particular, the proportion of people evaluating their financial situation as "good" or "very good" constituted 10.3%, which was higher the level seen in Q2 2015-2017.

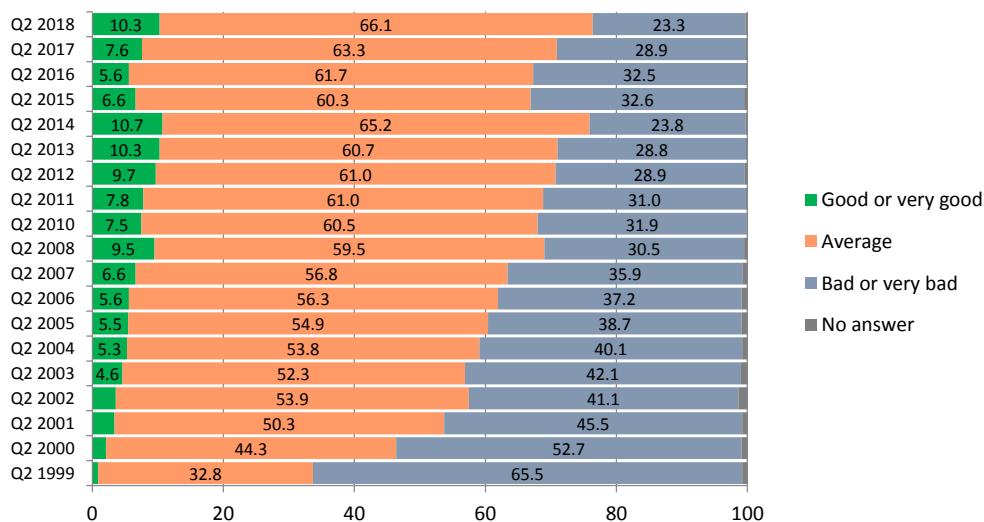


Figure 10 – Popular perceptions of the current financial situation, % to the total number of respondents²⁰

¹⁹ Report "Socio-economic situation in Russia" – 2018" January-May 2018 /Rosstat [Electronic resource]. URL: http://www.gks.ru/bgd/regl/b18_01/Main.htm

²⁰ Perceptions of the population on current financial situation. Living standards /Rosstat – [Electronic resource]. URL: http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/population/level/#

According to data released by the Public Opinion Foundation, in June 2018, the proportion of low income persons who responded that they had just enough money to buy solely food-stuffs or even less than enough money to buy food, amounted to 37%, which represented a drop on June 2016 (42%) (Figure 11). However, the proportion of persons with average income who were able to buy household appliances rose from 22% in June 2016 to 30% in June 2018.

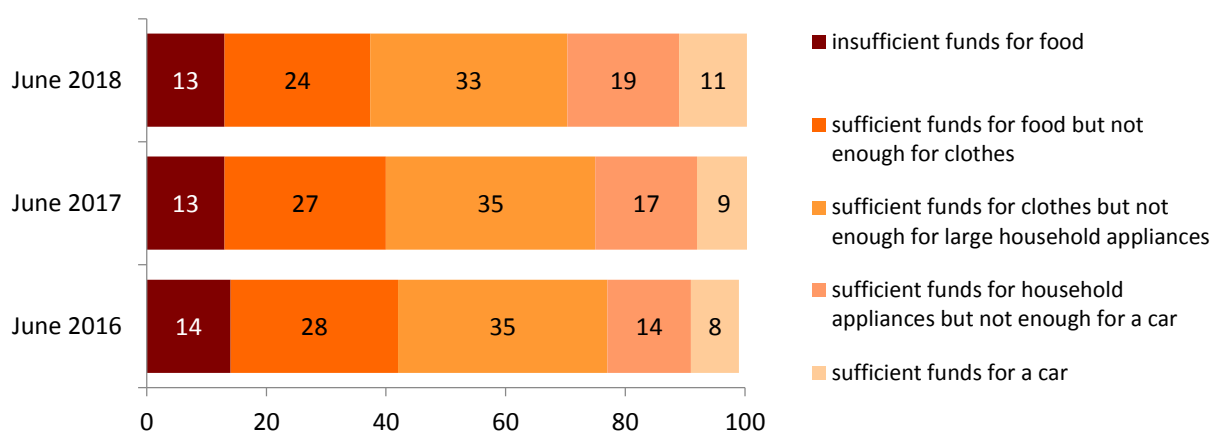


Figure 11 – Popular perceptions of the financial situation, % to the total number of respondents²¹

