



RANEPA
THE RUSSIAN PRESIDENTIAL ACADEMY
OF NATIONAL ECONOMY
AND PUBLIC ADMINISTRATION

Institute for Social Analysis and Prediction



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

2015 – August 2018

September 2018

Analytical material prepared by a pool of experts of the Institute for Social Analysis and Prediction of the Russian Presidential Academy of National Economy and Public Administration.

Team of contributors:

Editor-in-Chief – Tatiana Maleva, Director of INSAP

Publishing editor – Yulia Chumakova, Executive Director of INSAP

Authors:

Aleksandra Burdyak, senior researcher, INSAP

Marina Eliseeva, researcher, INSAP

Yulia Florinskaya, leading researcher, INSAP

Elena Grishina, Head of laboratory, INSAP

Ramilya Khasanova, senior researcher, INSAP

Victor Lyashok, senior researcher, INSAP

Tatiana Maleva, Director of INSAP

Nikita Mkrtchyan, leading researcher, INSAP

Natalia Zubarevich, principal researcher, INSAP

Monthly monitoring of socio-economic situation and perceptions of the population: 2015 – August 2018 / Russian Presidential Academy of National Economy and Public Administration; Edited by Tatiana Maleva. 2018.

The reference to this publication is mandatory if you intend to use this material in whole or in part.

CONTENTS

1 THE ANALYSIS OF THE ECONOMIC SITUATION: MACROECONOMIC INDICES	9
The Macroeconomic Indices of the Current Economic Situation	9
Retail Trade and Consumer Prices	11
Bank Lending and Households' Savings	15
The Dynamics of the Labor Market.....	24
Expected Legislative Changes in the Field of Social Support of the Population	27
2 SITUATION IN THE HOUSEHOLDS SECTOR	35
Incomes and poverty level of the population	35
3 DEMOGRAPHY	40
4 MIGRATION SITUATION	49
Long term migration.....	49
Temporary migration	51
5 REGIONS' SOCIAL DEVELOPMENT AND THE STATE OF BUDGETS	55
REFERENCES.....	63

MAIN CONCLUSIONS

1. Russia's GDP in Q2 2018 amounted to Rb 24,846.6bn; its constant price index thus gained 1.9% relative to Q2 2017.
2. The volume of Russia's H1 2018 GDP in current prices amounted to Rb 47,086.0bn. Its physical volume index was 101.7% relative to H1 2017, whilst a year ago its value had been 101.6%.
3. In H1 2018, the physical volume index of manufacturing output for the basic types of economic activity rose by 2.7%. The Industrial Production Index gained 3.0% relative to the same period of last year. In 2017, these indices amounted to 3.1% and 3.7% respectively.
4. In July 2018, retail trade turnover in comparable prices amounted to 102.5% relative to the corresponding period of the previous year, including 101.5% for the retail trade turnover of food products, beverages and tobacco products, and 103.3% for that of non-food products. Since the share of non-food products is likewise higher in the retail trade turnover structure, it may be concluded that this has been the main driver of growth.
5. In August 2018, the Consumer Price Index increased by 3.1% relative to the same period of last year, including by 1.9% in the food segment, by 3.8% in the non-food segment, and 3.7% in the services segment, which points primarily to the sufficiently significant growth of food prices over the past two months.
6. Over the course of H1 2018, the volume of retail lending amounted to Rb 5.5 trillion, which is 39% above the corresponding index for January-June of 2017. The volume of individual bank deposits rose to Rb 27 trillion. In the retail lending sector there was significant growth, over Q1 2018, of the volume of newly issued loans relative to Q1 2017 (by 13.7%), mainly due to a revival in the housing mortgage market. The monthly movement pattern of retail lending volume displays an average growth rate of 1%.
7. Nearly a quarter (24%) of all retail loans issued by banks over H1 2018 were housing mortgage loans. Housing mortgage debt amounts to 43% of total household debt. The role of the housing mortgage segment in the retail lending market has increased.

8. As a result of the recent switchover to the new rules of share participation in residential building construction projects, the number of individual share participation contracts over the course of H1 2018 increased by 10%, to 338 thousand. This figure, however, appears to be less staggering when set against the corresponding index for 2014, which is just under 850 thousand.
9. The relative share of debt outstanding against housing mortgage loans issued in the framework of share participation in residential building construction projects is 20% of the total outstanding household debt in the ruble-denominated housing mortgage segment, and it has remained practically unchanged in recent years.
10. In H1 2018, almost 600 housing mortgage loans issued or restructured in the framework of the Program of Support of Families Where a Second or Third Child Has Been Born were earmarked for purchasing an apartment in the primary residential building construction segment. The preferential interest rate for three-year or eight-year mortgage deals is 6% per annum.
11. In July 2018, the number of persons in the labor force amounted to 76.3m, which represents a decline by 0.16m on July 2017.
12. For a third month in a row, the unemployment rate (according to the ILO methodology) has been staying at 4.7%, while continuing to slide when cleared of its seasonal component. The rate of registered unemployment as of the end of July was 0.9%. Thus, these two indices have hit their historic lows.
13. In July 2018, the average pay level of employees amounted to Rb 42,640, which is 8.0% above the corresponding index for July 2017 in real terms. Thus, the pay level of employees in real terms in H1 2018 turned out to be 8.7% higher than in H1 2017.
14. The number of persons employed at big and medium-sized enterprises has continued to shrink. The resulting free workforce has been channeled into the informal sector, which has increased over the past year, but is still smaller than in 2016.
15. In H1 2018, the employment intensity in the segment of big and medium-sized enterprises was on decline: the number of payroll hours actually worked by their employees shank by 0.7%, and the share of part-time employees increased by 0.2 pp.
16. In July 2018, the growth indices of real disposable money income, real charged wages and salaries, and real allotted pensions amounted to 2.0%, 8.0%, and 0.8%

respectively. Thus, the growth indices of real disposable money income and real allotted pensions had been lagging significantly behind that of real charged wages.

17. In January-July 2018, the average real allotted pension amounted to only 31.3% of the average real charged wages and salaries, which is below the corresponding index for the same periods of 2013-2017. The draft law on retirement age raise, approved by the State Duma at first reading, will create appropriate conditions for increasing the pension provision level for seniors.
18. According to the updated statistics for 2017 released by Rosstat, last year 55 regions demonstrated poverty levels above Russia's mean poverty index, and in 12 regions it rose more than 1.5 times above the latter. Poverty decline in 2017 on 2016 was observed in 34 regions, and at the same time in 37 regions poverty increased, however slightly.
19. In January-July of 2018, the share of income spent on goods and services in the structure of personal money income utilization amounted to 77.1%, which is higher than in January-July of 2015-2017
20. In January-July of 2018, the share of money income allocated towards savings amounted to 5.9%, thus hitting its record low of the last 15 years. The shrinkage of that index relative to the corresponding periods of 2015-2017 can be attributed, among other things, to a notable growth in individuals' accounts payable – by 6.4%.
21. According to data released by the Public Opinion Foundation, in August 2018 the self-rated income inequality increased relative to the corresponding period of 2014.
22. Over the first 7 months of 2018, Russia's natural population decline index increased to 170,500. The number of births registered over January-July of 2018 amounted to 928,800, which is 4.2% less than the corresponding index for the same period of 2017. The number of deaths over the first 7 months of 2018 rose by 1.4 % above the corresponding index for 2017 (an increase by 15.600); the indices of mortality caused by neoplasms, diseases of the digestive system, diseases of the nervous system, and endocrine, nutritional and metabolic diseases have all increased.
23. Migration growth amounted to 75,400 persons, while overall this index has been displaying a downward trend since the early 2010s. The main factor has been the ongoing decline, since 2014, of the migration inflow from Ukraine, which used to

sustain the migration indices in Russia. For a long time already, no new migration attraction centers have appeared in Russia, and 2/3 of all Russian regions, many of them being situated in the eastern part of its territory, have continued to experience migration outflows.

24. The number of temporary migrants in Russia has been slowly declining over recent years, without any sharp fluctuations. As of 1 August 2018, a total of 9.95m foreigners were living in Russia, of which 4.17m were labor migrants (i.e., those who stated the purpose of their entry in Russia to be 'employment'), 97% of these being citizens of the CIS. The number of those who officially claim to be labor migrants has been on the rise among the arrivals from all CIS members except Ukraine and Moldova. The growth in the share of labor migrants seeking to legalize their employment status that has been observed over the last two years has been halted, while the number of newly issued work permits even somewhat dropped relative to 2017.
25. The results of H1 2018 differ across regions in terms of their indices of socioeconomic development and budgets. The economy and the social spheres are slowly overcoming their stagnation, while household incomes in the majority of regions have continued to decline. The budgets of regions have improved, mostly due to the significant growth in PIT receipts and transfers; social expenditures have also increased significantly, but this can largely be explained by the electoral cycle – the presidential election and the elections of governors in a quarter of all Russian regions.

This monitoring has been conducted since 2015. It is based on the analysis of statistics regularly released by Rosstat, the Central Bank of the Russian Federation, the RF Treasury, the RF Ministry of Internal Affairs and the *Central Databank* of Foreign Citizen Records, and the RF Ministry of Economic Development.

1 THE ANALYSIS OF THE ECONOMIC SITUATION: MACROECONOMIC INDICES

The Macroeconomic Indices of the Current Economic Situation

In Q2 2018, Russia's GDP amounted to Rb 24,846.6bn in current prices¹. As compared to Q2 2017, it increased by 1.9% (in constant prices). In H1 2018, the volume of GDP in current prices was equal to Rb 4,7086.0bn. The index of GDP's physical volume amounted to 101.7% relative to H1 2017, while a year ago it was equal to 101.6%.

In H1 2018, the physical volume of output in constant prices across primary types of economic activities² increased by 2.7% on the relevant period of the previous year; in 2017 it was equal to 3.1%. Consequently, in H1 2018 growth rates of output of goods and services across the primary types of economic activities slowed down somewhat. However, in July 2017 the output dynamics were much better than a year before (2.8% against 1.2%); based on the results of seven months (January-July) the situation improved: growth of 2.7% and 2.8% in 2018 and 2017, respectively.

The overall industrial output by the type of activities, such as mining, manufacturing, power, gas and steam supply, air conditioning, water supply, waste water disposal, waste collection and disposal and pollution elimination increased by 3.0% and 3.1% in H1 2018 and within January-July compared to the relevant period of the previous year, respectively (3.7% and 3.2%, respectively, a year before).

In H1 2018, the balanced financial result (profit less losses) of entities (without small business entities, banks, insurance companies and state (municipal) entities) in effective prices amounted to + Rb 6,371.7bn or 130.9% compared to the level seen in H1 2017³ (+Rb 4,868.7bn). Note that in January-June 2018 33,300 entities received the overall profit of Rb 7,751.3bn, while 15,800 entities, losses for the total sum of Rb 1,379.6bn.

According to the survey of business activities of 3,900 entities⁴ (without small business entities taken into account) by the type of business activities, such as "Mining", "Manufacturing", "Power, Gas and Steam Supply" and "Air Conditioning", business confidence

¹ On Production of Gross Domestic product (GDP) in Q2 2018 / Rosstat http://www.gks.ru/bgd/free/B04_03/lssWWW.exe/Stg/d01/175.htm

² The Report on Russia's Social and Economic Situation in January-July 2018 / The Rosstat <http://www.gks.ru/>

³ On Financial Results of Entities' Activities in H1 2018 / The Rosstat http://www.gks.ru/bgd/free/b04_03/lsswww.exe/Stg/d01/169.htm

⁴ Entities' Business Activities in Russia in August 2018. 24.08.2018 / The Rosstat http://www.gks.ru/bgd/free/B04_03/lssWWW.exe/Stg/d01/166.htm

saw growth in August 2018 as compared to December 2017. The index of business confidence⁵ in mining is of an explicit seasonal nature; it normally takes the minimum values in November-January and appreciates by the mid-year. The current year was not an exception; the index rose from -2% in December to +2% in March-April 2018 and then stood at 3% from May till July. In H1 2018, business confidence of managers of mining enterprises was higher than in the relevant periods of 2014-2017. In August, the index fell to 0%, that is, below the level seen in 2016-2017, but was higher than in August 2014-2015.

In manufacturing, the seasonal factor is of the same nature: the index appreciates early in the year and falls later in the year. From December 2017, the business confidence index gradually rose from -5% to -2% in March-July and then fell in August to -3%. As regards business confidence in manufacturing, H1 2018 was worse than 2017, but much better than the relevant periods of 2015-2016.

The sectors of power, gas and steam supply and air conditioning saw a seasonal factor of quite a different nature reflecting the correlation of the current and future demand on enterprises' products. In the first few months of the year, the index of business confidence is falling to hit the minimum level in April-May, then it grows up to its maximum in October-November, while in December it goes down again. In this sector, the business confidence index fell from 3% in December 2017 to -9% in April 2018 and then it started to grow and amounted to 2% in August. February-March 2018 was the most favorable period as compared to relevant months of 2014-2017. Starting from Q2 2018, business confidence in the sector of power, gas and steam supply and air conditioning has virtually reproduced the indicators of the previous year.

In H1 2018, the retail trade volume in comparable prices amounted to 102.6% relative to the same period of the previous year (102.5% in January-July 2018). In addition, H1 2017 saw a slump of -0.3% on the relevant period of the previous year (0% in January-July), so, it can be stated that the situation in retail trade has largely improved this year.

In 2018, consumer prices are growing slower than a year before. The consumer price index in H1 and January-July was equal to 102.3% each, while in 2017 it amounted to 104.4% and 104.3%, respectively.

⁵ It is calculated as an arithmetic mean value of the balances of estimates of actual levels of demand (a business portfolio), stocks of finished products (with an opposite sign), as well as changes in output to be expected within the next three months.

Summing up the results, it can be stated that H1 2018 saw mixed changes compared to 2017. GDP growth rates remained the same as in H1 2017. Growth in output and industrial production relative to the same period of the previous year slowed down by 0.4 p.p. and 0.7 p.p., respectively. The headline inflation rate decreased by 2.1 p.p. Retail trade growth rates increased by 2.9 p.p. compared to the indicators of H1 2017. In H1 2018, business confidence of managers of mining enterprises was higher than in the previous years. As regards power, gas and steam supply and air conditioning, in June-August 2018 business confidence of managers of enterprises virtually reproduced the indicators of the previous year. In H1 2018, in manufacturing industries business confidence was worse than in 2017, but much better than in 2015-2016.

Retail Trade and Consumer Prices

In July 2018, the retail trade volume in value terms amounted to Rb 2.6 trillion. So, its growth in comparable prices on the relevant period of the previous year amounted to 2.5%, including a 1.5% increase in the sales volume of food products, beverages and tobacco articles, but it was feasible mostly owing to growth in the sales volume of nonfood products (3.3% in comparable prices) (Figure 1).

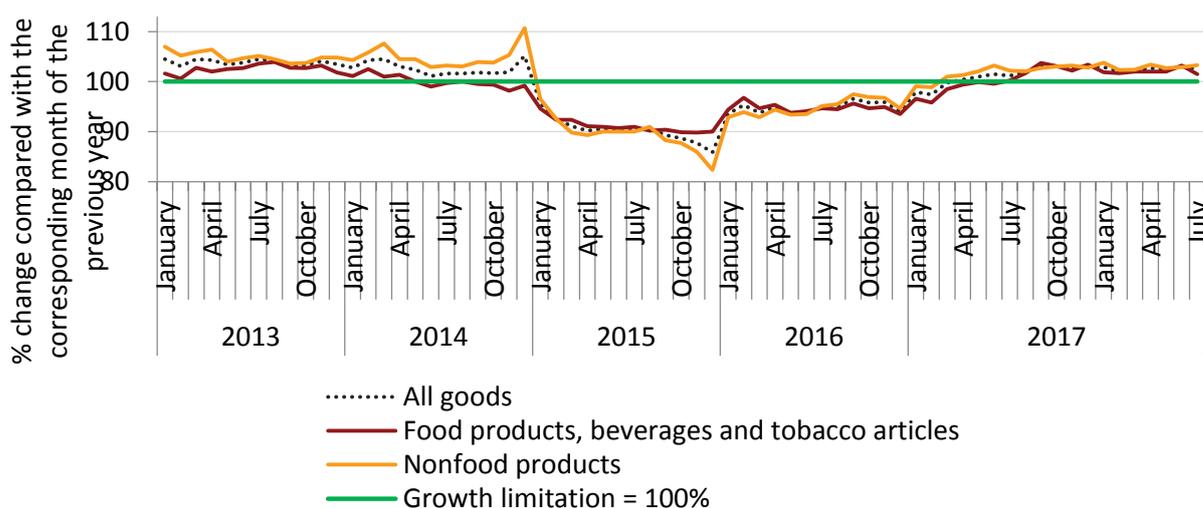


Figure 1 – Monthly dynamics of the retail trade volume and its components in comparable prices, % change compared with the corresponding month of the previous year⁶

⁶ Source: Reports on Russia's Social and Economic Situation in 2013-2018, the Rosstat

Within two years, in comparable prices the value of growth in retail trade volume amounted to 3.7%, a somewhat decrease as compared with the value of the previous month's indicator (4.5%), however, it should be stated that in terms of a two-year period the retail trade sales volume has exceeded 100% for five months running and that is the evidence of exit from the crisis. Also, it is noteworthy that within two years there was growth in sales volumes of food products, beverages and tobacco articles (101.7%) and, particularly, nonfood products (105.6%).

In terms of the period of three years, the sales volume in comparable prices still has a negative value (98.4%), though from the beginning of the year it approached with each month closer and closer the mark of 100%. First of all, within three months the retail trade sales volume failed to surpass it at the expense of the sales volume of food products, including beverages and tobacco articles (-3,7%), while July was the first month when sales volumes of trade in nonfood products within three years in comparable prices became positive (0.4%).

From the beginning of the year, the retail trade sales volume in comparable prices amounted to Rb 1.7 trillion or 102.5%, including the sales volume of food products, beverages and tobacco articles at the level of 102.1% and that of nonfood products at the level of 103%. In the relevant period of 2017, the index value amounted to 100%, 99.3% and 100.6%, respectively, and that is the evidence of the index's considerable growth.

As regards the pattern of the retail trade sales volume, it has not virtually changed since the beginning of the year (this factor was mentioned in the previous issues of the Monitoring) when the share of nonfood products was somewhat higher, while that of food products, beverages and tobacco articles, a little lower. In July 2018, the shares of nonfood products and food products amounted to 52.8% and 47.2%, respectively. For comparison, in the previous month the shares were equal to 51.7% and 48.3%, respectively, while in May, to 52% and 48%, respectively. However, within the entire period under review (from 2013) the share of nonfood products fell from 58% to the current level of 52%.

The retail trade sales volume (compared with June 2018) amounted to 103.3% month on month, including the sales volume of food products, beverages and tobacco articles (102.9%)

and that of nonfood products (103.6%). As was stated in the July issue of the Monitoring, there was a month on month growth in the sales volume after a somewhat decrease in April and it is noteworthy that this growth continues. In June, an increase in the retail trade sales volume was at the level of 1.7% as a whole; 0.6% and 2.8% as regards food products and nonfood products, respectively. So, it can be stated that there is a considerable month on month growth in the sales volume of the retail trade in food products.

As compared to July, in August 2018 no price rises as a whole (100%) were observed. However, prices of food products fell by 0.4%, while those of nonfood products and services increased by 0.3% each.

