# MONITORING OF RUSSIA'S ECONOMIC OUTLOOK:

TRENDS AND CHALLENGES OF SOCIO-ECONOMIC DEVELOPMENT

**No. 1(62) January 2018**

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GAIDAR INSTITUTE FOR ECONOMIC POLICY

RANEPA
THE RUSSIAN PRESIDENTIAL ACADEMY OF NATIONAL ECONOMY AND PUBLIC ADMINISTRATION

*Monitoring of Russia's Economic Outlook: trends and challenges of socio-economic development. 2018. № 1 (62). January / S. Aksyuk, N. Zubarevich, A. Koval, A. Levashenko, T. Mikhailova, N. Mkrtchyan, Yu. Florinskaya. Edited by: V. Gurevich, S. Drobyshevsky, P. Kadochnikov, A. Kolesnikov, V. Mau and S. Sinelnikov-Murylev; Gaidar Institute for Economic Policy, Russian Presidential Academy of National Economy and Public Administration. 27 p. URL: http://www.iep.ru/files/text/crisis_monitoring/2018_1-62_January.pdf*

# MAIN TRENDS AND CONCLUSIONS

Judging from January, the Russian macroeconomics of 2018 appears to have been improved over the past 4–5 years. Virtually official forecasts have predicted almost magical outlooks – a surplus for the 2018 budget plus an increase over $50bn in the sovereign fund amid a stable rouble, a record-low inflation rate, and a new budgetary rule insuring against extremely favourable oil market trends.

On the downside, suspenseful awaiting of new sanctions on Russia as well as Russia's countermeasures aimed, for example, at cutting off access to information on how Russian companies and banks are financed and transact with a view to protecting them from potential pressure from sanctions. It remains to be seen whether or not the objective will be achieved, but there is no doubt that markets' transparency and competitive potential will be affected, although it should not be ruled out that this is what the U.S. sanctions package intends to achieve.

Thus the macroeconomic platform is now nearly at its best (of course, any natural or manufactured disruption should not be ruled out), whereas the business environment and its principal geopolitical drivers are described in exactly the opposite manner. While showing an improvement over worst-case scenarios, such a combination of "pros" and "cons" cannot prevent from deep structural (and otherwise) disproportions.

Our experts have come to similar conclusions when making a 2017 year-end analysis of Russia's regions. In 2017, regions saw their socioeconomic status improve marginally over 2016, the number of regions faced with industrial output downturn decreased as investment rose in half of the regions. The growth, however, was driven basically by Moscow (which accounts for 11.5% of the country's total investment) and two top oil and gas producing regions (Hanty-Mansiyskiy and Yamalo-Nenets Outonomous Okrugs which collectively make up nearly 15% of the country's total investment). However, the residential construction sector (according to data for the first 11 months) continued to be led by downward trends, whereas only a few regions saw an upturn, including the Leningrad Oblast and Moscow Oblast, with the latter accounting for nearly 12% of the country's total residential supply.

Personal cash incomes also continued to decline, but the decline stopped spreading across the board. Noting that regional data cannot always be explained, the authors have pointed to a personal income growth in 16 regions, most of which are heavily subsidized and less developed regions, which was due to an outsize proportion of public sector employees (wages in social-led industries were raised faster than elsewhere for the purpose of implementing presidential executive orders) as well as an outsize share of informal economy employees (wages in the informal economy are estimated using statistical write-ups and may be overestimated).

Regions' consolidated budget revenues increased (in January-October 2017) 8.8% over the same period of 2016. The upside dynamics was driven up by a 14% increase in revenues from profit and property taxes, steady growth in personal income taxes and increased government transfers. In particular, the foregoing factors contributed to the growth in revenues of the Republic of Crimea, a top-ranked region for revenue growth (52%).

Thirteen regions saw their budget revenues fall. Budget expenditures increased too, up 6.6%, (16 regions cut back on expenditure). Moscow retained the priority of spending on urban redevelopment (Moscow spent more than other regions' total budget expenditure on urban redevelopment). The surplus of revenues over expenditures contributed to the reduction of budget deficits (only 22 regions were running a budget deficit (33 regions in January-October 2016). The issue of regional and municipal indebtedness was also slightly alleviated (the debt volume was down 8% in the first 10 months). However, there was a polarization in the debt dynamics – regions with a small debt burden reduced their debt, whereas the most heavily debt-ridden regions did the opposite.

The regional aspect is an issue considered by experts on highly skilled labour migration. Student migration, as it has emerged, is not the principal channel of qualified labour migration to metropolitan areas: a great deal of trained specialists from other regions migrate to Moscow and St. Petersburg. Furthermore, every tenth qualified specialist in the cities is a recent (file years or less) migrant mainly from other regions.

As to immigration to Russia, the proportion of college-educated persons of immigrant and temporary migrant inflows in Russia is now smaller than that of the total Russian population and of immigrant outflows from Russia (in the 1990s, the proportion of highly educated immigrants in Russia was never above that of local highly educated persons). Preferences that were introduced six years ago for highly skilled labour migration could not reverse the trend – only 151,000 highly skilled labour migrants came to Russia during that period. Not all of them, however, can find a job they are trained for: surveys show that approximately one third of college-educated migrants (and almost half of secondary special education migrants) have jobs that require no qualification at all.