People’s perception of the changes in the economic situation of the country²²

June 2018 data reflect sentiments of summer month when the focus was distracted by external and seasonal activities, i.e. World Cup, gardening, etc. During these periods, the perception of economic reality is usually mitigated and this was proved by the results of the last survey, which demonstrated that there were no sharp changes in the evaluation of economic situation. Nevertheless, almost over 7% of respondents compared to a previous month, said that the situation had become worse, while the number of respondents thinking that there were no changes, fell by 7%. Consequently, one can say that positive evaluation of the

²¹ Dynamics of financial situation. Dominants /POF [Electronic resource] URL: <http://bd.fom.ru/>

²² According to the Monitoring of popular social sentiments findings conducted by the Institute of Social Analysis and Prediction under RANEPА since 2015. Eight (8) rounds of sociological survey are being held annually according to representative comparable sample for adult population of Russia in a mode of personal questionnaire. The size of a sample is 1600 respondents in each round.

economic situation which reached its peak in March 2018 against Presidential elections has a slow downward trend (Figure 12).

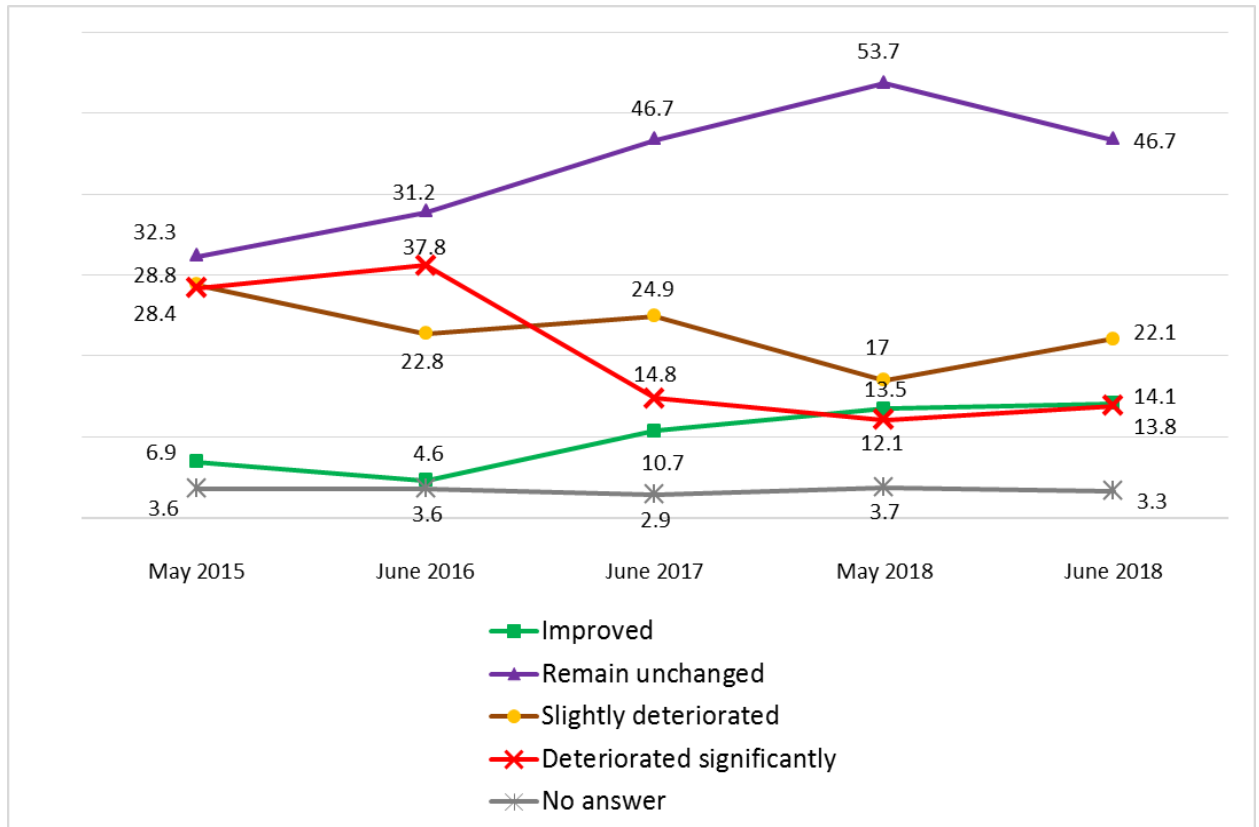


Figure 12 – Distribution of responses to a question: “How the economic situation changed in the country in the last year?”, %

This trend is also reflected in the dynamics of evaluation of prospects of the economic development, which have slightly switched to negative side.