In August 2018, the consumer price index was equal to 103.1% as compared to the relevant period of the previous year, including 101.9%, 103.8% and 103.7% as regards food products, nonfood products and services, respectively. After a decrease in June (99.8%), prices of food products keep appreciating for two months (Figure 2). A year ago, in August 2017, prices were appreciating at a higher rate: 3.3% year on year, including 2.6%, 3.4% and 4.1% on food products, nonfood products and services, respectively.

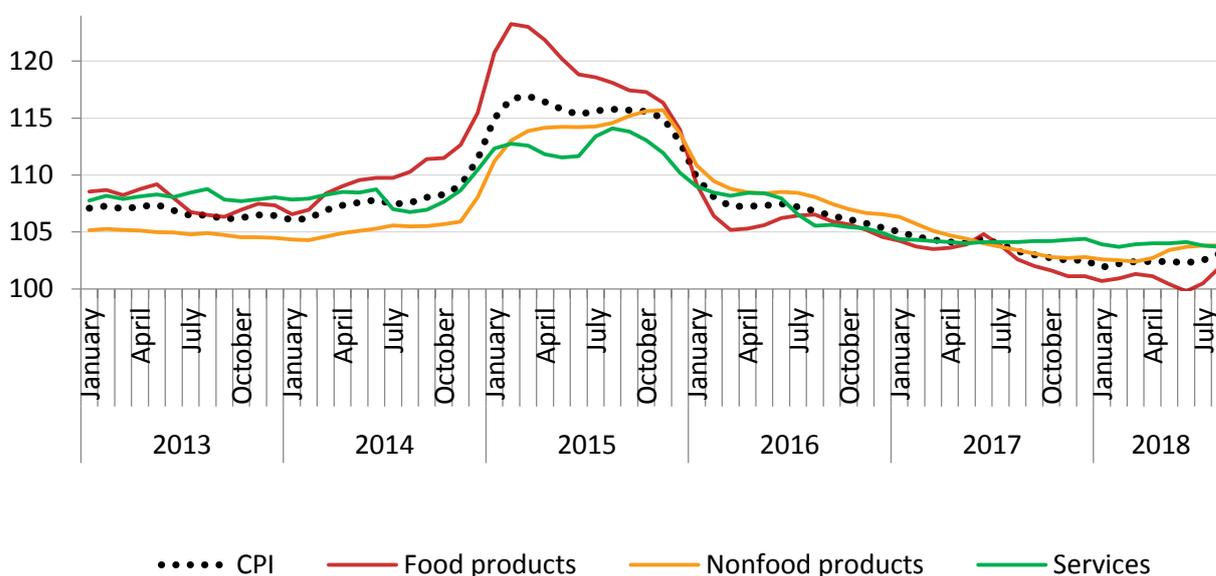


Figure 2 – Aggregate consumer price index (CPI), indices of prices of food products, nonfood products and services, % change compared with the corresponding month of the previous year⁷

⁷ Source: Consumer Price Indices of the Russian Federation in 1991 – 2018, Rosstat.

As compared to the relevant period of the previous year, in August 2018 prices appreciated on fish and seafood (4.7%), fruits and vegetables, eggs, meat and poultry (3%-3.3%), milk and dairy products, butter, bread and bakery products (2.3%-2.5%). At the same time, prices depreciated on granulated sugar (-12.4%), cereals and beans (-8%), alimentary products (-1.7%) and sunflower oil (-1.4%).

Relative to July 2018, the highest growth in prices was observed on meat and poultry (1.5%), fish and seafood (0.5%), including a 2.6% increase in prices of pork as per the Rosstat's data. At the same time, poultry meat, minced meat, live and refrigerated fish and fish fillet appreciated by 1.0%-1.4%. In addition, prices of bread and bakery products, sunflower oil, butter, cereals and beans increased, too (0.1%-0.3%), while prices of milk and dairy products remained unchanged.

It is noteworthy that prices of fruits and vegetables depreciated a great deal (-6.4% August on July). According to the data of the official statistics, such a decrease in prices was driven primarily by depreciation of prices of carrots (-16.2%), potatoes and grapes (-15.1%), cucumbers, tomatoes and beets (-12.7%-14.5%) and onion (-7%). Note that depreciation of prices of fruits and vegetables is a seasonal phenomenon and prices are expected to appreciate on them in the next few months.

In August 2018, as regards nonfood products prices depreciated only on TV-sets and electronics (-1.3%). As regards other goods, prices appreciated 1.3%-2.6% year on year on pharmaceuticals, household chemicals, textiles, household appliances, garments and linen, knitted goods and footwear. Apart from that, prices of building materials appreciated by 4.8% as compared to the relevant period of the previous year, but the prices of tobacco articles and motor petrol saw the highest growth of 10.5% and 11.3%, respectively.

As compared to the previous month, among nonfood products motor petrol prices depreciated by 0.3%, while other categories of goods became more expensive by 0.1%-0.4%.

As regards services, prices depreciated year on year only on insurance services (-2.4%). Communication services, culture, physical training and sports-related services, pre-school education services, passenger transportation, as well as housing and public utility services appreciated by 2.1%-3.8%, while medical services and spa-and recreation services, by 4.8% and

6.2%, respectively. The highest appreciation of prices was observed in respect of education services and international transportation services (7.6% and 9.8%, respectively).

In month on month terms, prices decreased somewhat only on insurance services (-0.7%) and spa and recreation services (-0.2%). Prices on culture-related services remained unchanged. Communication services, physical training and sports-related services, housing and public utility services (primarily at the expense of leasehold payments for housing premises in public and municipal housing funds (2.4%)), pre-school education services and social and medical services appreciated by 0.1%-0.2%. The highest appreciation of prices was observed on passenger transport services (0.7%) and international tourism (1.9%), primarily, due to appreciation of the cost of sightseeing trips to France, Finland and Greece (price appreciation of 2.1%-2.4%) and Spain, Thailand, Germany and China (1.1%-1.7%) as per the data of the Rosstat.

Bank Lending and Households' Savings

In H1 2018, households received loans for the record-high sum of Rb 5.5 trillion, an increase of Rb 1.5 trillion or 39% compared to the relevant period of the previous year (Figure 3). In 2014-2016, individuals' debt to banks did not change much. In 2017 it increased, while in H1 2018 it grew even more substantially and amounted to Rb 13.3 trillion as of 1 July 2018 (+ Rb 2.1 trillion or +19% relative to the same period of the previous year).

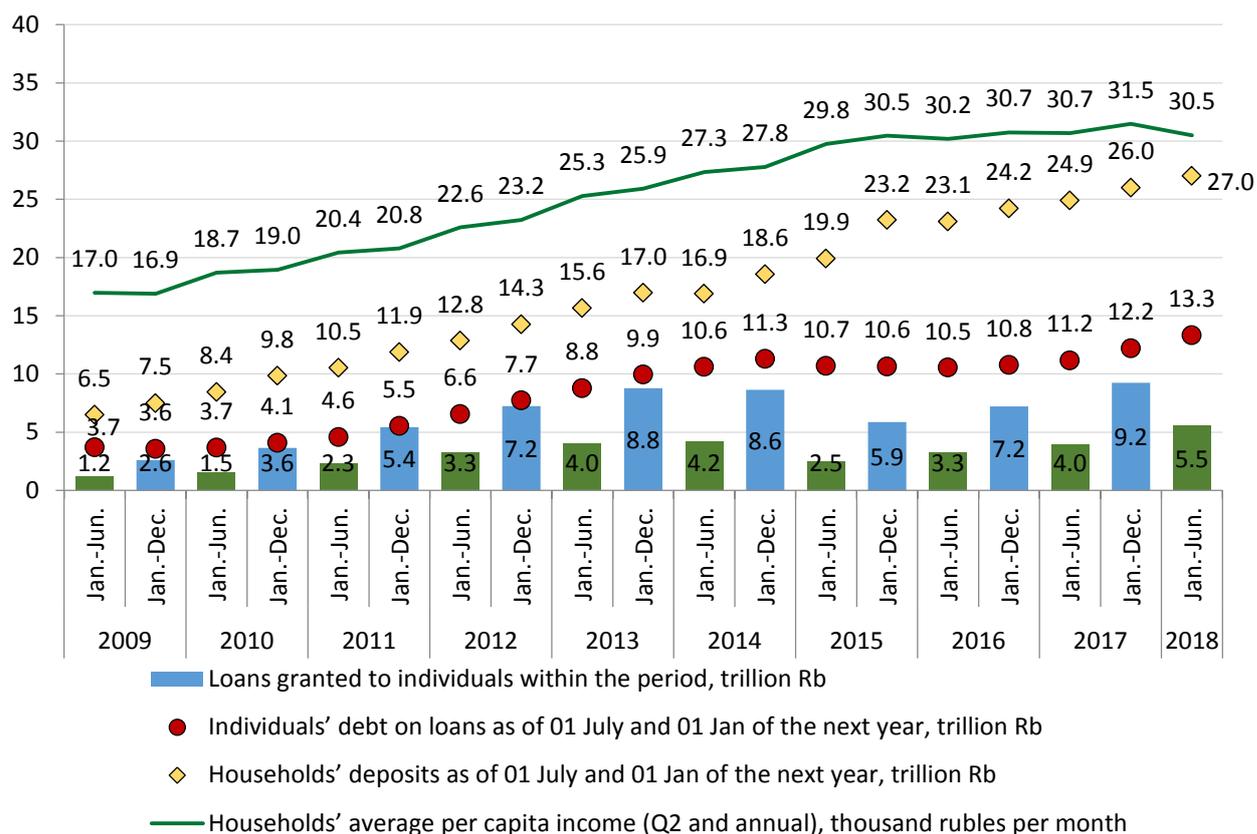


Figure 3 – Loans, bank deposits and households’ incomes in H1 and at year-end, 2009-2018⁸

As of 1 July 2018, amid stagnating households’ incomes individuals’ deposits increased by Rb 2.1 trillion or 8% compared to the relevant date of the previous year. The result of January-June 2018 relative to the same period of 2017⁹ was growth in households’ bank savings by the same amount (Rb 2.1 trillion) on which individuals’ debt to banks increased. In H1 2018, the correlation of the debt on loans to households’ bank savings rose to 49%, having partially overcome the drop from 63% in 2014 to 45% in 2017 (in H1 2012 the debt amounted to 51% of the deposits volume).

Consequently, growth in lending observed this year was accompanied by growth in bank savings, while the correlation of the debt on loans to the deposit volume is just recovering to the level of H1 2012.

⁸ Based on the data of the Central Bank of the Russian Federation. <http://www.cbr.ru/> and the Rosstat <http://www.gks.ru/>

⁹ Despite appreciation of the exchange rate of foreign currencies, the volume of deposits in foreign currencies decreased by Rb 0.1 trillion, while their share fell from 22.5% to 20.3% of individuals’ all deposits

Mortgage lending is a driver of growth in lending to individuals. In H1 2018, mortgage loans accounted for nearly a quarter of cash funds received by individuals as loans (24%) (Figure 4). Note that 43% of households' debt to banks is backed by mortgages (pledged housing).

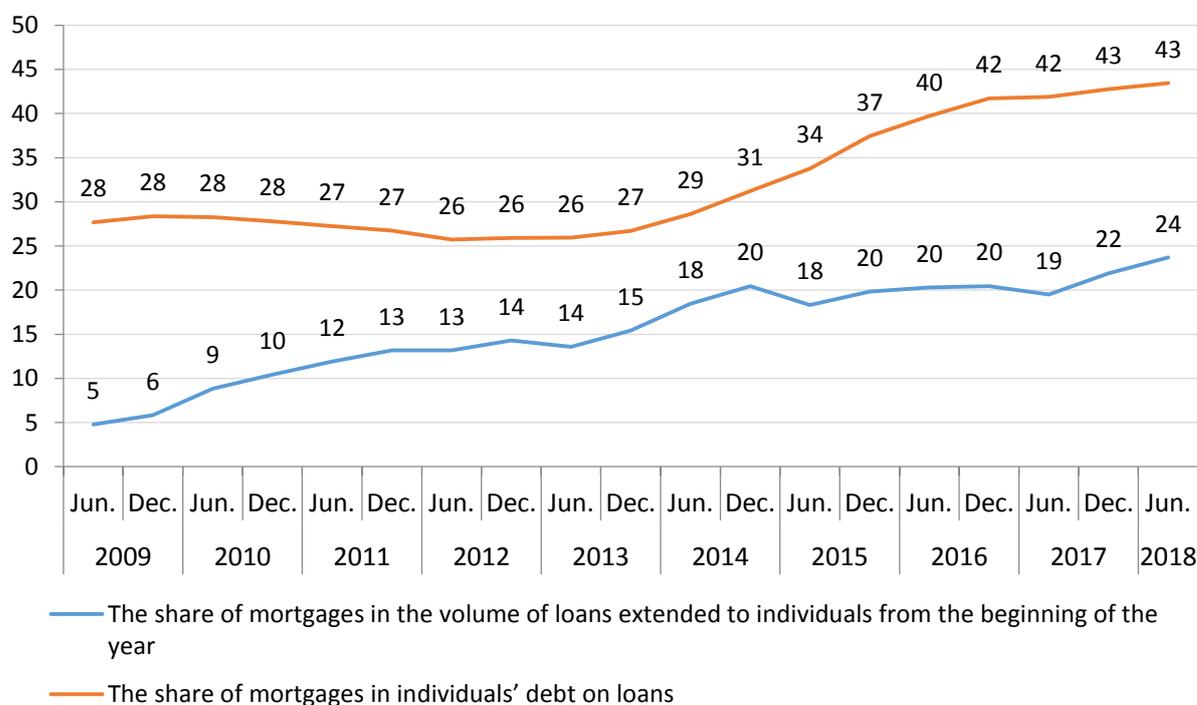


Figure 4 – The shares of mortgage loans in the volume of loans extended to individuals and individuals' debt on loans in H1 and within a year, %¹⁰

Mortgage rates kept decreasing and amounted to 9.48% per annum (an average rate on mortgage loans in rubles) at the end of H1. Average rates on all the loans in rubles to individuals fell, too, and as of 01 July 2018 they amounted to 13% per annum on loans extended for the period of over a year (Figure 5). Among mortgage programs with record-low interest rates, it is worth mentioning the “Childhood” mortgage program with a 6% interest rate for families with a second and/or any subsequent child born in the period from 1 January 2018 till 31 December 2022 – this program is discussed below – and special regional programs of DOM.RF partners designed for individual categories of borrowers, for example, mortgages at the interest rate of 5.75% for public sector workers and large and young families.¹¹

¹⁰ Based on the data of the Central Bank of the Russian Federation. <http://www.cbr.ru/>

¹¹ Categories of borrowers are defined by regional authorities depending on households' needs in the concrete region. The list of 13 regions is available at the DOM.RF site: https://дом.рф/mortgage/mortgage_products/lgotnye-regionalnye-ipotechnye-programmy/

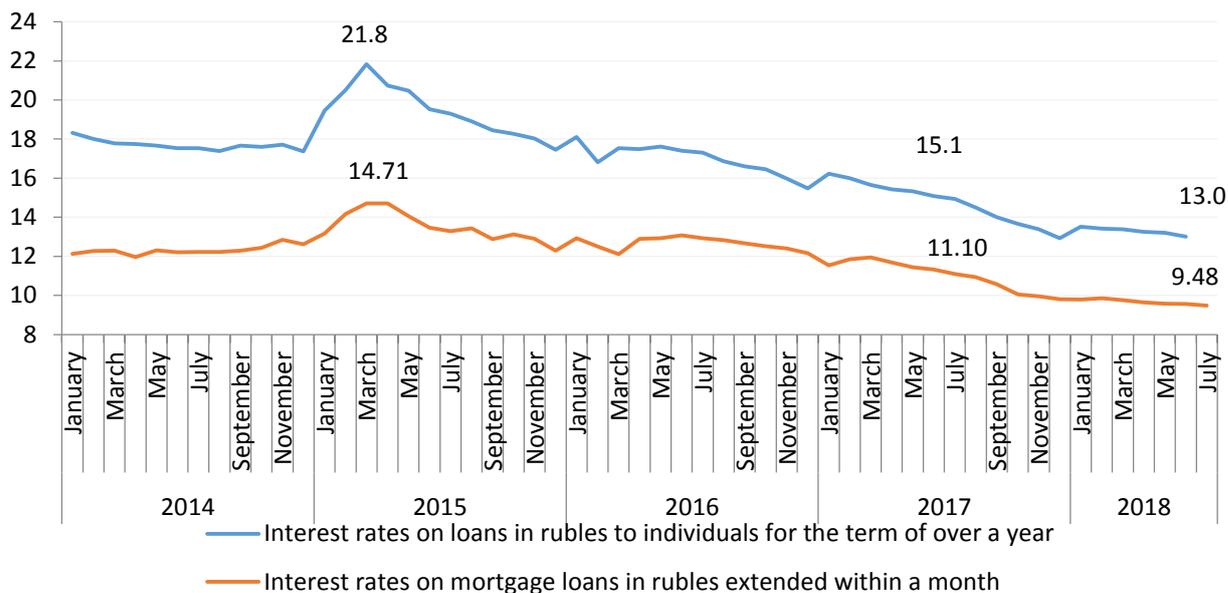


Figure 5 – Average weighted interest rates on all the loans in rubles extended to individuals for the term of over a year, %¹²

As regards further changes in the key interest rate, the Central Bank of the Russian Federation states that the balance of risks has shifted towards pro-inflationary ones¹³ due to uncertainty both of the effect of fiscal measures on inflationary expectations and development of external factors. The Central Bank of Russia will take decisions on the key interest rate with taking into account inflationary risks, dynamics of the rate of inflation and development of the economy with regards to the forecast. The factors¹⁴ named by Elvira Nabiullina were taken as a signal that the key interest rate might be raised or, at least, never be lowered. For mortgage borrowers it meant higher interest rates on loans and less favorable mortgage terms. Toughening of the requirements set by the RF Central Bank to the initial mortgage installment¹⁵ may become another factor that will compel a number of banks to raise the interest rates on mortgages.

Why did households take loans actively in H1 2018? Firstly, it could be a pent-up demand when people were waiting for cuts in interest rates on loans. Secondly, with interest rates on

¹² Based on the data of the Central Bank of the Russian Federation. <http://www.cbr.ru/>

¹³ The Central Bank of the Russian Federation passed a decision to retain the key rate at the level of 7.25% per annum. The press-release of 27 July 2018 r. / RF CB <http://www.cbr.ru/press/keypr/>

¹⁴ What One Should Expect From the Central Bank After Nabiullina’s Statement on the Key Interest Rate. / RBK. <https://www.rbc.ru/finances/04/09/2018/5b8e51059a7947c6b6ad80e1>

¹⁵ An Installment of Up To 20%: How Do Mortgage Interest Rates Change in Case of New Limitations Introduced by the Central Bank / RBK. https://www.rbc.ru/rbcfreenews/5b9264b89a794740ded104f4?from=center_1

mortgage loans changed considerably the size of monthly installment payments decreased and mortgages became more available to families which could not afford them before. In addition, a portion of non-mortgage consumer loans was justified by the need to make a repair in the housing bought by means of a mortgage and buy furniture and household appliances. Also, another option is feasible where the shortfall amount of the initial mortgage installment needed by a young family is taken by the expanded household (parents and other relatives) as a loan for emergency needs, so that a mortgage loan is accompanied by a nonmortgage one. Thirdly, a switch-over to a new procedure for attracting households' funds for building new housing under equity participation agreements¹⁶ has shaken up the housing market and revived sales of apartments on the primary housing market.