Thus, the number of respondents expecting fast improvement of the situation dropped compared to previous assessment, while the number of those respondents who put off the improvement for two years or even longer, increased at the same time. The proportion of population considering that the situation has stabilized with no further deterioration, reduced by 3% in the annual assessment, while the number of those who expected fast improvement has comparatively grown (Figure 13).

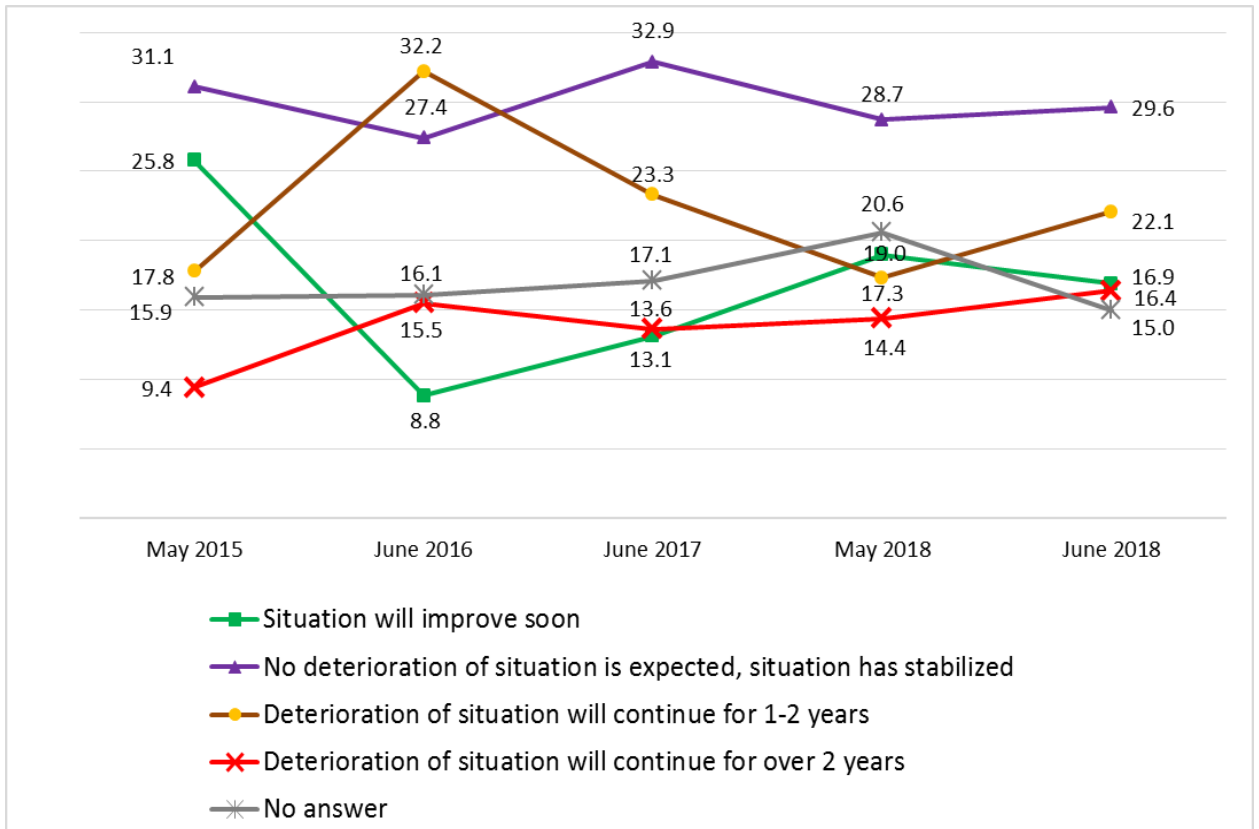


Figure 13 – Evaluation of economic development prospects, %

Evaluation of changes in the economic situation and prospects of its development are still mainly general and abstract rather than personal. This is evident from the fact that the number of respondents thinking that they were really affected by negative impact of the economic development, has not grown and, on the contrary, decreased by 10%. At the same time, overhang of negative expectations of such further deterioration increased by 4% (Figure 14).