Equity Participation Agreements and Mortgage Lending

In a year, from 1 July 2019, households' funds for housing development will be attracted exclusively through escrow accounts¹⁷ and prior to the start of the transition period equity participation agreements (EPA) regulated by former guidelines¹⁸ were concluded more actively. In January-June 2018, the Federal Service for State Registration, Cadastral Records and Cartography (the Rosreestr) registered 338,400 equity participation agreements across the Russian Federation¹⁹, an increase of 10% compared to the relative period of 2017 (307,500 agreements). The maximum number of EPA registered in 2014 amounted nearly to 850,000 agreements, so the number of EPA registered in H1 does not look too high (Figure 6).

¹⁶ Federal Law No. 214-FZ of 30 December 2004 (as amended on 29 July 2018) "On Participation in Equity Construction of Apartment Houses and Other Real-Estate Projects and Amendment of Some Statutory Acts of the Russian Federation" / The official internet site of legal information: <http://www.pravo.gov.ru>

¹⁷ Federal Law No.175-FZ of 01 July 2018 "On Amendment of the Federal Law "On Participation in Equity Construction of Apartment Houses and Other Real-Estate Projects and Amendment of Some Statutory Acts of the Russian Federation" and Individual Statutory Acts of the Russian Federation" / The official internet site of legal information: <http://www.pravo.gov.ru>, 03.07.2018, The Rossiiskaya Gazeta, No.145, 06.07.2018

¹⁸ Information Letter No. 34785-VYa/07 of 15 August 2018 of the Ministry of Building on the Specifics of Application of the Norms of Federal Law No.214-FZ / <http://www.minstroyrf.ru/docs/17185/>

¹⁹ In H1 the number of EPA registered by the Rosreestr increased by 10%. 27.07.2018 / The Rosreestr. <https://rosreestr.ru/site/press/news/v-pervom-polugodii-kolichestvo-zaregistrirovannykh-rosreestrom-ddu-uvelichilos-na-10/>

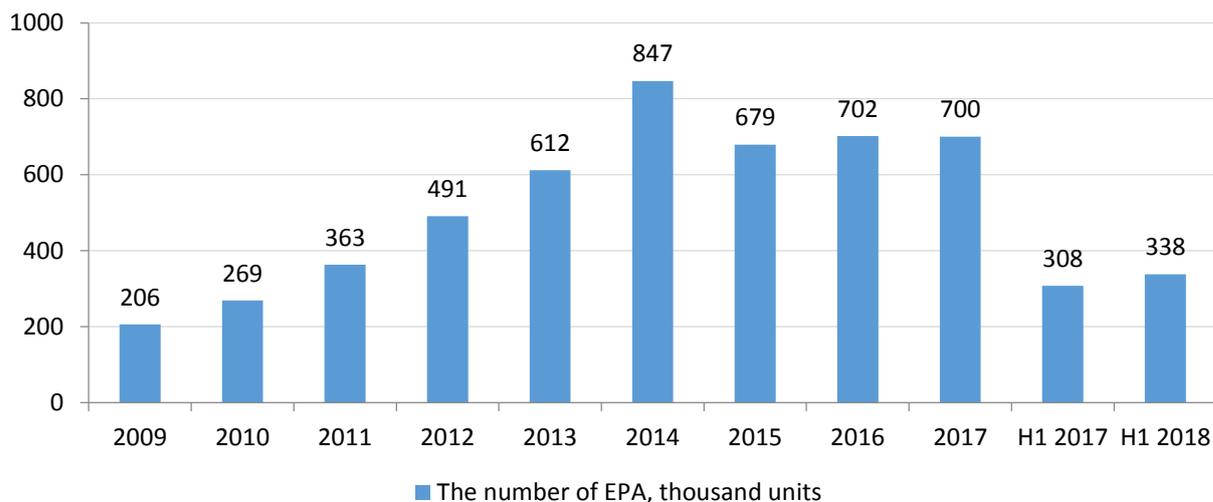


Figure 6 – The number of registered equity participation agreements (EPA), thousands²⁰

In January-June, the share of EPA-backed mortgages²¹ amounted to 50%, a substantial increase as compared to the relevant period of the previous year (Figure 7). The share of EPA backed mortgages was equal to 45% and 44% in 2017 and 2016, respectively. Consequently, thanks to mortgage lending households' participation in equity construction has increased this year.

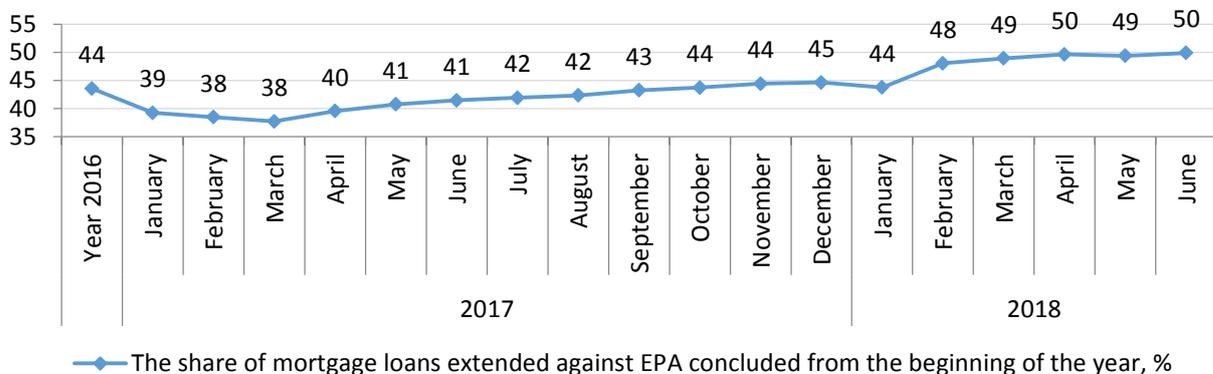


Figure 7 – The share of mortgage loans extended against equity participation agreements (EPA), %²²

On the other side, the role of EPA-backed mortgages decreased: in H1 2018 the number and volume of mortgage loans extended to resident individuals against the pledge of the right

²⁰ Based on the data of the Rosreestr. <https://rosreestr.ru/>

²¹ The estimate indicator received by means of dividing the number of EPA with mortgages as per the data of the Central Bank of the Russian Federation <http://www.cbr.ru/> by the number of EPA as per the data of the Rosreestr <https://rosreestr.ru/>

²² Based on the data of the Rosreestr <https://rosreestr.ru/> and the Central Bank of the Russian Federation <http://www.cbr.ru/>

of claim under equity participation agreements amounted to 25% and 29%, respectively, against 30% and 34%, respectively, in the same period of 2017 (Figure 8). The share of the debt on EPA-backed mortgage loans has not virtually changed and amounts to 20%-21% of households' overall debt on mortgages issued in rubles. This means that lending against the pledge of housing which is already built is growing more actively than that against the pledge of housing which is yet to be built.

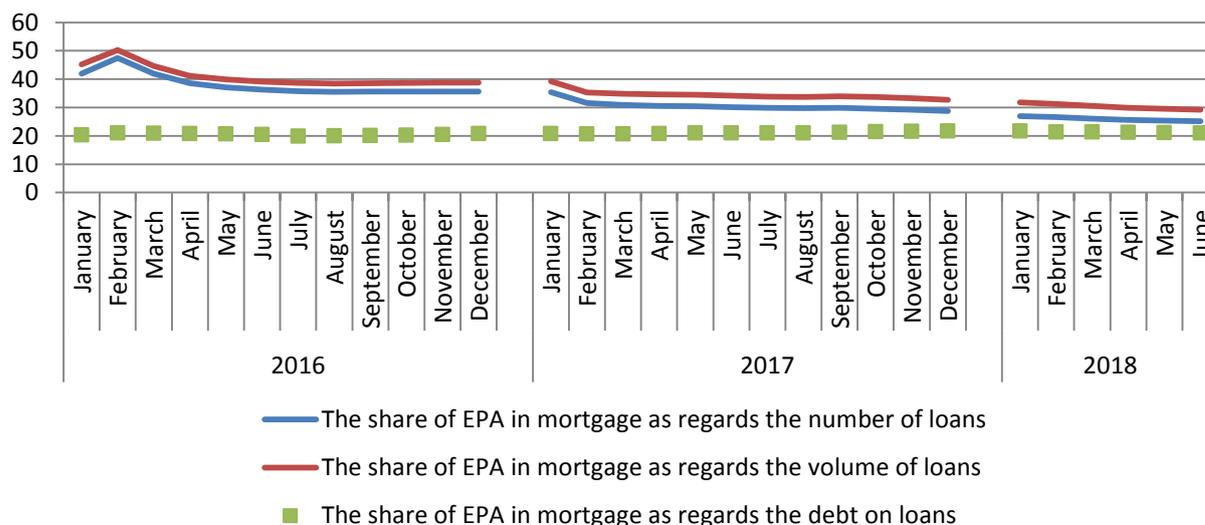


Figure 8 – The share of EPA-backed mortgage loans in all mortgage loans, %²³

In 2016, the interest rates on EPA-backed mortgage loans extended within a month were 0.8 p.p.—1.1 p.p. lower than generally on all mortgage loans, however, starting from September 2017 interest rates became virtually equal and the difference between interest rates on EPA-backed mortgages and all other loans does not exceed 0.3 p.p. The average size of an EPA-backed mortgage loan extended in January-June 2018 was equal to Rb 2.3m and increased as compared to the relevant period of 2017 and 2016 (Rb 2.1m and Rb 1.8m, respectively). Generally, with an average mortgage loan in rubles amounting to Rb 2.0m in H1 2018, the size of EPA-backed mortgages is somewhat larger.

Summing up the above, it can be stated that in H1 2018 the number of concluded EPAs on joint development of apartment buildings co-financed by future property owners increased, however, the number of such agreements is smaller as compared with the record-high one seen in 2014. The revival can be explained among other things by a switchover to new

²³ Based on the data of the Rosreestr <https://rosreestr.ru/> and the Central Bank of the Russian Federation <http://www.cbr.ru/>

guidelines for attracting households' funds for housing development through escrow accounts. Amid mortgage growth, the role of EPA in mortgage lending has diminished: the share of mortgage loans extended against EPA decreased, while the share of the debt on such mortgage loans did not virtually change and amounted to 20% of households' debt on mortgages in rubles.

The "Childhood" Mortgage

The program for subsidizing mortgage interest rates for families which expect children²⁴ is gaining momentum. Based on the results of H1 2018,²⁵ the program's participants are 569 families, including 254 families – borrowers of new loans²⁶ -- and 315 families which refinanced their earlier taken home (mortgage) loans at the preferential rate of 6% per annum owing to the birth after 1 January 2018 of the second or any subsequent child (Figure 9). The average sum of a new loan received under the program amounts to Rb 2.3m which is more than the average size of a mortgage loan in rubles (Rb 1.98m in H1 2018 as per the data of the Central Bank of the Russian Federation).

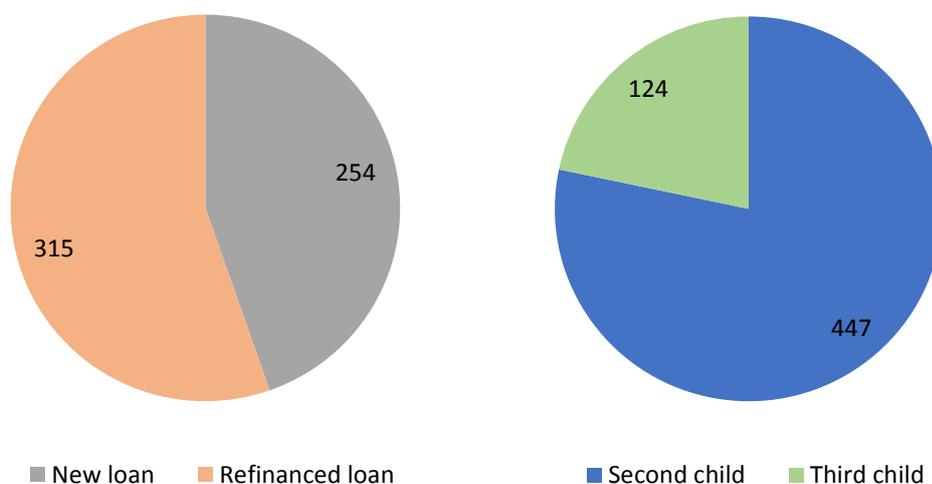


Figure 9 – The number of new and refinanced loans under the program for support of families with children and the number of children born with borrowers, February-June 2018, units²⁷

²⁴ Resolution No.1711 of 30 December 2017 of the Government of the Russian Federation (as amended on 21 July 2018) "On Approval of the Guidelines for Granting Subsidies out of the Federal Budget to Russian Credit Institutions and the "DOM.RF" Joint-Stock Company to Indemnify Short-Received Incomes on Issued (Acquired) Home (Mortgage) Loans Extended to Nationals of the Russian Federation with Children" / The official internet site of legal information: <http://www.pravo.gov.ru>.

²⁵ The information of 26 July 2018 on issued (acquired) home (mortgage) loans to nationals of the Russian Federation with children and the size of a subsidy provided for indemnification of short-received incomes / The Ministry of Finance of the Russian Federation <https://www.minfin.ru/ru/performance/GovSupport/>

²⁶ So, "Childhood" loans accounted for less than 0.04 % out of 663,000 mortgage loans extended in January-June 2018.

²⁷ Based on the data of the Ministry of Finance of the Russian Federation <https://www.minfin.ru/>

The program is meant to grant the right to a preferential interest rate on ruble-denominated new housing mortgages or refinance a loan taken earlier by a state program participant at a bank for buying a real property on the primary market. In case of a birth of one child in the 2018-2022 period, the loan is granted at the preferential interest rate for the term of three years, but if another child is born in the family in that period, the preferential interest rate of 6% will be extended for five more years and, totally, be in effect for eight years. Upon the completion of the above period, the interest rate on the loan will be equal to the key interest rate of the Central Bank of the Russian Federation set as of the date of entry into the credit (loan) agreement or the supplementary agreement on refinancing, plus 2 percentage points. From March 2018, the key interest rate is equal to 7.25%, so, after the easy-term period expires, the interest rate on newly received loans or loans refinanced under the program in March-August 2018 will amount to 9.25% per annum, which value is below the current average indices. The weighted average interest rate on mortgage loans extended in June 2018 amounted to 9.48% per annum, while that on loans granted in H1 was equal to 9.62% per annum²⁸, an excess of more than 2 p.p. over the key interest rate.

In 2018, the birth of 571 babies, including 447 babies born in families as the second child and 124 babies, as the third child has already given the right to the easy-term mortgage in February-June. The program is designed to support up to Rb 600bn worth of loans. Loans included in the program in February-June 2018 amounted to Rb 1.3bn or 0.2% of the ceiling amount envisaged for 2018-2022. In H1 2018, the compensation to banks for their short-received incomes was equal to Rb 3.2m (including Rb 1.3m in June). Taking into account the fact that within a month in July another Rb 5.2m worth of compensation was paid to banks²⁹ (a four-fold growth relative to June), it can be stated that the number of families, participating in the program has largely increased since the beginning of H2.

Consequently, easy-term mortgage programs (at the interest rate of 6%) to families with a second or any subsequent child born after 1 January 2018 are just gaining momentum. A sensible demographic response to the above supportive measures cannot be expected before the end of 2018.

²⁸ Individual indicators on loans in rubles extended by credit institutions to individuals / The Central Bank of the Russian Federation

²⁹ Annex to Order No.174 of 23 August 2018 of the Ministry of Finance of the Russian Federation/ The Ministry of Finance of the Russian Federation <https://www.minfin.ru/>

The Dynamics of the Labor Market

In July 2018, the number of workforce amounted to 76.3m people, a decrease of 0.16m people as compared to July 2017 (Figure 10). Note that the number of the employed in the economy remains to be higher than last year, while the number of the unemployed decreased by 0.3m people as compared to the relative period of the previous year. The level of unemployment calculated in accordance with the ILO methods has remained for three months running at the record level of 4.7%, while with a seasonal component excluded it keeps falling, which factor is evidence that business activities are on the rise in Russia.

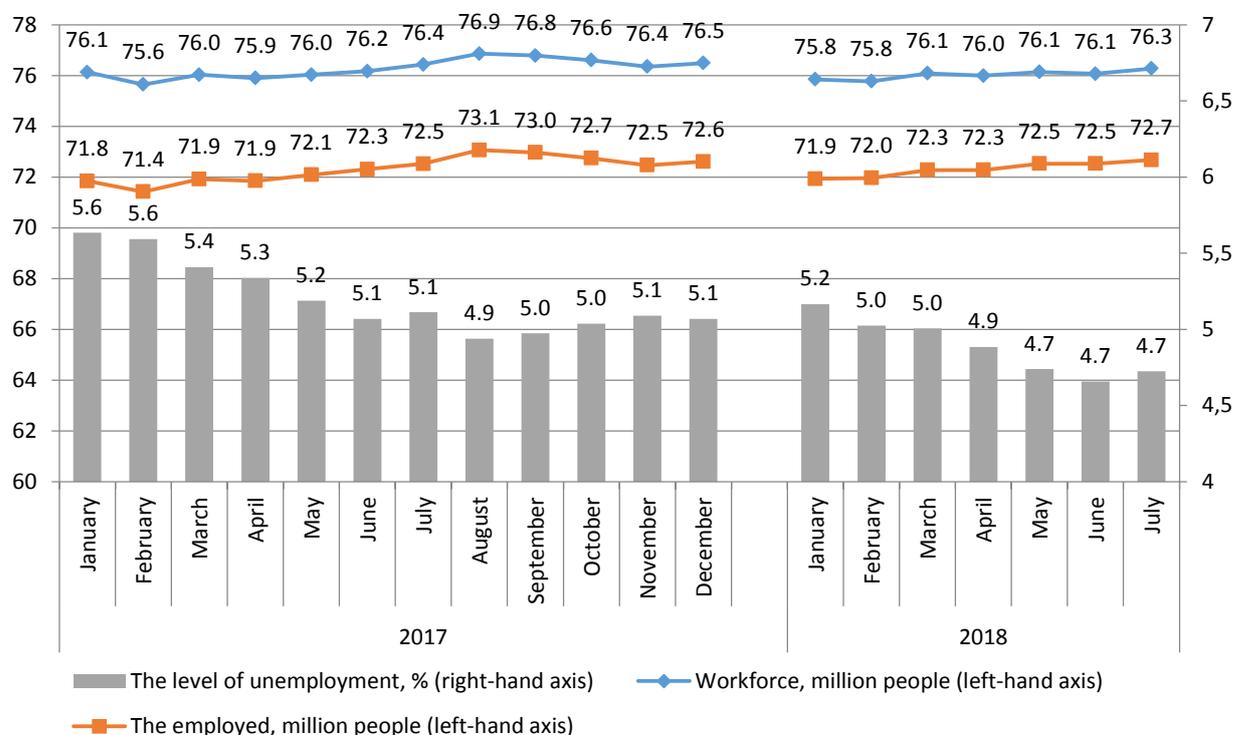


Figure 10 – The number of workforce, the employed and the level of unemployment in 2017 and 2018, %³⁰

As of the end of July, the level of the registered unemployment amounted to 0.9%. The number of vacant jobs at the state employment service keeps growing and has amounted to 1.8m jobs; there were 47.6 officially registered unemployed persons per 100 vacant jobs, a decrease of 16.6% relative to July 2017.

³⁰ Source: Russia's Socioeconomic Situation / The Rosstat. A Series of Reports for 2017-2018.

According to the preliminary estimate of the Rosstat, in July the labor remuneration of hired workers amounted to Rb 42,640 which is an 8.0% increase in real terms on the relevant period of the previous year (Figure 11). In H1 2018, wages and salaries in real terms were 8.7% higher than in H1 2017.

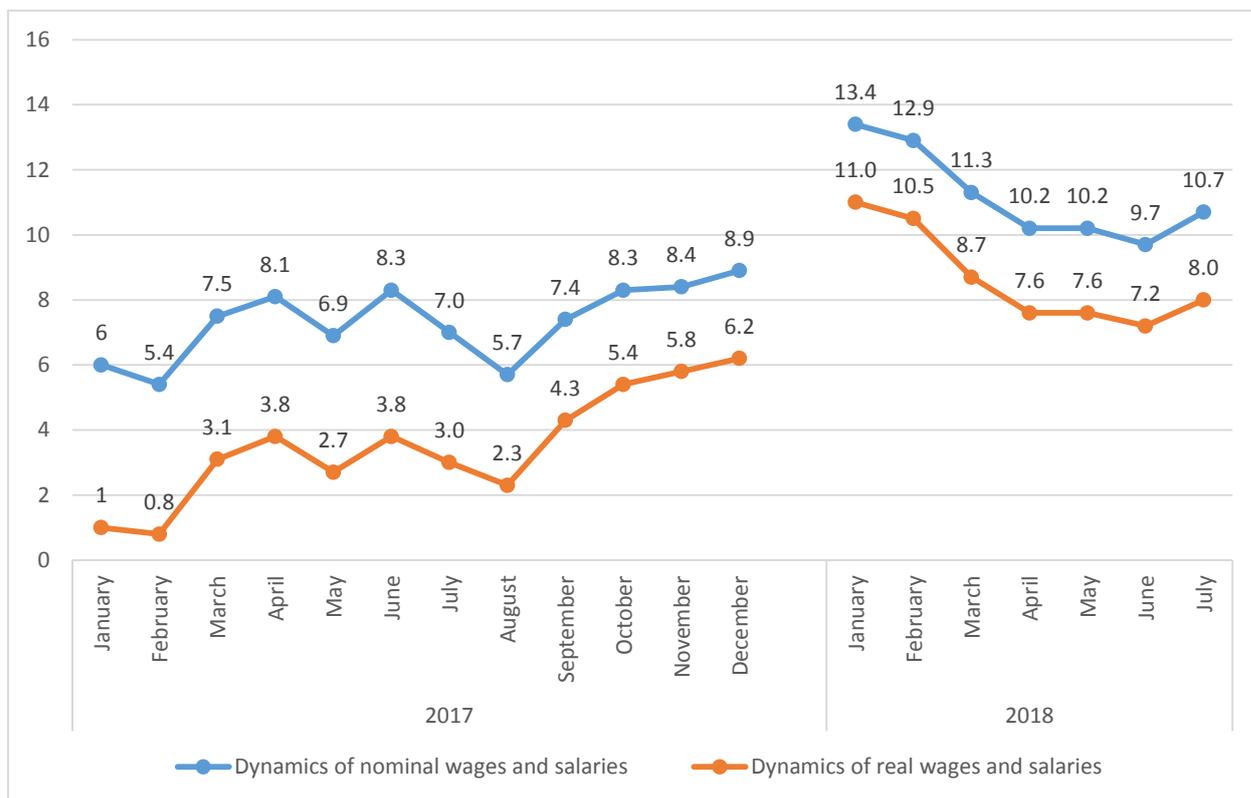


Figure 11 – Growth in nominal and real wages and salaries against the relevant indicator of the previous year, %³¹

In H1 2018, the highest growth in wages and salaries was observed in healthcare and social services (nominal growth of 26.7% on the relevant period of the previous year), libraries, archives, museums and other cultural facilities (27.8%), information technologies and communication (21.7%), production of petrochemicals (19.7%) and education (15.4%). The lowest growth was registered in industries, such as production of crude oil and natural gas (2.4%), manufacturing of furniture (2.3%) and production of tobacco articles (2.8%). In other sectors, growth ranged from 6% to 11%.

³¹ Source: Russia's Socioeconomic Situation. / The Rosstat. A Series of Reports for 2017-2018.

Employment at large and mid-sized enterprises keeps falling. In H1 2018, the number of workers who left that sector for the informal sector exceeded by 150,000 persons the number of newly hired workers. As a result, during Q1 and Q2 2018 the number of the employed in the informal sector amounted to 14.3m people, an increase of 0.4m people compared to the relevant period of the previous year. In Q2 2018, the level of informal employment was equal to 20.3% (19.0% without taking into account persons working part-time in the informal sector). As a result, the informal sector in Russia has grown, but is still below the level seen in 2016.

In H1 2018, intensity of employment at large and mid-sized entities decreased: staff workers' actual length of business hours fell by 0.7% and the share of those employed part-time increased by 0.2 p.p.

In H1 2018, the dynamics of the labor market's main parameters do not make the situation quite clear. The rate of unemployment is falling and wages and salaries are actively growing. At the same time, after the halt in 2017 the outflow of workers to the informal sector has renewed.

On 19 July 2018, the State Duma approved in the first reading the draft law on gradual pensionable age increase starting from 2019. If approved, the law in question will undoubtedly have an effect on the labor market because it entails growth in economic activities of the elderly population and extension of the working life. This situation creates risks of unemployment and reduction of wages and salaries of people at the age of 55-65. On the other side, in terms of the labor market the present period should be recognized as the most optimal for the pension reform to be carried out. The level of unemployment hit the historic minimum and wages and salaries tend to grow both in the public and private sectors. Demographic forecasts predict a decrease in the number of workforce: in the next ten years it may fall by 7%. Note that even at present the number of people employed at a pensionable age is growing because people postpone their exit from the labor market. In H1 2018, the number of people who are above the active working age increased by 5.8% compared to H1 2017. So, in terms of the labor market the raising of the pensionable age at present and not in 10 years creates fewer risks for those who may be affected by the pension reform.

Expected Legislative Changes in the Field of Social Support of the Population

Among currently debated proposals to upgrade the mechanisms of social support to the population, there is a draft law on modification of the methods of calculation of the size of the additional payment to non-working pensioners up to the minimum subsistence level.³² In compliance with the effective legislation, non-working pensioners residing in the territory of the Russian Federation whose overall sum of income is less than the value of the regional minimum subsistence level for pensioners receive an additional payment up to the minimum subsistence level. The program of additional payments has been in effect since 2010. In calculating the size of an additional payment, both the pension and social payments (monthly cash payment, including the cost of the package of social services, additional material (social) support, other measures of social support to individuals in monetary terms envisaged by the legislation of the constituent entity of the Russian Federation and cash reimbursements for housing and public utility services) are accounted for in the pensioner's income. This type of social security is aimed at eliminating poverty among pensioners. However, the minimum subsistence level set once a year for calculation of such an additional payment at the end of the previous year differs from the actual minimum subsistence level which is used for calculation of the poverty level; the actual minimum subsistence level is set on a quarterly basis and keeps track of prices more accurately.

To remove the discrepancies between these two indicators of the minimum subsistence level – for calculation of the additional payment to non-working pensioners and the level of poverty – the draft law is meant to set a unified approach to determination of the value of the minimum subsistence level of pensioners in constituent entities of the Russian Federation. Once amendments to the law are approved, the value of the minimum subsistence level of pensioners used for calculation of an additional social payment to pensions both nationwide and in regions will be set in the amount of the actual value of the minimum subsistence level for pensioners which prevailed in Q2 of the previous year.

The proposed modification of the procedure for calculation of the value of the minimum subsistence level will not lead to the reduction of pensioners' income. According to Article 12.1.(8) of Federal Law No.178-FZ of 17 July 1999 On State Social Support, the following norm is

³² On amendment of Article 4 of the Federal Law on the Minimum Subsistence Level in the Russian Federation / The federal web-site of drafts of statutory acts: <http://regulation.gov.ru/projects#npa=81604>

provided for: in revising the size of additional social payments to pensions subsequent to modification of the value of pensioners' minimum subsistence level, the total sum of the pensioner's material support with an additional social payment to the pension in the current year taken into account cannot be less than the total sum of the pensioner's material support, including an additional social payment to the pension in the previous year.

Also, it is noteworthy that if the level of the minimum subsistence level set in a region for calculation of the size of an additional payment to non-working pensioners is higher than the federal indicator, such a payment will be made out of the regional budget. In 2018, non-working pensioners from 16 constituent entities³³ received an additional social payment up to the regional minimum subsistence level out of the budget of their region (these regions include Moscow and the Moscow Region, oil and gas-producing autonomous regions and almost all far-eastern regions (Table 1). Social support of pensioners from other regions is within the scope of federal authorities and is carried out by means of federal budget funds. Any unjustified overstatement by regional authorities of the minimum subsistence level for calculation of an additional payment to non-working pensioners as compared to the actual minimum subsistence level (MSL) in these regions is directly translated into higher federal budget expenditures on this program.

³³ An additional social payment up to the minimum subsistence level of pensioners / The Pension Fund of the Russian Federation http://www.pfrf.ru/grazdanam/pensionres/soc_doplata/

Table 1 – Constituent entities of the Russian Federation with an additional payment to pensioners in 2017 below the actual MSL, an additional payment out of the regional budget and a feasibility of a switchover to new methods³⁴

	Additional payment below actual MSL in 2017	Additional payment below MSL in Q2 2016	Payments in 2018 are carried out of regional budget
Central Federal District			
Ivanovo Region	Yes	Yes	
Moscow Region			Yes
Smolensk Region		Yes	
City of Moscow			Yes
North-Western Federal District			
Republic of Karelia	Yes	Yes	
Republic of Komi	Yes	Yes	Yes
Nenets Autonomous Region			Yes
Archangelsk Region		Yes	Yes
Vologda Region	Yes	Yes	
Kaliningrad Region	Yes		
Murmansk Region			Yes
Pskov Region	Yes	Yes	
St. Petersburg	Yes		
North Caucasian Federal District			
Republic of Kabardino-Balkaria		Yes	
Chechen Republic	Yes		
Ural Federal District			
Khanty-Mansi Autonomous District	Yes	Yes	Yes
Yamal-Nenets Autonomous District			Yes
Siberian Federal District			
Zabaikalsky Territory		Yes	
Krasnoyarsk Territory	Yes	Yes	
Kemerovo Region			
Novosibirsk Region	Yes		
Tomsk Region	Yes	Yes	
Far Eastern Federal District			
Republic of Sakha (Yakutia)			Yes
Kamchatka Territory			Yes
Maritime Territory	Yes	Yes	Yes
Khabarovsk Territory			Yes
Amur Region	Yes	Yes	
Magadan Region			Yes
Sakhalin Region			Yes
Jewish Autonomous Region	Yes	Yes	Yes
Chukotka Autonomous Region			Yes
Total of such regions	15	15	16

³⁴ Source: Based on the data of the Pension Fund of the Russian Federation and the Unified Interdepartmental Statistical Information System (UISIS)

To illustrate the discrepancies between the three levels of the MSL – set by constituent entities of the Russian Federation for calculation of an additional payment and actual minimum subsistence level averaged for four quarters and proposed as a new indicator of MSL for Q2 of the previous year³⁵ -- a “gain” for non-working pensioners in 2017 was calculated.

Due to the fact that in 2017 the headline inflation was below the forecasted values, the minimum subsistence level used in the algorithm of computation by the Pension Fund of an additional payment turned out to be higher in most regions than the actual subsistence level for pensioners used for determination of the level of poverty. The “gain” of a non-working pensioner across the Russian Federation as a whole amounted to Rb 226 per month. In the Chukotka Autonomous District it was equal to Rb 3,500, while in a number of regions, to about Rb 1,000 per month (the Magadan Region, the Sakhalin Region, the Omsk Region, the Volgograd Region, the Belgorod Region, the Lipetsk Region, the Archangelsk Region (without the autonomous district), the Republic of Khakasia, the Republic of Mordovia, the Republic of Tatarstan, the Republic of Udmurtia, the Ingush Republic, the Republic of Karachaevo-Cherkassia and the Republic of North Ossetia).

At the same time, non-working pensioners from 15 regions – the Ivanovo Region, the Pskov Region, the Volgograd Region, the Kaliningrad Region, the Amur Region, the Khanty-Mansi Autonomous District, the Republic of Karelia, the Republic of Komi, the Chechen Republic, the Jewish Autonomous Region, the Krasnodar Territory, the Maritime Territory and St. Petersburg – actually happened to be below the rate of poverty: additional payments were insufficient and pensioners’ income, including an additional payment received in 2017 turned out to be below the minimum subsistence level for pensioners.

If the minimum subsistence level used for calculation of an additional payment in 2017 is compared with that of Q2 of the previous year (in this case -- 2016) as proposed by the draft law, there will be 15 regions (Figure 12), too, where non-working pensioners’ income with an additional payment taken into account remains below the level of poverty. A portion of regions from among those listed above drop out from the number of the “vulnerable” ones, however, the list now includes the Smolensk Region, the Archangelsk Region, the Republic of Kabardino-

³⁵ The value of the minimum subsistence level / the Unified Interdepartmental Statistical Information System (UISIS) <https://www.fedstat.ru/indicator/30957> Access on 05.09.2018; The Main Parameters of the Socioeconomic Situation of Regions of the Russian Federation and Administration of Budgets / The Rosstat. http://www.gks.ru/bgd/free/B02_83/Main.htm

Balkaria and the Zabaikalye Territory, which factor cannot, but illustrate a limited efficiency of the existing scheme of additional payments.

Monthly Monitoring of Socio-Economic Situation and Perceptions of the Population... 2015 – August 2018

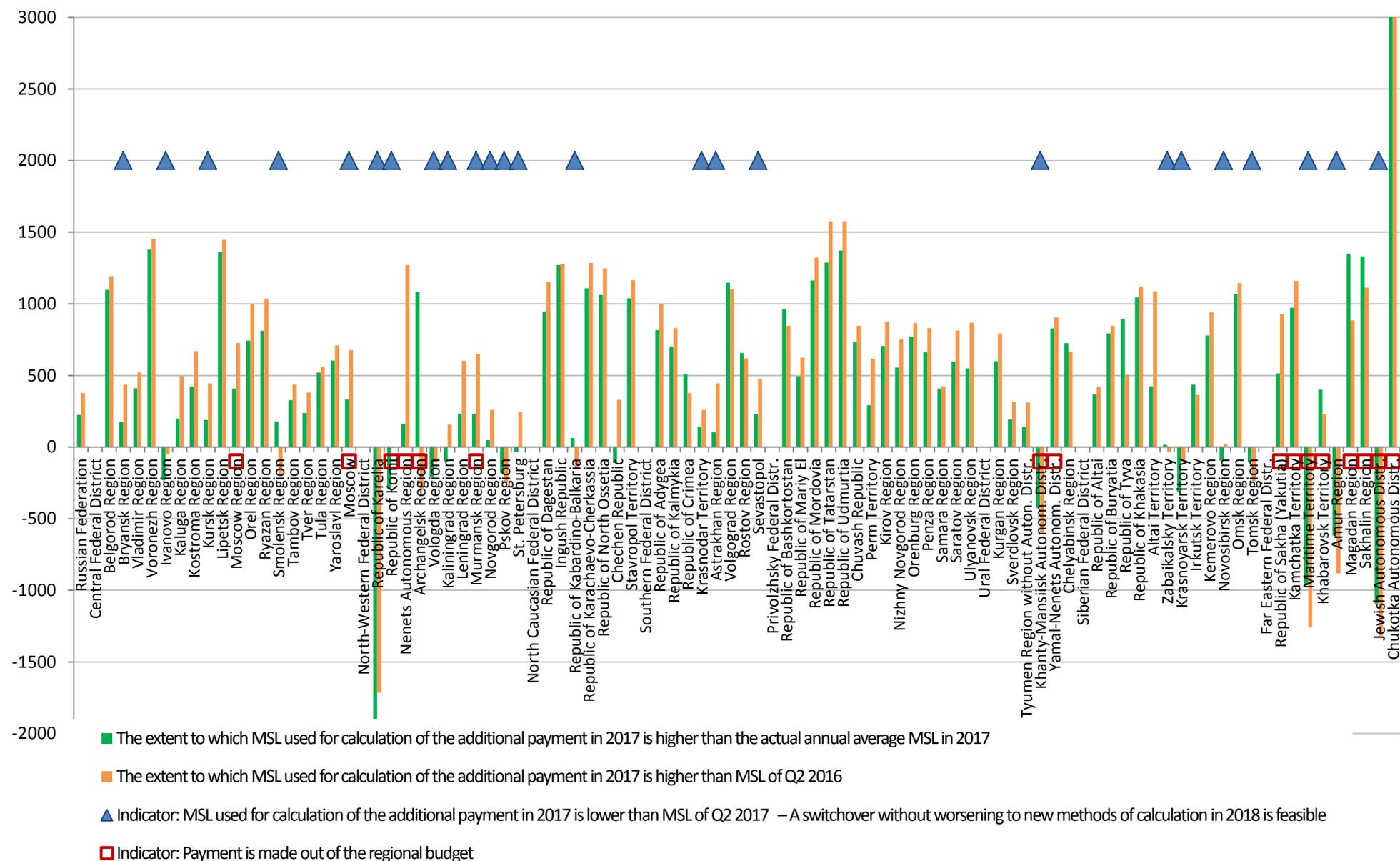


Figure 12 – The size of an additional payment to non-working pensioners as compared to the minimum subsistence level for pensioners, rubles per month, the indicator of the source of payments and feasibility of a switchover without worsening of pensioners' financial situation to new methods of calculations³⁶

³⁶ Source: Based on the data of the Pension Fund of the Russian Federation and the Unified Interdepartmental Statistical Information System (UISIS)

With a switchover to the proposed new methods of calculation of the minimum subsistence level for pensioners for the purpose of paying non-working pensioners an additional payment based on the actual amount of the minimum subsistence level of Q2 of the previous year, it is provided for by the norm of the law that the financial situation of recipients of such payments does not get worse. Accordingly, the modification of the methods may be feasible only in 25 regions in 2018³⁷: the Bryansk Region, the Ivanovo Region, the Kursk Region, most regions of the North-Western Federal District, the Republic of Kabardino-Balkaria, the Krasnodar Territory, the Novosibirsk Region, the Tomsk Region, the Amur Region, the Krasnoyarsk Territory, the Zabaikalye Territory, the Maritime Territory and the Jewish Autonomous Region. In the above-listed regions, the minimum subsistence level used for calculation of an additional payment is below the actual minimum subsistence level (used for calculation of the level of poverty) in Q2 2017, so, a switchover to new methods from January 2018 would not have made pensioners' financial situation worse. In other constituent entities of the Russian Federation, threshold values of payments set for an additional payment are higher than the actual size of the minimum subsistence level for pensioners in Q2 2017, so, a switchover to new methods without worsening of pensioners' financial situation would not have been feasible as of 2018.

Summing it up, it is necessary to state the following: firstly, in 2017 the program of additional payments to non-working pensioners turned out to be quite generous – in most regions recipients received payments above the actual minimum subsistence level. At the same time, 15 constituent entities of the Russian Federation have failed to take pensioners out of the monetary poverty.

Secondly, the proposed switchover to the unified threshold value of the minimum subsistence level for pensioners for calculation both of an additional payment and the level of poverty is currently feasible only in 25 regions because it is provided for by the law that recipients' financial situation cannot get worse compared to that of the previous period. Even if the law becomes effective from 2019, the switchover to new methods in all the constituent entities will take some time.