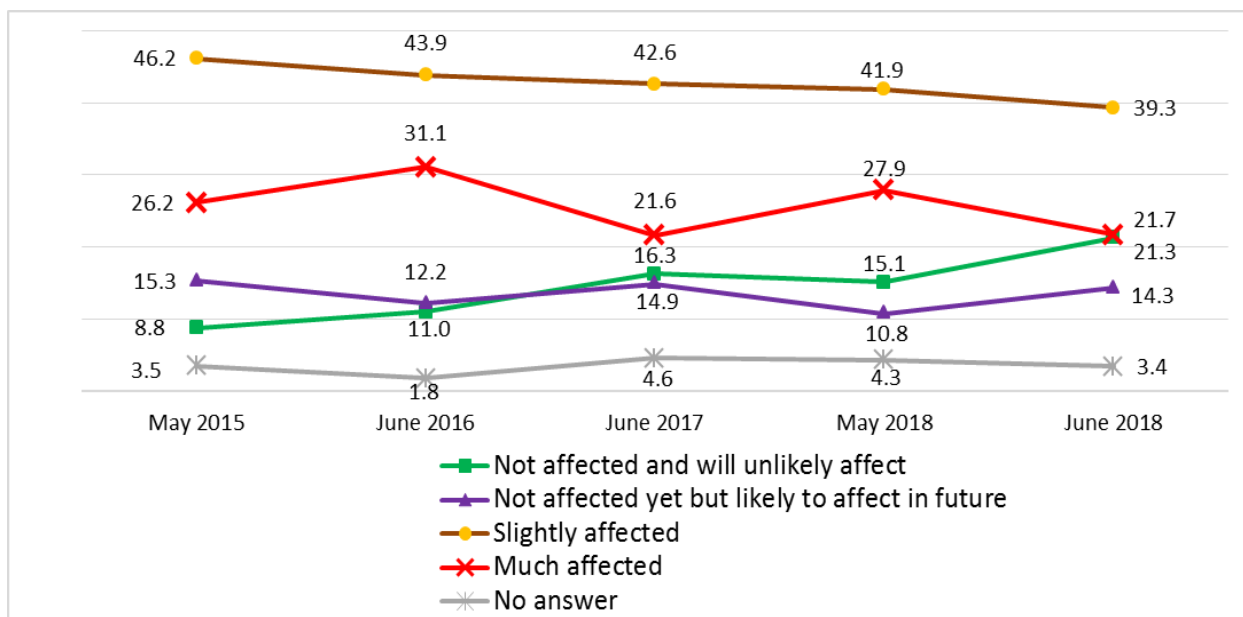


Figure 14 – Evaluation of the impact of crisis on the economic situation of households, %

Socio-economic risks in the sphere of employment and consumption; adaptive behavior

Risks of deterioration in the sphere of employment are not decreasing but do not grow. The difference in responses come within the range of +/- 1-2% according to every measured parameter (Table 1).

Table 1: Share of respondents subjected to real or potential risks in the sphere of employment according to subjective evaluation, % of those employed

| Risks in the sphere of employment | Number of respondents | | | | |
|-------------------------------------|-----------------------|-----------|-----------|----------|-----------|
| | May 2015 | June 2016 | June 2017 | May 2018 | June 2018 |
| Job loss | 30.3 | 38.8 | 36.6 | 36.4 | 35.4 |
| Wage cut | 47.7 | 49.9 | 40.4 | 39.6 | 42.2 |
| Switch to part-time week | 29.2 | 30.6 | 27.2 | 24.5 | 25.6 |
| Unpaid leave | 23.7 | 29.8 | 25.3 | 22.8 | 23.8 |
| Wage delays | — * | 41.8 | 34.5 | 34.1 | 33.0 |
| Switch to informal payment of wages | 24.8 | 27.8 | 23.0 | 26.4 | 25.4 |

*question not asked

Proportion of employed persons in the high risk zone comes to 22.7%, which is comparable to the data of the previous month, but lower than a year and two years ago (Figure 15).