³⁷ As the minimum subsistence level for pensioners in Q2 2018 was not set for all the regions as of the period of work on the Monitoring, the modeling of the situation was based on the example of the previous year.

2 SITUATION IN THE HOUSEHOLDS SECTOR

Incomes and poverty level of the population

In July 2018, growth of real disposable household incomes, real gross wages and real awarded pensions was 2.0%, 8% and 0.8% respectively (Figure 13).

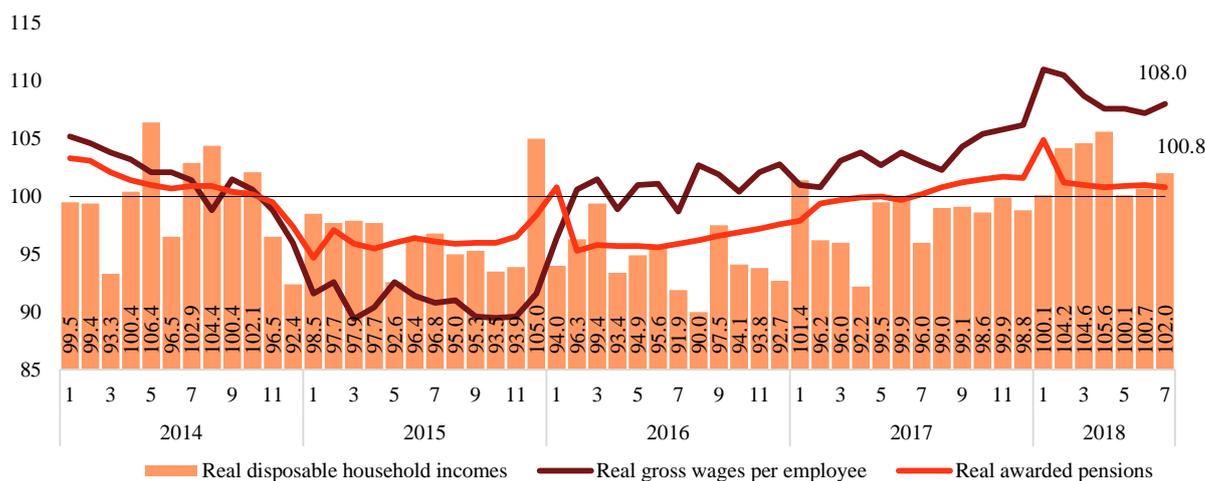


Figure 13 – Dynamics of real disposable household incomes, real gross wages and real awarded pensions in 2014-2018 in % to respective period of previous year³⁸

Note: real disposable household incomes in January 2017 and January 2018 do not account a lump sum of Rb 5000 paid to pensioners in January 2017.

In general, in January – July 2018 incomes of the population, wages and pensions amounted in real terms to 102.6%, 108.6% and 101.5% compared to the level of the same period in 2017.

Thus, growth rates of incomes and pensions lag significantly behind growth rates of real gross wages in real terms.

At the same time, according to Ministry of Labor and Social Protection of the Russian Federation, Draft law No.489161-7 regarding the increase of the statutory retirement age³⁹, which had passed the first reading by the State Duma, will contribute to a significant rise of pensions for retirees.

³⁸ Presentation “Short term economic indicators”, July 2018/Rosstat – [Electronic resource]. URL: http://www.gks.ru/bgd/regl/b18_02/Main.htm

³⁹ Draft law No. 489161-7 «On amendments to certain legislative acts of the Russian Federation related to awarding and payment of pensions» /State Duma – [Electronic resource]. URL: <http://sozd.parliament.gov.ru/bill/489161-7>

Thus, in January – July 2018 the average amount of awarded pensions amounted only to 31.3% of the average accrued wages, which was lower than the level of the similar period in 2013 – 2017 (Figure 14).

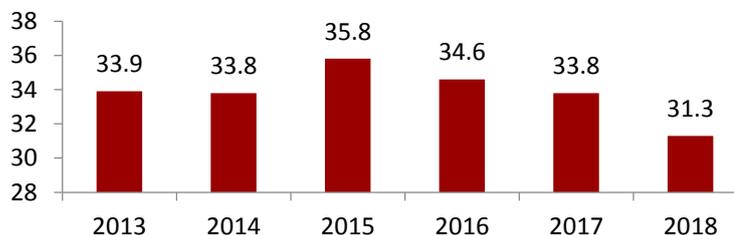


Figure 14 – Average size of awarded pensions in % vs average size of accrued wages in January – July 2013 -2018, %⁴⁰

As of July 1, 2018, national average size of awarded pensions in Russian Federation amounted to 155% of the pensioners minimum subsistence line in Q2, 2018 (Figure 15). However, in over half of the regions average size of awarded pensions amounted from 150% to 170% of the pensioners minimum subsistence in the subject of the Russian Federation.

In 7 regions, i.e. Nenets Autonomous okrug, Jewish Autonomous region, Kamchatka, Primorsky, Zabaikalsky regions, Sakha Republic (Yakutia) and Kaliningrad region, average size of awarded pensions as of July 1, 2018 was below 140% compared to regional pensioner's minimum subsistence in Q2 2018 and only in 9 regions, i.e. Voronezh, Yaroslavl, Lipetsk, Kemerovo and Belgorod regions, Republics of Chuvashia, Mordovia, Udmurtia and Tatarstan average awarded pension exceeded 170% of regional pensioner's minimum subsistence.

⁴⁰ Presentation «Social/economic situation in Russia - 2018» January - July 2018/Rosstat – [Electronic resource]. URL: http://www.gks.ru/bgd/regl/b18_01/Main.htm

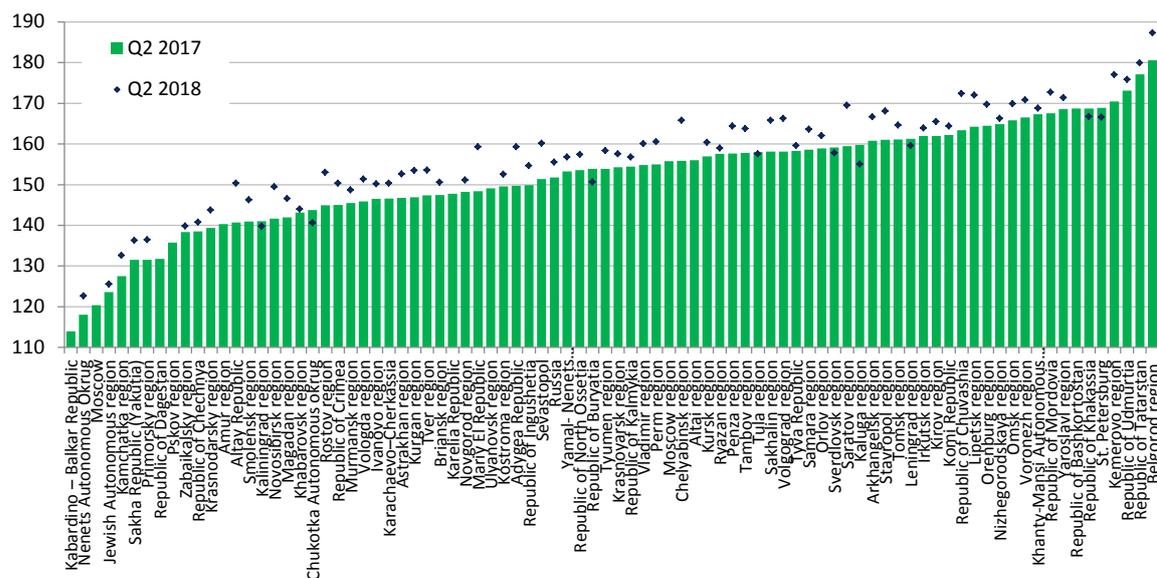


Figure 15 – Ratio of average size of awarded pensions as of July 2017-2018 vs pensioners minimum subsistence in Q2 2017-2018, %⁴¹

Thus, the task to increase the level of pension benefits for retirees seems to be highly relevant.

In the meantime, it has to be noted that unemployed individuals below the new pension age may experience increased poverty risks amid raising of retirement age. The increase of maximum unemployment allowance up to Rb 11.280 from January 1, 2019 proposed by the President of the Russian Federation during televised address on August 29, 2018⁴² will help to mitigate those risks.

However, in some regions, for example, in some of the Far East regions, the size of the quoted allowance will be below subsistence minimum in the subject of the Russian Federation. In this context, it seems to be reasonable to raise the size of the unemployment allowance for senior unemployed individuals affected by pension reform up to regional subsistence minimum.

As for current poverty situation in the regions, according to Rosstat information for 2017 updated as of August 15, 2018, poverty below average national level, i.e. 13.2% was observed in 30 out of 85 regions with only five following regions demonstrating the decline in poverty by half: Yamal–Nenets Autonomous okrug (7.5%), Republic of Tatarstan (7.7%), Belgorod region

⁴¹ UISIS data

⁴² President’s address to the citizens of Russia/President of Russia–[Electronic resource]. URL: <http://kremlin.ru/events/president/news/58405>

(7.9%), St. Petersburg (8.1%) and Moscow region (8.1%) (Figure 16). On the other hand, poverty exceeded average national level by over 1.5 times in 12 regions in 2017 while in 3 regions it was above national average level more than twofold, i.e. Republics of Kalmykia (30.6%), Ingushetia (31.6%) and Tyva (41.5%).

Reduction of poverty level in 2017 compared to 2016 was observed in 34 regions, while 37 regions experienced a slight growth of poverty.

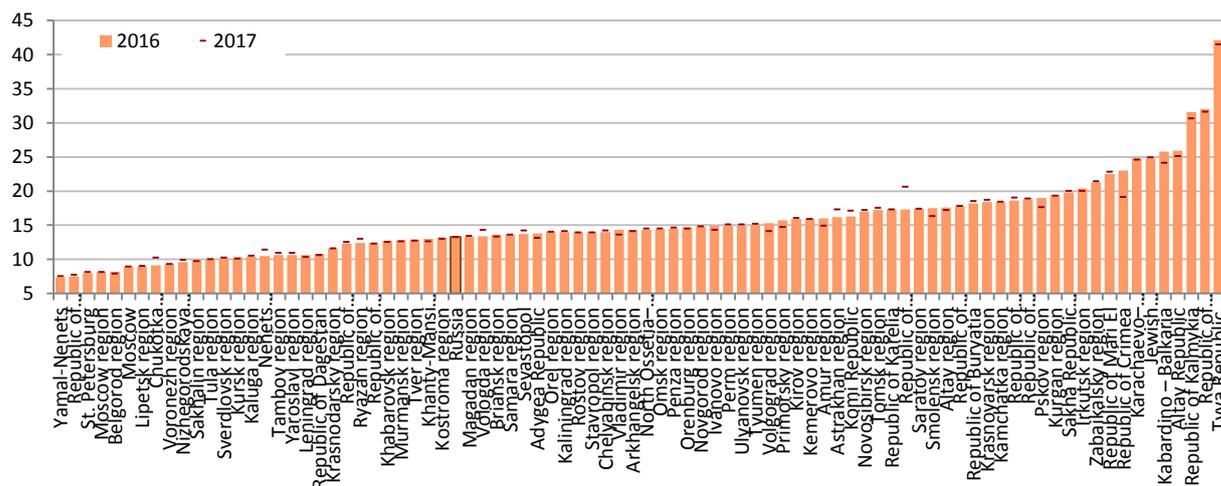
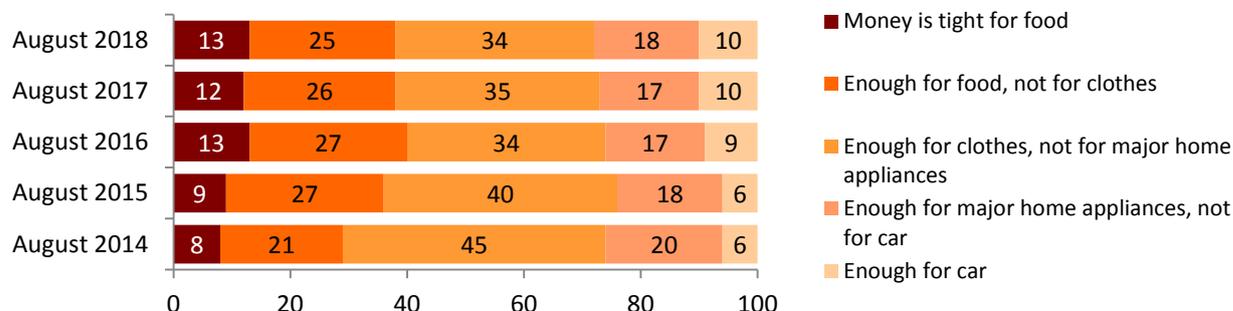


Figure 16 – Population possessing cash incomes below minimum subsistence relevant for the subject of the Russian Federation in 2016 – 2017, % as of August 15, 2018⁴³

According to Public Opinion Foundation (POF) share of subjectively poor population stating that they have enough money only for food or barely can afford food was 38% in August 2018 with no significant difference from the level of a similar period in 2015-2017, however, higher than in August 2014 (Figure 17).



⁴³ Monitoring indicators for assessment of activities' efficiency of the subjects of the Russian Federation/Rosstat – [Electronic resource]. URL: http://www.gks.ru/free_doc/new_site/rosstat/pok-monitor/pok-monitor.html

Figure 17 – Public opinion on current financial situation, % of total number of people interviewed, August 2014-2018⁴⁴

Compared to the same period of 2014 – 2015 number of high income groups having financial means to afford a car increased in August 2018 from 6% to 10%. Share of families having financial means to afford clothes but no major home appliances reduced from 45% to 34% in the period from August 2014 to August 2018.

Thus, stratification of society in terms of self – assessment of their economic status increased in August 2018 compared to August 2014.

As for dynamics of the pattern of household funds, it is worth to mention that share of monetary incomes spent for payment of goods and services accounted for 77.1% in January – July 2018, which was slightly above the level observed in the same period in 2015 – 2017 (Figure 18).

Share of monetary incomes spent to purchase goods and services abroad using banking cards has slightly increased from 2.5% to 3.0% in January – July 2018 compared to the same period of the previous year.



Figure 18 – Share of monetary incomes spent on purchase of goods and services in January – July 2013 - 2018, %⁴⁵

Share of monetary incomes used for savings in January – July 2018 amounted to 5.9% and was the minimum in the last 15 years (Figure 19). Reduction of this share with regard to the

⁴⁴ Dynamics of financial situation /Dominants/POF – [Electronic resource]. URL: <http://bd.fom.ru/>

⁴⁵ Presentation “Social/economic situation in Russia – 2018” January - July 2018 /Rosstat – [Electronic resource]. URL: http://www.gks.ru/bgd/regl/b18_01/Main.htm

level of the same period in 2015-2017 happened, first of all, due to reduction of share of “other” savings specified, inter alia, by expansion of loan debts to individuals.

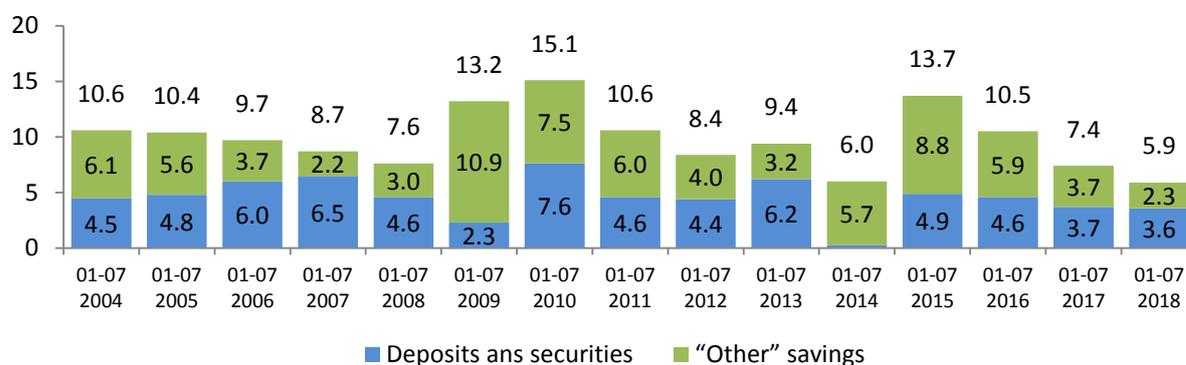


Figure 19 – Share of monetary incomes aimed at savings in January – July 2004 - 2018, %⁴⁶

According to Central Bank of the Russian Federation, loans to individuals increased by 11.6% in January – July 2018 compared only to 5.2% in the same period in 2017 while debt in arrears on retail portfolio decreased by 3% compared to increase of debt in arrears by 3.9%.⁴⁷ Major growth of loans was due to mortgage loans with the increase of their portfolio by 10.6% in H1 2018 and loans not secured by consumers, demonstrated growth by 9.1% in H1 2018.

3 DEMOGRAPHY

Natural decline in population increased in January – July 2018 and equaled to 170.500 people or 2‰ against 114.400 or 1.3‰ in the same period of 2017. Continuous reduction of birth rate and growth of mortality rate provided for this tendency.

In 2018, maximum decline in population fell on March, i.e. 36.500 people. Then situation started to improve and natural decline in population reduced every month and in July 2018 it amounted to 6900 people (Figure 20). In 2016-2017, same tendency of natural decline was observed in summer months with natural population growth in June – October 2016 and in July – August 2017, however, there was no growth in July 2018.

⁴⁶ Presentation “Social/economic situation in Russia – 2018” January - July 2018/Rosstat – [Electronic resource]. URL: http://www.gks.ru/bgd/regl/b18_01/Main.htm

⁴⁷ Central Bank of RF, On dynamics of banking sector development in the Russian Federation in January – July 2018 – [Electronic resource]. URL: http://www.cbr.ru/analytics/bank_system/din_razv_18_07.pdf

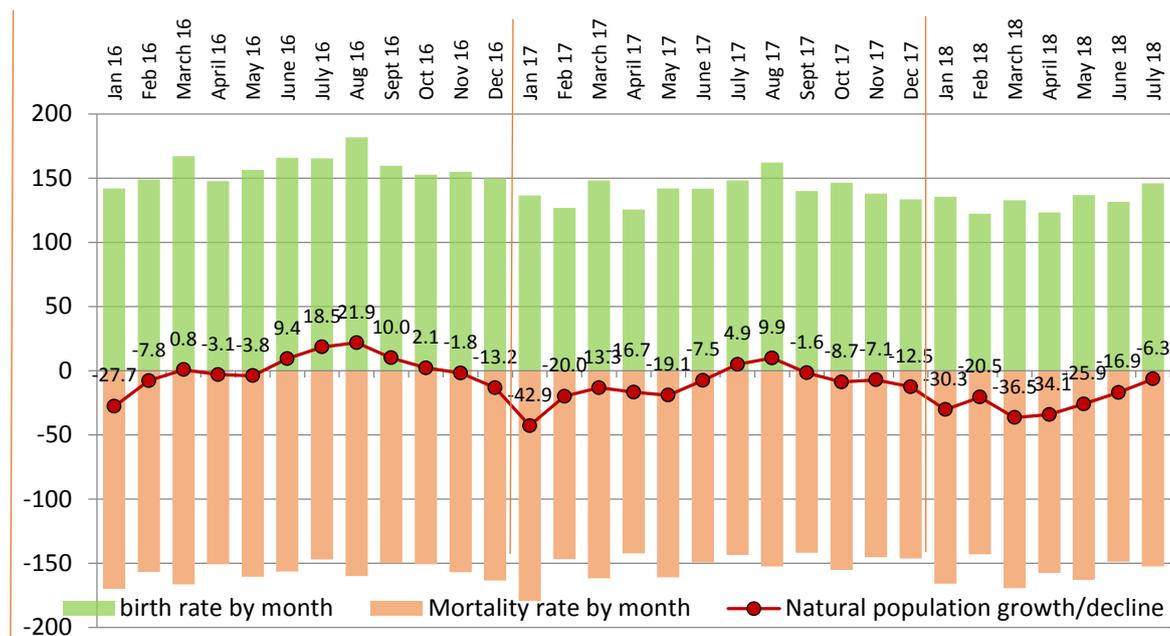


Figure 20 – Birth and mortality rate, natural population growth/ decline, January 2016 – July 2018, thousands of people⁴⁸

Natural decline in population was observed in most of the regions of Russia over a period of 7 months in 2018, however, there were regions marked with natural population growth, i.e. 19 regions, and rate of natural growth and decline in the Republic of Tatarstan and Zabaikalsky region was equal to zero in this period.

The most essential natural decline in population was evidenced in Pskov, Tver, Tula, Tambov, Smolensk, Ivanovo regions (Figure 21). In January – July 2018 Republic of Chechnya, Republics of Ingushetia, Tyva, Dagestan, Yamal–Nenets Autonomous okrug and Khanty–Mansi Autonomous okrug demonstrated natural population growth.

⁴⁸ Source: Rosstat and UISIS operative information



Figure 21 – Natural population growth/decline in January – July 2018 per 1000 people, %⁴⁹

928.800 children were born in January – July 2018, this was by 4.2% less than in January – July 2017, i.e. 969.300. Since early 2018, maximum birth rate fell on July with 146.100 children. Despite maximum figure in 2018, the birth rate in July 2018 was by 1.5% less than in July 2017.

The total birth rate decreased by 4.4% and amounted to 10.9 births per 1000 people in January – July 2018. In the same period in 2007-2018 number of births per 1000 people was so low compared only to 2007, i.e. 10.9% (Figure 22).

⁴⁹ Source: Rosstat operative information

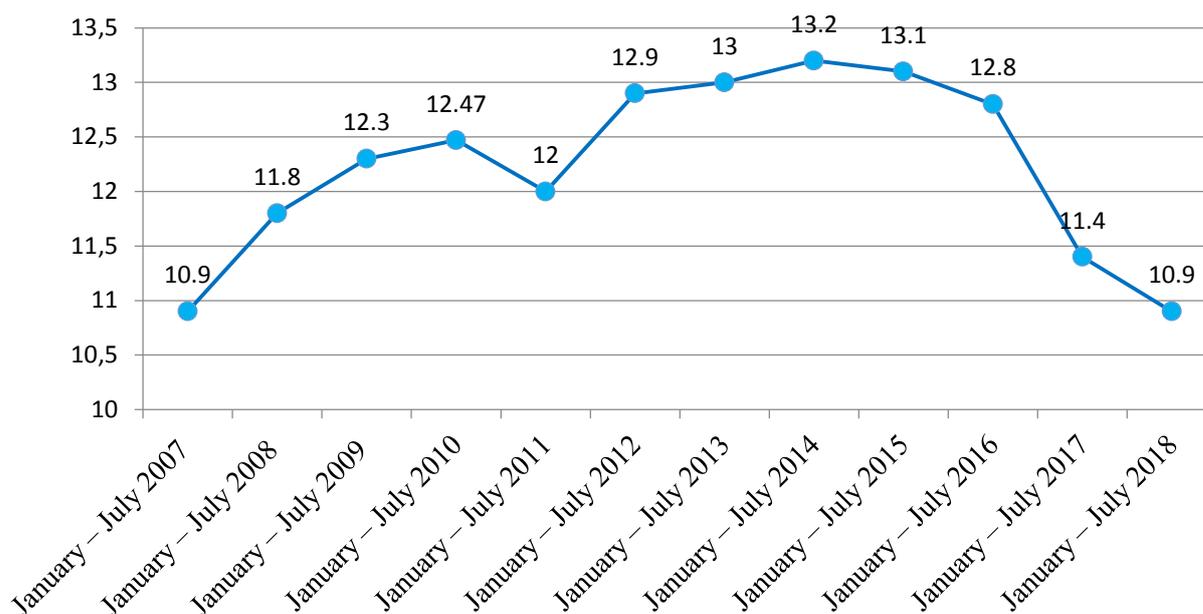


Figure 22 – Overall birth rate, January – July 2007 – 2018 per 1000 people

Birth rate index per 1000 people decreased practically in every region within 7 months in 2018 with the exception of Republic of Kalmykia where the rate grew by 3.9% (10.7%), Republic of Ingushetia and Jewish Autonomous region with the birth rate fixed at the level of the same period of 2017, i.e. 15.6 and 11.7‰ respectively. Total birth rate decreased most notably in the Komi Republic, i.e. by 10.4%, 10.3 ‰ in January - July 2018, Vologda region by 10.3%, 10.5‰, Sevastopol by 10%, 9.9‰, Magadan region by 9.3%, 9.7‰ and Tver region by 9.1%, 9‰ in January - July 2018.

Republic of Tyva, 20.3‰, Republic of Chechnya, 19.7‰, Republic of Ingushetia, 15.6‰, Altay, 15.4‰, Dagestan, 15.3‰, demonstrated maximum birth rate in January – July 2018. The worst results were noticed in the following regions: Leningrad, 7.8‰, Tambov, 8.1‰, Tula, 8.3‰, Smolensk, 8.5‰, and Republic of Mordovia, 8‰.

Mortality rate accounted for 1.099.400 in January – July 2018 that was by 15.600 people more than in the same period in 2017. Total mortality rate equaled to 12.9‰, i.e. 1.6% higher than in 2017, i.e. 12.7‰.

The highest number of deaths, i.e. 169.000, was notified in March over a period of 7 months in 2018 with the least number registered in June, i.e. 148.000. However, if the monthly mortality rate in January – February and June 2018 was less than in 2017, the absolute number

of deaths registered in March – May and July 2018 exceeded suchlike data in 2017. Monthly mortality statistics features sizable fluctuation and that is why, updated annual data required for a more detailed analysis.

According to Rosstat current data for January – July 2018, the gap between maximum and minimum figure of the total mortality rate in the regions of Russia was 15.2‰, which was slightly higher than in 2017, i.e. 15‰. Maximum total mortality rate was observed in the following regions: Vladimir, 16.5‰, Ivanovo, 16.5‰, Tula, 16.6‰, Novgorod, 17.2‰, Tver, 17.7‰, Pskov, 18‰. As it was mentioned in the previous monitoring⁵⁰, total rate depends on age pattern, and high rate in these regions could be explained by intensive mortality as well as by relatively old age pattern. Regions with relatively young age pattern, i.e. Khanty–Mansi Autonomous okrug (6.4 ‰), Republic of Dagestan (5‰), Yamal–Nenets Autonomous okrug (4.8‰), Republic of Chechnya (4.5‰) and Republic of Ingushetia (2.8‰) demonstrated minimum mortality rate per 1000 people.

According to Rosstat current data for January – July 2018, growth of total mortality rate was observed in 55 regions, from 0.6 to 22%, compared to the same period in 2017 while in 7 regions it stayed on the level of 2017 and in other regions rate decreased from 0.6 to 6.7%. Maximum growth of total mortality rate was evidenced in Chukotka Autonomous okrug, i.e. by 21.7%, Nenets Autonomous okrug, by 7.5%, Zabaikalsky region, by 5.9%, Sakhalin region, by 5.7%, Republic of Mari El, by 4.7%. The greatest reduction of mortality rate was observed in the Republic of Ingushetia, by 6.7%, Kalmykia, by 4.8%), Sevastopol, by 4.4%, Republics of Chechnya, by 4.3%, Karachaevo–Cherkassia, by 4.2%.

⁵⁰ 2014-2015 :economic crisis –social measurement. Edited by T.M.Maleva. Scientific presentation -Moscow, Publishing House “Delo”, 2016. -112p.

2016: Social/economic situation of the population –continuous crisis or new reality?/edited by T.M.Maleva. Moscow: Publishing House “Delo” RANEPА, 2017. -104 p. -(Scientific reports: social policy). ISBN 978-5-7749-1266-7



Figure 23 – Development of total mortality rate regions wise in January – July 2018 vs January – July 2017 in %

Total mortality rate provides the opportunity to evaluate mortality tendencies promptly but very roughly. As mortality intensiveness depends to a certain extent on age and gender, the meaning of total rate is strongly affected by age pattern. However, mortality data on age and gender have not been presented yet and will be published subsequent to results of annual 2018 statistics.

Tendency of the infant mortality reduction continue in Russia and in January – July 2018 it amounted to 5.2 per live born infants. This figure is 1.9% less compared with the same rate in 2017. The gap between maximum and minimum regional rate of infant mortality continues to decline: in January – July 2018 it equaled 8‰ while in January- July 2017 it was 10‰. The following regions demonstrated minimum infant mortality: Sakhalin, 2.2‰, Tambov, 2.4‰, Yaroslavl, 2.4‰, Ivanovo, 2.5‰, Kaliningrad, 2.5‰, Republic of Mordovia 2.5‰. The highest mortality rate of infants less than a year old was observed in January – July 2018 in Chukotka Autonomous okrug, 10.7‰, Tyva Republic, 9.8‰, Jewish Autonomous region, 9‰, Republic of Dagestan, 8.7‰, Altay, 8.5‰. Infant mortality was not registered only in Nenets Autonomous okrug within 7 months of 2018 (Figure 24).

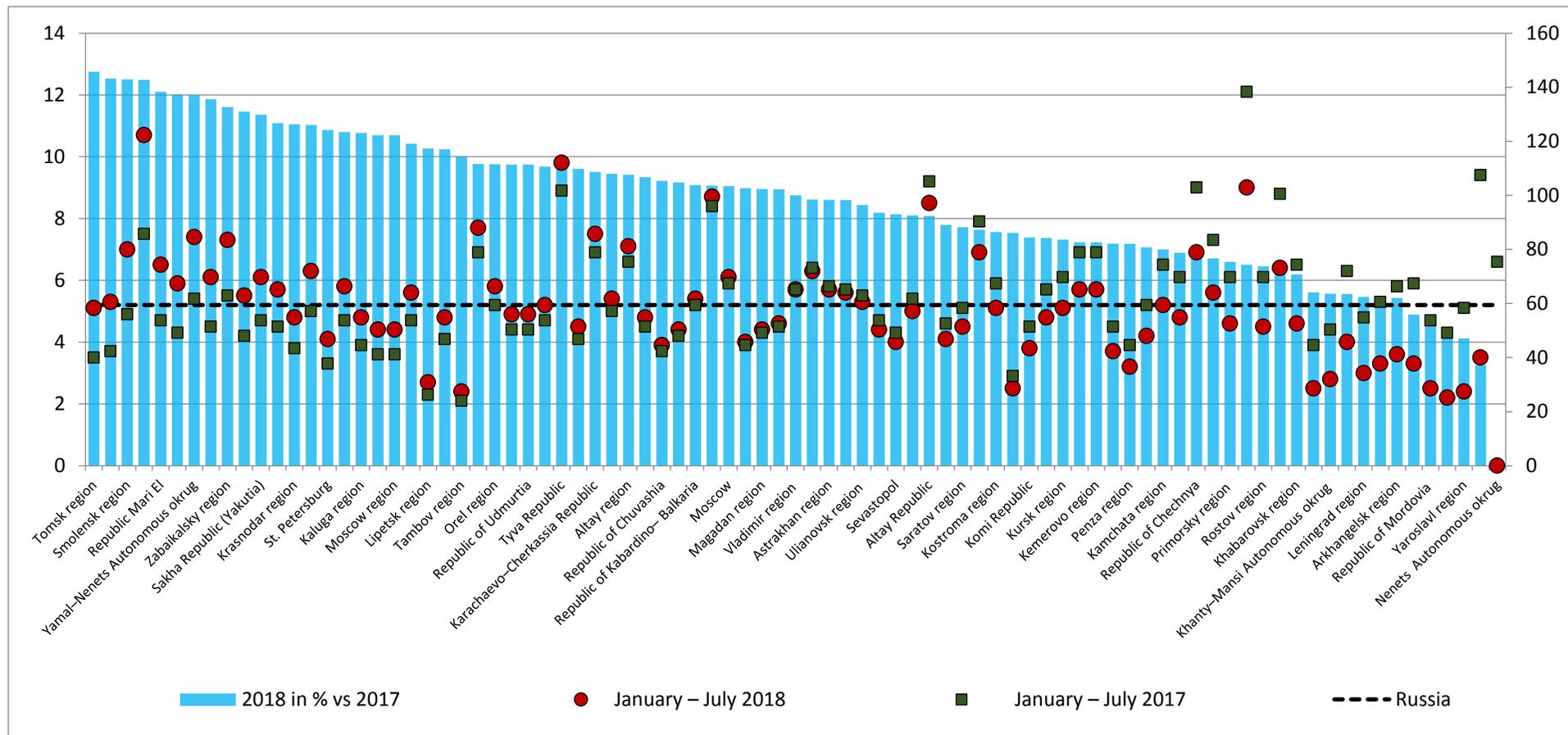


Figure 24 - Infant mortality rate in regions of Russia, January – July 2017 and 2018, ‰⁵¹

⁵¹ Source: Rosstat operative information

Rate of infant mortality increased from 2.2 to 45.7% in 42 regions with maximum growth in Tomsk by 45.7%, 5.1‰, Kirov by 43.2%, 5.3‰, Smolensk by 42.9%, 7‰ regions, Chukotka Autonomous okrug by 42.7%, 10.7‰, Republic of Mari El by 38.3%, 6.5‰. Reduction of infant mortality was observed in 41 regions from 1.6 to 62.8%. The following regions demonstrated maximum reduction: Bryansk by 62.8%, 3,5‰, Yaroslavl by 52.9%, 2.4‰, Sakhalin by 48.8%, 2.2‰, Republic of Mordovia by 46.8%, 2.5‰, Tula region by 44.1%, 3.3‰. Despite reduction of infant mortality younger than 1 year by 2% mainly due to reduction of infant mortality resulted from perinatal diseases (by 4.4%), congenital anomaly (by 3.5%), respiratory diseases (by 4.3%), infant mortality increased in January – July 2018 as a result of external causes (by 17.4%), diseases of digestive system (by 33%), other diseases (by 2.6%).

Diseases of blood circulation organs (46.6%) prevailed in the cause – of – death structure in Russia in January – July 2018. Then, in descending order: neoplasms (15.7%), other groups of causes (11.4%), external causes (7.2%), diseases of nervous system (6.4%), diseases of digestive system (5%), diseases of respiratory system (3.4%), diseases of endocrine system, eating disorder and metabolic disturbance (2.4%), infections and parasitic diseases (1.8%).

Increase of mortality in January – July 2018 by 1.4% resulted from the following reasons: neoplasms (by 3.2%), diseases of digestive system (by 2.7%), diseases of nervous system (by 22.4%), diseases of endocrine system, eating disorder and metabolic disturbance (by 19.3%). Rate of mortality resulted from diseases of blood circulation system (by 0.2%), diseases of respiratory system (by 0.7%), external causes (by 1.9%) and other groups of causes (by 4.5%) in January – July 2018 reduced while mortality resulted from infections and parasitic diseases stayed on the level of the same period in 2017. Despite the fact that mortality reduced in these categories of diseases there are causes inside categories showing growth of mortality rate: other infections and parasitic diseases (by 4.5%), ischemic heart diseases (by 0.5%), other diseases of blood circulation system (by 1.9%), pneumonia (by 2.8%), accidental death by drowning (by 13.3 %), other external causes (by 1.7%).

Neoplasms are on the second place in the cause-of-death structure in Russia. The goal set in the May Executive Order of the President of the Russian Federation No. 204 is to reduce mortality rate resulted from neoplasms, including malignant neoplasms, up to 185 cases per 100.000 people until 2024. Currently, in January – July 2018, total mortality rate resulted from neoplasms is by 3.2% higher than the same rate in 2017, i.e. 195.9 per 100.000 people and equals to 202.1 cases per 100.000 people including malignant neoplasms, i.e. 198.3 per 100.000 people.

Mortality rate resulted from neoplasms increased in 58 regions of Russia within 7 months in 2018 (Figure 25). Maximum growth is observed in Chukotka Autonomous okrug (by 53%), Krasnoyarsk region (by 41.6%), Nenets Autonomous okrug (by 21.3%), Republic of North Ossetia- Alania (by 16.1%), Khanty–Mansi Autonomous okrug (by 13%). At the same time, the following regions demonstrated maximum reduction of mortality rate resulted from neoplasms: Republic of Kalmykia (by 20%), Karachaevo–Cherkassia Republic (by 13%), Volgograd (by 9%), Leningrad (by 8%), Republic of Khakassia (by 7.8%).

The following regions have the highest cancer mortality: Orel (271.1 per 100.000 people), Tver (265.5 per 100.000), Tula (265.3 per 100.000), Pskov (264.7 per 100.000), Kurgan (255.2 per 100.000), St. Petersburg (255.1 per 100.000). Minimum rates are observed in Republic of Ingushetia (51 per 100.000 people), Dagestan (76.8 per 100.000), Republic of Chechnya (81.9 per 100.000), Yamal–Nenets Autonomous okrug (91.2 per 100.000).

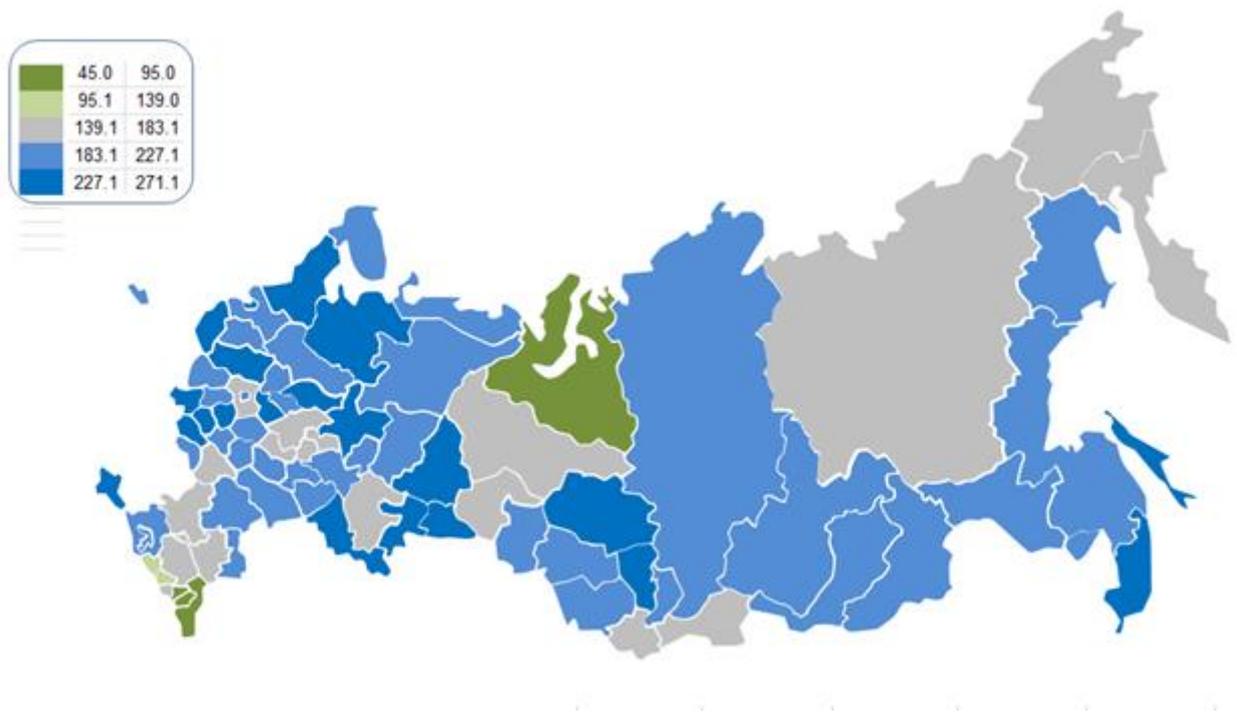


Figure 25 - Region wise mortality rate caused by neoplasms in January - July 2018 per 100.000 people⁵²

⁵² Source: Rosstat operative information

Data of monthly statistics do not allow to draw detailed conclusions specifically without gender/age distribution. In previous years, Rosstat published 6 months operative data on mortality in the working age, however, in 2018 these data have not been published yet.