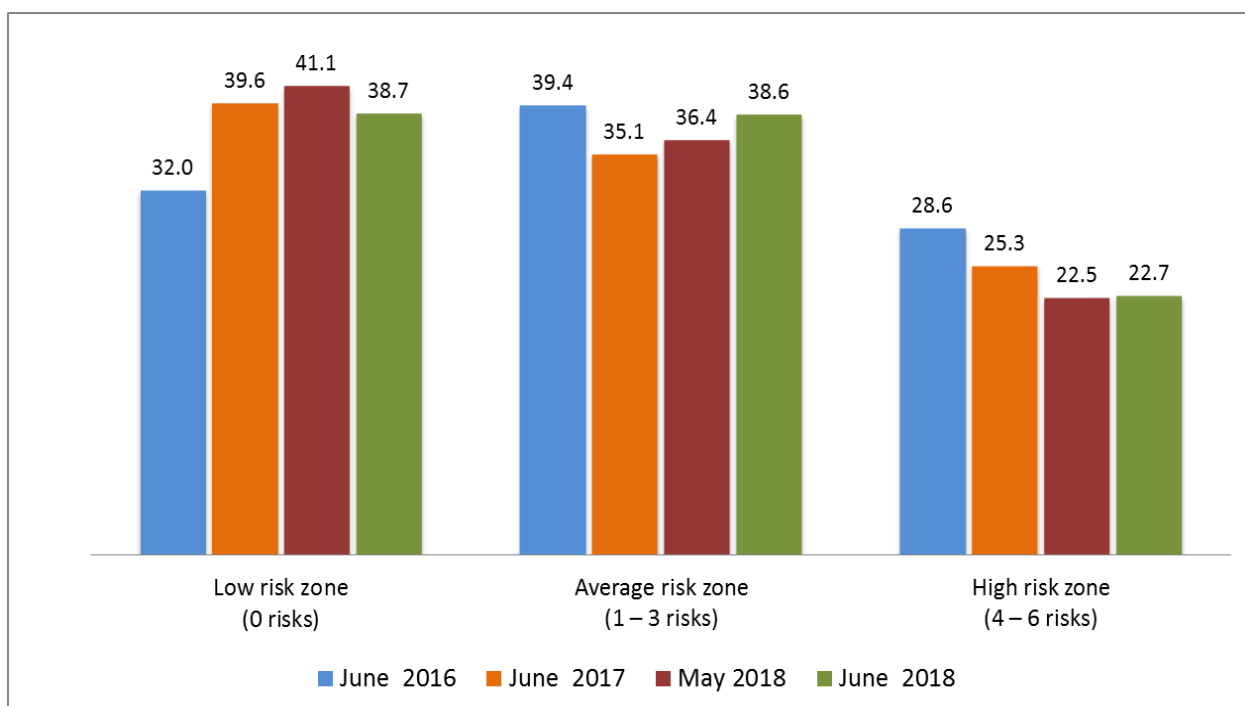


Figure 15 – Concentration of actual or potential employment risks, % of those employed

Based on the Table 2 data one may speak about insignificant growth of consumption activity, probably of a seasonal nature.

Table 2: Share of respondents subjected to real or potential risks in consumption per subjective evaluation, % of those who received relevant services earlier

| Risks in consumption | Number of respondents | | | | |
|--|-----------------------|-----------|-----------|----------|-----------|
| | May 2015 | June 2016 | June 2017 | May 2018 | June 2018 |
| Healthcare (purchase of drugs and/or medical services) | 59.5 | 62.9 | 55.1 | 59.5 | 54.5 |
| Development of educational potential (purchase of primary and/or secondary educational services) | 48.2 | 52.4 | 50.2 | 55.1 | 51.9 |
| Recreation services (recreation and/or vacation expenses) | 77.7 | 82.1 | 79.6 | 77.4 | 74.0 |

Changes in households 'economic behavior became visible in the evident, i.e. 10% growth of investments in the human capital compared to the previous month, which can be most probably explained by growth of expenses on educational services related to entrance to universities (payment for preparatory courses, private tutors for children, etc.).

Table 3: Adaptive behavior, % of those implementing; several answers accepted

| Types of adaptive behavior | Number of respondents | | | |
|---|-----------------------|-----------|----------|-----------|
| | June 2016 | June 2017 | May 2018 | June 2018 |
| Stepping up of financial strategies (buying currency/securities/formation of savings) | 21.3 | 21.3 | 20.2 | 23.4 |
| Stepping up of labor strategies (finding job/regular or one-time extra earnings) | 16.9 | 20.5 | 18.6 | 22.2 |
| Investment in human capital (education/healthcare) | 31.3 | 32.6 | 21.8 | 31.2 |
| Stepping up the use of private plots of land | 22.7 | 25.4 | 29.7 | 31.7 |

Summing up, one can note that a slow decline of positive evaluation of economic situation which peaked in March has an ongoing trend. This trend is also reflected in dynamics of evaluation of prospects regarding economic development, which have also slightly switched to a negative side. For the time being, evaluation of changes taken place in the economic situation and prospects of its development have a general or abstract rather than personal nature. This is evident from the number of respondents who thought that they were actually affected by negative impact of the economic development, which has not grown and on the opposite, decreased. At the same time, overhang of negative expectations regarding further deterioration has slightly increased.

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