Executive Order of the President of the Russian Federation No.204 “On national goals and strategic tasks of the development of the Russian Federation for a period until 2024” was issued on May 7, 2018 and focused on demographic goals. Currently, national project “Demography” including 5 areas, i.e. financial support of families having children, assistance to employment and allocation of additional places in kindergartens, support and improvement of quality of life for senior population, support of healthy lifestyle and development of physical education is under elaboration and discussion within the frame of May Executive Orders of the President of the Russian Federation⁵³.

4 MIGRATION SITUATION

Long term migration

In H1 2018 increase in migration in Russia amounted to 75.4000 people and reduced by 26.800 people or 26.2% compared to H1 of previous year. Compared to 2011-2013, migration growth reduced almost halfway (Table 2) and as from 2011, it dropped consistently all these years except for 2016. Such low figures of migration growth in H1 were not evidenced in Russia since early 2000-s before these figures were reviewed according to results of the 2010 All-Russia population census.

⁵³ On national projects “Demography” and “Culture” <http://government.ru/news/33352/>

Table 2 - Increase in migration in Russia as a result of international migration in 2011-2018, thousands of people⁵⁴

	2011-2013 average of H1	2014-2016 average of H1	H1 2017	H1 2018
International migration	139.9	121.9	102.3	75.4
Including CIS countries	128.4	117.1	101.0	74.4
Azerbaijan	9.1	5.8	3.2	3.8
Armenia	15.3	9.5	5.5	8.8
Belarus	3.4	2.6	4.9	5.2
Kazakhstan	17.0	18.0	15.0	14.0
Kyrgyzstan	14.0	6.1	7.7	8.3
Republic of Moldova	8.8	7.7	3.8	3.8
Tajikistan	14.6	7.8	13.9	16.5
Turkmenistan	1.5	0.9	0.7	1.0
Uzbekistan	26.7	4.7	6.7	4.1
Ukraine	18.1	54.1	39.6	8.9
Non CIS countries	11.5	4.8	1.3	1.1

Migration growth reduces along with growth of arrivals in Russia and even faster growth of departures. Methods of migration accounting acting in Russia since 2011 resulted in the beginning in a fast growth of arrivals and then with a delay of 1-2 years in growth of departures. Those receiving their registration for 9 months and longer are accounted as long term migrants and after the expiration of this period fixation of their backward departures is done automatically.

Compared to H1 2017, migration growth with most of the CIS countries increased, except for Ukraine, Uzbekistan, Kazakhstan, while namely these particulars countries were major migration donors of Russia, and Moldova. Migration growth with Ukraine reduced in 2018 to all – time low figures and, probably, this is a delayed effect of the fast growth of arrivals from this country in 2015-2016. A similar situation happened in 2015 in migration with Uzbekistan when migration growth with this country became negative. Later, influx of population from Uzbekistan resumed but it has not achieved the level of 2011-2013.

Compared to 2011-2013, migration growth with Belarus and Tajikistan increased while it reduced with other countries. Migration with non – CIS countries reduced to the utmost,

⁵⁴ Resource: Information on social/economic situation in Russia. Statistics bulletin. M: Rosstat, 2012-2018 editions

however, its data were not reliable as departures from Russia were not taken into sufficient account.

Reduction of migration growth in Russia took place in recent years against resuming of natural decline in population. In H2, international migration compensated natural decline only by 46%. Usually, factors of natural population movement and migration are more affirmative, however, if the situation will not be improved based on the year results, population of Russia will reduce for the first time since 2008.

Number of domestic Russian migrants increased by 87.600 people or by 4.7% in H1 2018 compared to respective period of previous year. In general, since 2013 number of long term domestic Russian migrants stably exceeds 4 million people with slight fluctuations from year to year.

Reduction of migration growth resulted in decrease of a number of regions of Russia increasing their population at the expense of migration. Thus, there were 28 of them in H1 while there were 30 in H1 2017. Moscow and Moscow region, St, Petersburg and Leningrad region, Krasnodar region, Republic of Crimea, Sevastopol, Kaliningrad, Belgorod, Tyumen, Novosibirsk regions and Republic of Tatarstan experienced significant and stable migration growth. In other regions, migration growth is not significant or unstable. For example, migration growth in Voronezh region amounted to 900 people compared to 9500 in H1 2017.

Regions of Privolzhsky, Sibirsky, North–Caucasian and Far East Federal okrugs continue to lose population as a result of domestic Russian migration. Migration decline in population of the Far East Federal okrug reduced to 7400 people in H1 2018 against 9700 in the respective period of previous year. However, this is not exactly a tendency yet to stop the population outflow from regions. Despite the fact that migration growth existed in some regions of the okrug the influx was little and, what is more important, unstable.

Temporary migration

The 7 months statistics of temporary stay of foreign citizens within the territory of Russia in 2018 does not show any visible differences in the last three years tendency: there are less foreigners staying in this country throughout the year but their numbers reduce rather smoothly without acute fluctuations (Figure 26). Growth of this factor persists during spring and summer but gap in number of foreigners between the beginning of the year and summer

peak has significantly reduced compared to 2013-2014 when it achieved 1.5 million vs 800.000 at present. As of August 1, 2018, 9.95 million foreigners stayed in Russia vs 10.20 million as of August 1, 2017.

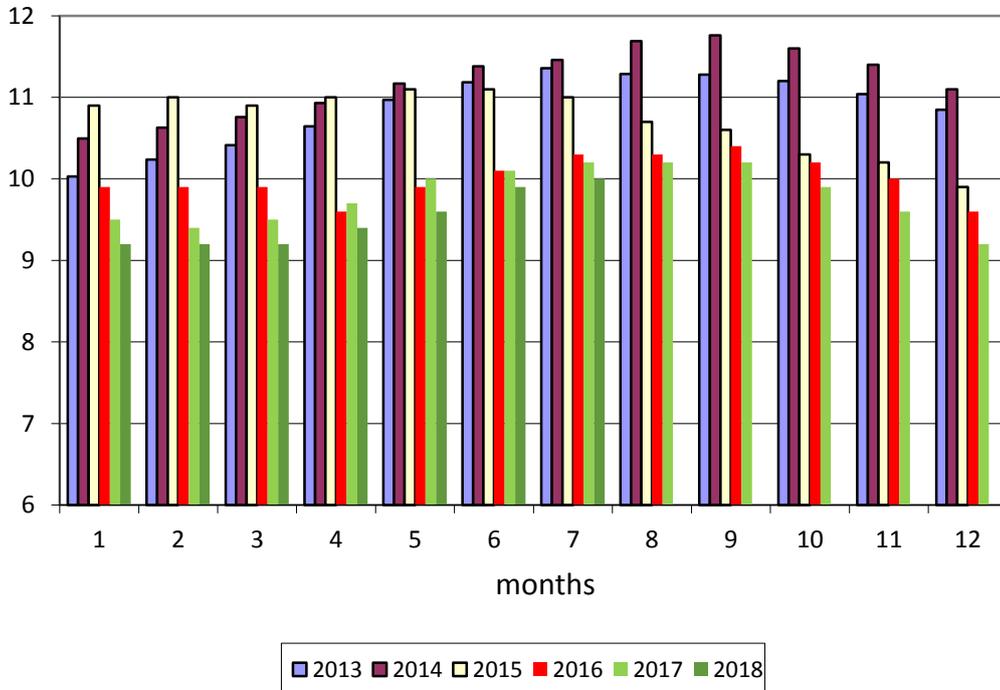


Figure 26 - Number of foreigners staying in Russian Federation at the end of every month, 2013-2018, million⁵⁵

CIS citizens are in the large majority among foreigners staying in Russia. There were almost 8.5 million (85%) as of August 1, 2018. Among leaders are representatives of Central Asia and Ukraine (Table 3).

Table 3 - Number of foreigners from CIS staying in Russian Federation on a specific date, number of people⁵⁶

	04.08.14	01.08.15	01.08.16	01.08.17	01.08.18
Azerbaijan	605612	553511	515783	555508	624427
Armenia	536620	534928	528399	518864	516123
Belarus	458782	588467	727679	686756	637355
Kazakhstan	580046	704934	597204	568135	497057

⁵⁵ Source: FMS and GUMV Ministry of Interior of the Russian Federation

⁵⁶ ibid

Kyrgyzstan	555003	518719	576020	622949	630048
Moldova	591719	539380	491817	430803	364052
Tajikistan	1170403	987148	978527	1077208	1129771
Uzbekistan	2551309	2133494	1827962	1975506	2036077
Ukraine	2090845	2645076	2541664	2325384	2014722
CIS, total	9140339	9205657	8785055	8761113	8449632

Compared to seven months of 2017 number of people arriving to Russia from Azerbaijan, Kyrgyzstan, Tajikistan and Uzbekistan increased. Kyrgyzstan remains the only country, member of EAЭС, with growing number of its citizens in Russia. Number of Moldovian and Ukrainian population goes down at fast pace. For the first time in the last four years temporary migration of Ukrainian citizens was lower numerically than that of Uzbekistan. However, growth of temporary migration from Uzbekistan has not allowed so far to reach figures of 2013-2014 and it will be hardly feasible in coming years.

There were no “surprises” with regard to foreigners from Western developed countries visiting Russia, their number is going down in 2018.

Figures relevant to France and USA present a little exception but their growth compared to the same date in 2017 was minor, i.e. 1500 and 3000 respectively and unlikely stable. Compared to figures of pre - crisis 2013 number of foreigners from Western countries dropped at the average by 2.5 – 3 times and from certain countries, i.e. Spain, USA, Great Britain by 4-7 times (Table 4). Reduction affected every category regardless of purpose of visit.

Table 4 - Foreigners representing certain EU countries and USA staying in Russian Federation on a specific date, number of people⁵⁷

	01.09.13	01.08.15	01.08.16	01.08.17	01.08.18
EU in total	1117656	671854	508396	474419	443033
Germany	326436	189238	121971	120023	114895
Spain	73008	35825	15504	16384	16301
Italy	69888	46074	28460	26292	26236
Great Britain	153826	77585	28338	23993	22052
Finland	115796	51848	88098	75432	55918
France	60917	44291	29969	28826	30295
USA	196407	102031	49969	44918	48049

⁵⁷ Source: data provided by FMS and GUVM Ministry of Interior of RF

4.17 million foreign labor migrants who identified on arrival their purpose of visit as “employment” stayed in Russian Federation on August 1, 2018. There were slightly more of them on August 1, 2017, i.e. 4.22 million. Share of CIS citizens among labor migrants has already reached 97%. Number of labor migrants representing all CIS countries, except Ukraine and Moldova, who have officially declared their status is increasing.

By the end of July 2018, about 70% of migrants belonging to this category had documents valid for working in Russia, patent or work permit or had the right to work without these documents, i.e. citizens of EAEC member countries. Figures have not changed compared to the end of July 2017.

Number of labor migrants, who have officially legalized their documents in order to work in Russia has slightly decreased within seven months in 2018 compared to the same period in 2017. This decrease is minor, however, it is an alarm sign: probably, this is a response of labor migrants to a patent cost increase in 2018. On the other hand, withholding of patents in many regions for the time of World Football Cup could have influenced on the total number of granted patents as part of migrants were compelled to leave Russia due to impossibility to officially fulfil their stay and employment formalities. In general, overall figure of the officially granted permit documents in 2018 lags more than twofold behind the level of 2014 (Table 5).

Table 5 - Execution of RF work permits for migrants, January - July, number of people⁵⁸

		7 months 2014	7 months 2015	7 months 2016	7 months 2017	7 months 2018
Work permits for foreign citizens (FC)*		802775	109273	77059	79524	65867
including:	Work permits for qualified specialists (QS)*	55962	11170	7049	9466	10470
	Work permits for highly qualified specialists (HQS)	17912	21850	17034	13345	14101
Patents**		1643589	1261794	987279	1074799	1036685
Total		2446364	1371067	1064338	1154323	1102552

* – granted from January 1, 2015 only to FCs from visa countries

** – granted from January 1, 2015 to FCs from non-visa countries for employment by individuals and legal entities

⁵⁸ Source: data provided by FMS and GUVM Ministry of Interior data of RF

Despite a minor reduction of granted patents, the amount transmitted to regional budget as a monthly payment for patent by labor migrants has increased: thus, Rb 34.53 billion has been transferred within 7 months in 2018 while in 2017 this amount was Rb 28.96 billion for the same period of time. Mainly migrants from Uzbekistan and Tajikistan ensure these payments. They obtained 88% of patents within 7 months vs 86% a year earlier.

5 REGIONS' SOCIAL DEVELOPMENT AND THE STATE OF BUDGETS

Regions' social and economic development and budgets in H1 2018

As compared to the spring, the dynamics of the economy in the second part of summer 2018 did not change much. Industrial output growth continued (3% in January-July); its main drivers were the Yamal-Nenets Autonomous Region (growth of 13%) with its increased gas production and processing and the Moscow Region and the Rostov Region (growth of 15%-16%) owing to their defense industry and food industry enterprises. However, the number of regions experiencing a slump increased up to 29, including nearly a half of Far Eastern regions, almost the entire North Caucasus and one-third of regions of the Privolzhsky Federal District.

In H1, the volume of investments increased by 3% and the number of regions with negative dynamics decreased to 36 (over 50 regions in 2017). From among the regions with a large volume of investments, investments decreased dramatically in the Yamal-Nenets Autonomous Region (by 30%) after completion of building of the gas liquefaction facilities and St. Petersburg (20%). Investments grew at the highest rate in Chechnya and the Republic of Crimea (1.9-fold --2.3-fold). Note that the main investment priorities did not change: the Tyumen Region with its autonomous districts and Moscow accounted for over 14% and 12% of all the investments in the country, respectively; the share of the Republic of Crimea with Sevastopol increased to 2.3%, that is, as much as the share of investments received by the entire North Caucasian Federal District.

In January-July, commissioning of new housing increased insignificantly (1.9%), while 38 regions still experienced a slump. Growth concentrated in outer areas of the metropolitan areas (29% and 18% in the Moscow Region and the Leningrad Region, respectively) on the back of higher demand on housing on the part of residents of federal cities and migrants from other

regions, as well as its lower cost. Metropolitan areas account for nearly one-fifth of housing commissioned in this country: the shares of the Moscow Region rose to 13%, while that of the Leningrad Region exceeded 5%. As compared to their metropolitan areas, the share of federal capital cities is much lower: 3%-4%. Housing development in Moscow increased by 15%, primarily, owing to new areas with less expensive housing, while in St. Petersburg it fell by 40% in January-July. In all other regions with substantial volumes of new housing commissioned (the Krasnodar Territory, the Republic of Tatarstan, the Republic of Bashkortostan, the Rostov Region, the Sverdlovsk Region, the Tyumen Region, the Novosibirsk Region and Chelyabinsk Region) the slump and stagnation continued; the better dynamics were registered only in the Samara Region (16%) and the Nizhny Novgorod Region (8%). The highest growth rates of commissioning of new housing were observed in Sevastopol (4.5-fold) and the Republic of Crimea (2.3-fold); this situation can be explained by a fast-growing demand on housing near the warm sea which is attractive to residents of other regions, rather than a low base effect (in these two constituent entities 1.3% of all the housing in the RF was commissioned and that value is close to the share of these two constituent entities in the country's population).

Leader-regions as regards housing development facilitated the lion's share of equity participation agreements (EPA) concluded in January-June: Moscow (45,000 EPAs), the Moscow Region (41,400), St. Petersburg (38,400), the Krasnodar Territory (22,700), the Leningrad Region (14,800), the Novosibirsk Region (11,600) and the Rostov Region (11,500). The highest growth as regards the number of registered EPA as compared to January-June 2017 was achieved in the Tyumen Region (+80%), the Altai Territory (+60%), the Sverdlovsk Region (+60%), the Rostov Region (53%), the Irkutsk Region (50%), St. Petersburg (50%) and Moscow (45%).

In January-July, retail trade rose by 2.5%; its dynamics did virtually not change as compared to the spring. Most regions continued to see growth in retail trade; among large regions retail trade growth rates were higher in the Moscow Region and the Tyumen Region with autonomous districts (6%-7%). According to the statistical data, the slump prevailed only in seven regions, including three republics of North Caucasus (Dagestan, Ingushetia and Chechnya) with low data reliability. The Russians increased consumption on the back of fast growth in consumer lending in 2018 amid weak real income growth. Living on loan creates higher risks to numerous households.

The situation on regional labor markets remains stable. In Q2 2018, growth in part-time employment as compared to Q1 2018 was driven by an increase in the number of persons being on an unpaid leave, which factor is typical of summer months. As regards other types of part-time employment which spotlight problems better (leaves initiated by employers and by agreement between the parties, as well as idle periods), there are virtually no changes, while the share of such workers does not exceed 2.8% of the staff workers. For more than a year, the higher level of part-time employment is still registered in the Republic of Crimea (7%) and Sevastopol (4.5%), St. Petersburg and the Republic of Chuvashia (5%), the Tomsk Region and the Perm Territory (over 4%) because of workers of industrial enterprises.

By the beginning of August, the number of workers whom arrears in wage are owed by employers increased by 25% as compared to January 2018 (from 40,000 to 50,000 persons), but similar growth takes place annually and the index of August 2018 is lower than in August 2017 (64,000 persons). The level of arrears is minimum (0.1% of the staff workers) and the number of problem regions is small: the Nenets Autonomous Region (1.5%), the Republic of Karelia (1.1%), the Khabarovsk Territory (1%), the Republic of Buryatia, the Republic of Tyva and the Republic of Khakasia (0.7%-0.8%); in summer 2018 wage arrears increased dramatically in the Republic of Ingushetia (2.5% of the staff workers). Across federal districts, the situation is worse in the Far East (0.4%).

According to the ILO's methods, in May-July 2018 the level of unemployment fell to 4.7% as compared to 5.1% in the same period of 2017. Within a year, in most regions the rate of unemployment decreased with unemployment indices getting worse only in the Republic of Karelia and the Republic of Komi (8%), the Republic of Kalmykia (11%), the Republic of Tyva (21%) and the Tomsk Region (9%). In summer months, the rate of unemployment is always lower than in winter, however, in the above regions, except for the Republic of Karelia, the trend was quite the opposite one, which factor is evidence of problems prevailing on their labor markets.

The dynamics of households' incomes are still the most problematic ones. According to the Rosstat's data, in H1 real income growth across the country amounted to 2.2% (with a lump-sum payment in January 2017 taken into account), however, the regional data point to a different situation. Across federal districts, households' real incomes increased only in the

South Federal District (1.8%), remained unchanged in the Central Federal District (0.1%) and decreased in all other federal districts with the highest drop registered in the North-Western Federal District (-2.2%), the Far Eastern Federal District and the Ural Federal District (-1.5%-1.6%). In H1 2018, households' incomes continued to decline in 63 regions; the most dramatic decrease was observed in the Magadan Region and the Vologda Region (Figure 27). Only in seven regions – mainly mid-sized ones – real income growth rates were higher than the nationwide average and the city of Sevastopol was the leader among them. Even taking into account the fact that the regional data are relatively reliable, it is hard to understand why growth rates of households' real income across the country as a whole were so much ahead of the dynamics seen in most regions, including large ones in terms of the population. So, there was virtually no growth in households' real incomes in Moscow and St. Petersburg (+0.4% and -0.2%, respectively). Real income growth rates were below the nationwide average in the Moscow Region, the Krasnodar Territory, the Rostov Region and the Republic of Tatarstan (1.2%-1.7%), while in the Sverdlovsk Region and Bashkortostan they kept falling (-1%-3%).

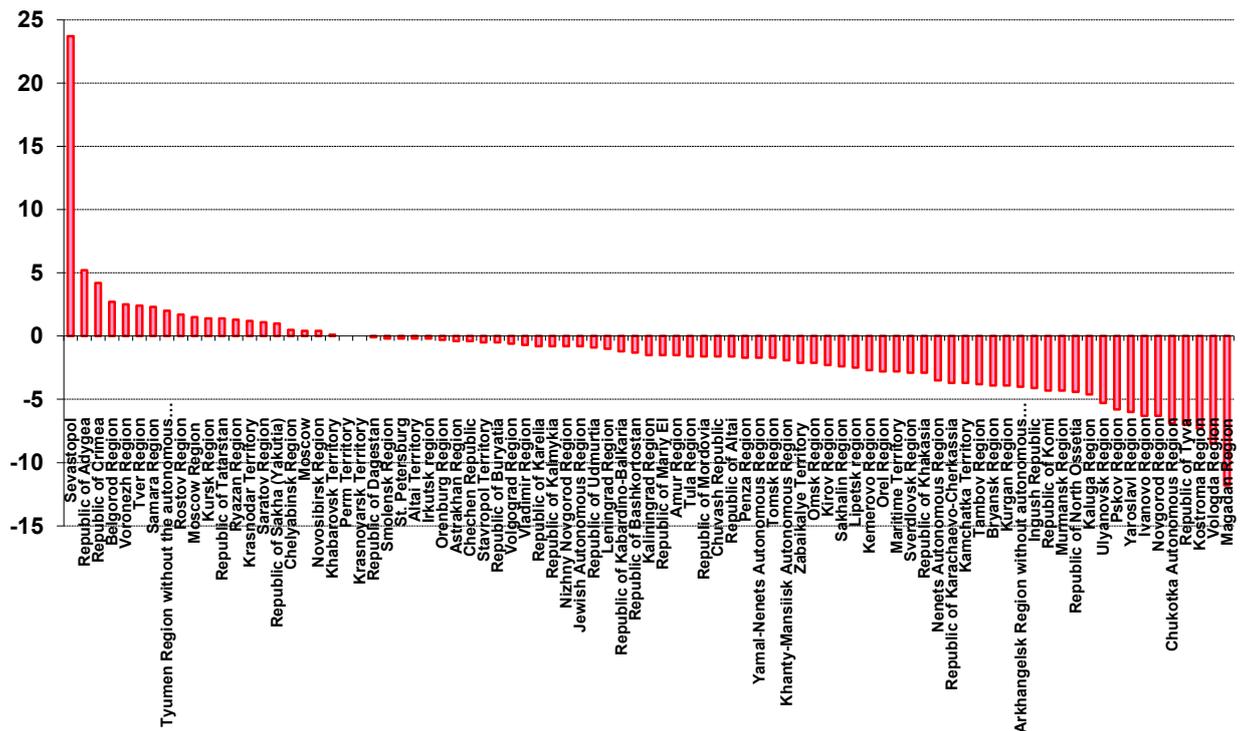


Figure 27 – Dynamics of households' real cash incomes in H1 2018 as compared with the relevant period of 2017⁵⁹

⁵⁹ Source: the Rosstat's data

In H1 2018, the state of regional consolidated budgets was quite favorable. As stated in the previous Monitoring by the ISAP, an important factor was the presidential elections. Budget revenues increased by 10% compared with the same period of 2017 with substantial growth in revenues from the two most important taxes: the profit tax (9%) and the individual income tax (12%); the latter grew considerably on the back of raising of wages and salaries of public sector workers before the elections. A higher revenue growth was yielded by the individual income tax in Moscow, St. Petersburg, Sevastopol and the Republic of Crimea (17%) and Dagestan (18%). There are more highly-paid jobs in the public sector in federal cities, while the regions of the Crimea and Dagestan are lavishly financed out of the federal budget. Vigorous growth of 44% in individual income tax revenues in the Tyumen Region is difficult to explain unless that top managers of the Sibur Holding and other oil and gas producing companies from autonomous districts have started to pay taxes. Revenues from the gross income tax payable by the small business increased by 18%, while in Moscow and St. Petersburg they grew by 24%-27%. Though the contribution of this tax to regional budget revenues is not very high (4% on average), it is important that judging by considerable growth in revenues there is no large-scale flight of small businesses “into the shadow”. In addition, revenues from the property tax increased by 10%; the share of this tax in regional budget revenues has become more substantial (11%).

H1 2018 saw a record-high growth in transfers to regions (12%). It started as early as 2017 (9%) and sped up during the presidential elections. It is noteworthy that not all the regions saw a substantial increase in transfers before the elections of governors held in September in 22 regions (four more governors are elected by the Parliament); among those which received higher transfers it is worth mentioning the Magadan Region and the Omsk Region (transfer growth of 52%-53%), Yakutia (39%), the Chukotka Autonomous District and the Ivanovo Region (30%-33%), the Altai Territory (28%), the Voronezh Region, the Novosibirsk Region and the Amur Region (21%-24%). To ease tensions during the presidential elections, support was rendered to problem regions where new governors were recently elected: transfers increased to the Novgorod Region (by 61%), the Republic of Karelia (38%) and the Republic of Udmurtia (25%). However, transfers grew at a higher rate to geopolitically important constituent entities,

such as Sevastopol (2.2-fold) and the Republic of Crimea (35%). At the same time, 16 regions, including donor-regions (Moscow, St. Petersburg, the Yamal-Nenets Autonomous Region and the Samara Region) and the heavily subsidized Ingush and Chechen Republics saw a decrease in transfers. However, the dynamics may change within a year.

Expenditures of regional consolidated budgets increased by 9%, that is, the most considerable growth since 2012. Higher growth rates of budget expenditures were registered in the Tyumen Region and the Magadan Region (24%-25%), Moscow, the Moscow Region, the Voronezh Region, the Omsk Region, the Novosibirsk Region, the Kemerovo Region and the Altai Territory (12%-14%) where the elections of governors were held in September. Growth leaders were also the Republic of Crimea and Sevastopol (22%-27%) which received a substantial increase in transfers. Expenditures were cut only by the Republic of Tatarstan, the Republic of Mariy El and the Ingush Republic; in the latter it was justified by a decrease in transfers.

In the election period, social expenditures always become a priority and regional authorities have to make a budget maneuver to secure extra funds. For this reason, growth rates of regional budget expenditures on the national economy calculated without Moscow taken into account were lower (6.7%) than growth of all the expenditures of their budgets. Moscow with its huge budget may afford advanced growth in expenditures on the national economy (15%); in the past few years, Moscow allocated on these goals over 25% of its budget with more than two-thirds of those funds spent on transport. Expenditures on the national economy in the Kaliningrad Region grew at the same rate, but at the expense of transfers out of the federal budget on support of the special economic zone. A higher expenditure growth took place in the Republic of Crimea (71%) and Sevastopol (49%) at the expense of growth in transfers, too. In H1 2018, the share of expenditures on the National Economy in the Republic of Crimea amounted to 43% of all the budget expenditures, a much higher increase than in other regions.

Regions save more often on expenditures related to support of housing and public utilities, thus accruing debts. In H1 2018, expenditures on housing and public utilities increased by 1%, however, without Moscow taken into account, they fell by 8%. A reduction of expenditures took place in 50 regions, including all the regions of the Privolzhsky Federal District, most regions of the North-Western Federal District and a half of the regions of the

Central Federal District and the Ural Federal District. On the contrary, in Moscow the expenditures on housing and public utilities increased by 18% on the back of a 22% growth in expenditures on public services and amenities. In H1 2018, the share of expenditures on public services and amenities amounted to over 12% of all the expenditures of the Moscow budget, the value comparable with total expenditures on general (school) and pre-school education. In other regions, it never exceeds 1%-3%.

The dynamics of social expenditures of regional budgets in H1 2018 should be analyzed separately from Moscow and other regions (Figure 28). In H1 2018, the Moscow budget expenditures focused on two priorities. The first priority was related to the election of the Mayor in September, so, social security expenditures increased considerably (mainly payments of benefits); also there was advanced growth in expenditures on education and healthcare (together with the Territorial Fund for Mandatory Medical Insurance (TFMMI)) after the optimization of those expenditures in 2014-2016 that caused Moscow residents' discontent. The second priority was related to beautification of Moscow for the FIFA World Cup (a major portion of expenditures on housing and public utilities and expenditure on the economy, mainly, transport). Moscow has got enough funds to pay for everything, while other regions have increased expenditures only on healthcare and education because in these sectors the authorities had to bring wages and salaries closer to the region's average for implementation of the President's May 2012 Decrees. Growth in social security expenditures was not big enough because most regions lacked funds to finance this traditional election instrument. Another priority was growth in expenditures on physical training and sports in the context of the FIFA World Cup, however, the share of these expenditures in all the expenditures of regional budgets was small (1%-3%) and only in some regions where World Cup matches were held it was higher, having amounted to the maximum level in the Republic of Mordovia (6%).

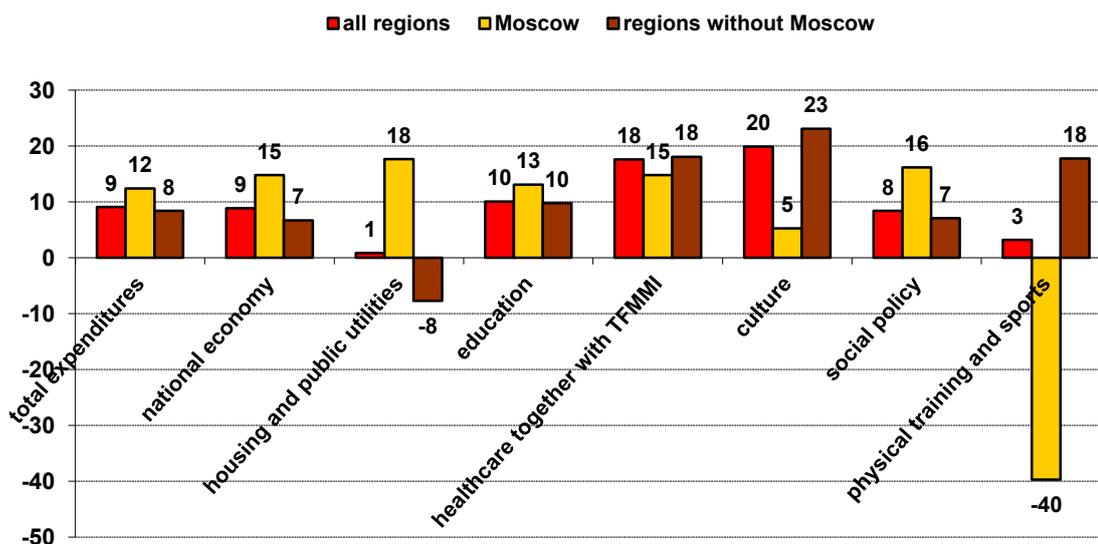


Figure 28 – The dynamics of regional consolidated budget expenditures in H1 2018, % on H1, 2017⁶⁰

In H1 2018, the dynamics of social expenditures across individual regions are illustrative, too: expenditures on education decreased only in the Nenets Autonomous Region and the Republic of Kabardino-Balkaria, while those on healthcare (budgets together with TFMMI), only in the Novgorod Region, Pskov Region and Chechnya. Reduction of social security expenditures (“The Social Policy” budget item) took place in 11 regions, mainly due to a deficit of their budget resources. At the same time, there are examples of vigorous growth in social security expenditures during the election period: Chechnya (80%), the Pskov Region (56%) and the Magadan Region (43%).

The results of H1 2018 differ as regards regions’ socioeconomic development and budgets. The economy and social services slowly exit stagnation; in most regions households’ incomes kept decreasing. The state of regional budgets is better mainly owing to substantial growth in individual income tax revenues and transfers; social expenditures increased considerably, but it can be largely explained by the election cycle: the presidential elections and elections of governors in a quarter of regions.

⁶⁰ Source: based on the data of the Federal Treasury

REFERENCES

1. 2014-2015: The Economic Crisis – Social Dimension. Edited by T.M. Maleva. Scientific Report. Moscow, Delo Publishers, 2016. p.112
2. 2016: Households' Socioeconomic Situation – The Ongoing Crisis or New Reality?/ Edited by T.M. Maleva, Moscow: Delo Publishers, RANEPА, 2017. p.104 (Scientific Reports: Social Policy). ISBN 978-5-7749-1266-7
3. 2017: Social Results and Economic Policy Lessons / edited by T.M. Maleva – Moscow: Delo Publishers, RANEPА, 2018 – p.122 (Scientific Reports: Social Policy).
4. The Value of the Minimum Subsistence Level / Unified Interdepartmental Statistical Information System (UISIS) – [Electronic medium] <https://www.fedstat.ru/indicator/30957?> Access on 05.09.2018
5. Entities' Business Activities in Russia in August 2018 / The Rosstat – [Electronic medium]. http://www.gks.ru/bgd/free/B04_03/lssWWW.exe/Stg/d01/166.htm
6. Dynamics of Financial Situation. Dominators / Public Opinion Foundation (POF) – [Electronic medium]. URL: <http://bd.fom.ru/>
7. The Report: “The Short-Term Economic Indices – 2018”. July 2018 / The Rosstat – [Electronic medium]. URL: http://www.gks.ru/bgd/regl/b18_02/Main.htm
8. The Report: “Russia’s Socioeconomic Situation – 2018”. January-July 2018 / The Rosstat – [Electronic medium]. URL: http://www.gks.ru/bgd/regl/b18_01/Main.htm
9. Reports: “Russia’s Socioeconomic Situation” in 2013-2018 / The Rosstat – [Electronic medium]. URL: <http://www.gks.ru/>
10. Draft Law No. 489161-7 On Amendment of Individual Statutory Acts of the Russian Federation as Regards Assignment and Payment of Pensions / The State Duma – [Electronic medium]. URL: <http://sozd.parliament.gov.ru/bill/489161-7>
11. Consumer Price Indices across the Russian Federation in 1991 - 2018 / The Rosstat – [Electronic medium]. http://www.gks.ru/free_doc/new_site/prices/potr/tab-potr1.htm
12. Information Letter No. 34785-VYa/07 of 15 August 2018 on the Specifics of Application from 1 July 2018 of the Norms of Federal Law No. 214-FZ / The Ministry of Building – [Electronic medium]. <http://www.minstroyrf.ru/docs/17185/>

13. Information of 28 July 2018 on granted (extended) home (mortgage) loans to nationals of the Russian Federation with children and the size of subsidies provided to compensate short-received incomes / The Ministry of Finance of the Russian Federation – [Electronic medium]. <https://www.minfin.ru/ru/performance/GovSupport/>
14. Information for carrying out monitoring of the socioeconomic situation of constituent entities of the Russian Federation / The Rosstat – [Electronic medium]. URL: http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/publications/catalog/doc_1246601078438
15. Easy-Term Regional Programs / DOM.RF [Electronic medium]. https://dom.pf/mortgage/mortgage_products/lgotnye-regionalnye-ipotechnye-programmy/
16. On Amendment of Article 4 of the Federal Law on the Minimum Subsistence Level in the Russian Federation / Federal web-site of drafts of regulatory legal acts [http://](http://regulation.gov.ru/projects#npa=81604) – [Electronic medium]. [/regulation.gov.ru/projects#npa=81604](http://regulation.gov.ru/projects#npa=81604)
17. On the Dynamics of Development of the Banking Sector of the Russian Federation in January-July 2018 / The Central Bank of the Russian Federation – [Electronic medium]. URL: http://www.cbr.ru/analytics/bank_system/din_razv_18_07.pdf
18. On the “Demography” and “Culture” National Projects – [Electronic medium]. <http://government.ru/news/33352/>
19. On Financial Results of Entities’ Business Activities in H1 2018 / The Rosstat – [Electronic medium]. http://www.gks.ru/bgd/free/b04_03/lsswww.exe/Stg/d01/169.htm
20. Address of the President to the Nationals of the Russian Federation / The President of the Russian Federation – [Electronic medium]. URL: <http://kremlin.ru/events/president/news/58405>
21. The Indices for the Monitoring of Evaluation of Performance of Constituent Entities of the Russian Federation / The Rosstat – [Electronic medium]. URL: http://www.gks.ru/free_doc/new_site/rosstat/pok-monitor/pok-monitor.html
22. Resolution No. 1711 of 30 December 2017 of the Government of the Russian Federation (as Amended on 21 July 2018) On Approval of the Guidelines for Allocation of Subsidies out of the Federal Budget to Russian Credit Institutions and the DOM.RF Joint-Stock Company to Compensate Short-Received Incomes on Granted (Extended) Home (Mortgage) Loans to RF Nationals with Children / The Official Web-site of legal information – [Electronic medium]. <http://www.pravo.gov.ru>.

23. Annex to Order No.174 of 23 August 2018 of the Ministry of Finance of the Russian Federation / The Ministry of Finance of the Russian Federation – [Electronic medium]. <https://www.minfin.ru/>
24. In H1 the number of EPAs registered by the Rosreestr increased by 10% / The Rosreestr – [Electronic medium]. <https://rosreestr.ru/site/press/news/v-pervom-polugodii-kolichestvo-zaregistrirovannykh-rosreestrom-ddu-uvelichilos-na-10-/>
25. Additional social payment to the minimum subsistence level set for pensioners/ The Pension Fund of the Russian Federation – [Electronic medium]. http://www.pfrf.ru/grazdanam/pensionres/soc_doplata/
26. Federal Law No. 1750-FZ of 01 July 2018 "On Amendment of the Federal Law on Participation in Equity Building of Apartment Houses and Other Real-Estate Projects and Amendment of Some Statutory Acts of the Russian Federation" / The Official Web-site of legal information – [Electronic medium]. <http://www.pravo.gov.ru>, 03.07.2018, The Rossyiskaya Gazeta, No. 145, 06. July 2018
27. Federal Law No. 214-FZ of 30 December 2004 (amended on 29 July 2018) "On Participation in Equity Building of Apartment Houses and Other Real-Estate Projects and On Amendment of Some Statutory Acts of the Russian Federation" / The Official Web-site of legal information – [Electronic medium]. <http://www.pravo.gov.ru>