Moreover, the scale of intellectual immigration is much wider, albeit not fitting certain concepts of scale. According to host countries' statistics (our experts think that the Rosstat's method is at variance with reality), in the recent years annual immigration to developed countries totalled about 100,000 persons, of which college-educated immigrants made up about 40%. Based on data from the 2010–2011 censuses (more recent data are not available), the experts have concluded that the number of the respective category of Russian nationals in OECD countries totalled 660,000 persons, less than highly educated immigrants from, for example, the UK and Germany.

Most of Russian immigrants left the country mostly for economic reasons, and one fourth of immigrants left for political reasons. One third of intellectual immigrants would not return back to Russia, about 15% may return if they have an interesting offer, about half of immigrants do not rule out the possibility of returning to Russia for permanent or temporary residence.

Migrants, including labour migrants, fall into a category of persons faced directly with the specifics of Russian foreign exchange regulation which is just as important for Russian nationals who stay or work abroad as well as the business as a whole. While analyzing amendments made in 2017 to the Federal Law On Foreign Exchange Regulation and Control, our experts have noted the controversial nature of the amendments: the regime will be partially liberalized, whereas the adopted amendments will increase foreign exchange control requirements, thus encouraging Russian residents to renounce their Russian citizenship.

Moreover, our researchers have pointed to additional measures that were taken in late 2017 to establish an automatic exchange of fiscal information with foreign countries. Although the exchange itself, according to the experts, cannot kick off until internal laws and regulations are adequately updated, it allows the existing foreign exchange restrictions to be eased considerably in Russia. The experts have concluded that Russian government authorities should increase efforts to implement the international automatic exchange of information in tax matters while discontinuing the use of archaic foreign exchange regulation standards.

Foreign exchange regulation is part of traditional foreign trade tools, whereas sanctions is a specific tool. Our experts, in particular, have assessed the effect of Russia's ban on imports (that was introduced in 2014 in retaliation to sanctions against Russia) on the geography of Russian imports and on respective traffic flows.

# 1. SOCIOECONOMIC DEVELOPMENT AND BUDGET STATUS OF RUSSIAN REGIONS IN 2017

**N.Zubarevich**

*In 2017, Russia's regions saw their socioeconomic status improve marginally over 2016. Industrial sectors continued to increase in most of the regions, as investment rose in half of the regions. The unemployment rate continued to be low. However, personal incomes and residential construction contracted in most of the regions. Concentration of investment in Moscow and in leading oil and gas producing regions, as well as the geopolitical priority of government investing in Crimea, contributed to further regional polarization. Regions' budget revenues continued to trail further behind Moscow.*

**Socioeconomic development**

Russia's regions were also hurt by the last autumn's downturn on the heels of already slowing economic growth. Output growth in industry in January–November 2017 slowed to 1.2% from the same period of 2016, with a nearly flat growth of 0.4% in manufacturing sectors. The number of regions with declining output was down to 15, of which the Republic of Buryatia and Chukotka Autonomous Okrug were hit hardest (-14% and -7%, respectively) (*Fig. 1*). Industry-led regions continued to see a marginal downturn, including the Hanty-Mansiyskiy Autonomous Okrug (-1%), the Republic of Komi (-2%) and Ivanovo Oblast (-3%). The highest growth rates were recorded in Arkhangelsk Oblast (18%), Yaroslavl Oblast, Kaluga Oblast, Moscow Oblast (13–15%), with the military industrial complex or recovering automobile industry making up a big share of the manufacturing industry. Russia's biggest gas producing Yamalo-Nenets Autonomous Okrug as well as gas producing Astrakhan Oblast posted a substantial increase in output of 10% and 32%, respectively. The Far East Federal Okrug saw the Primorski and Khabarovsk Territories advance by 19% and 12%, respectively, whereas the Okrug's biggest industry-led Sakhalin Oblast and Yakutia were on the verge of stagnation (1–2%). Overall, the Far East Federal Okrug continues to represent a small share (about 4%) of Russia's industrial output.

Fourteen regions saw their manufacturing industry decline in January-November, with the Republic of Buryatia showing the worst-performing dynamics (-18%), which is untypical of Russia because the decline in manufacturing sectors tends to cover a wider geographical area than in the industry as a whole. That was mainly due to the autumn's decline in manufacturing sectors' output, primarily oil industry, amid more stable manufacturing sectors.

The data for the first three quarters of 2017 show that investment increased 4.2% year-on-year. The highest growth pace continued to be seen in regions of geopolitical priority, namely the Republic of Crimea (4.2-fold growth) and the city of Sevastopol (2.4-fold growth). Federal government investment accounted for more than 80% of total investment in Crimea. Businesses, however, are reluctant to invest in the region.

Moscow and leading oil and gas producing regions contributed to most of the overall growth in investment (*Table 1*). Amid economic stagnation and high degree of uncertainty, businesses invested mostly in regions with appa-

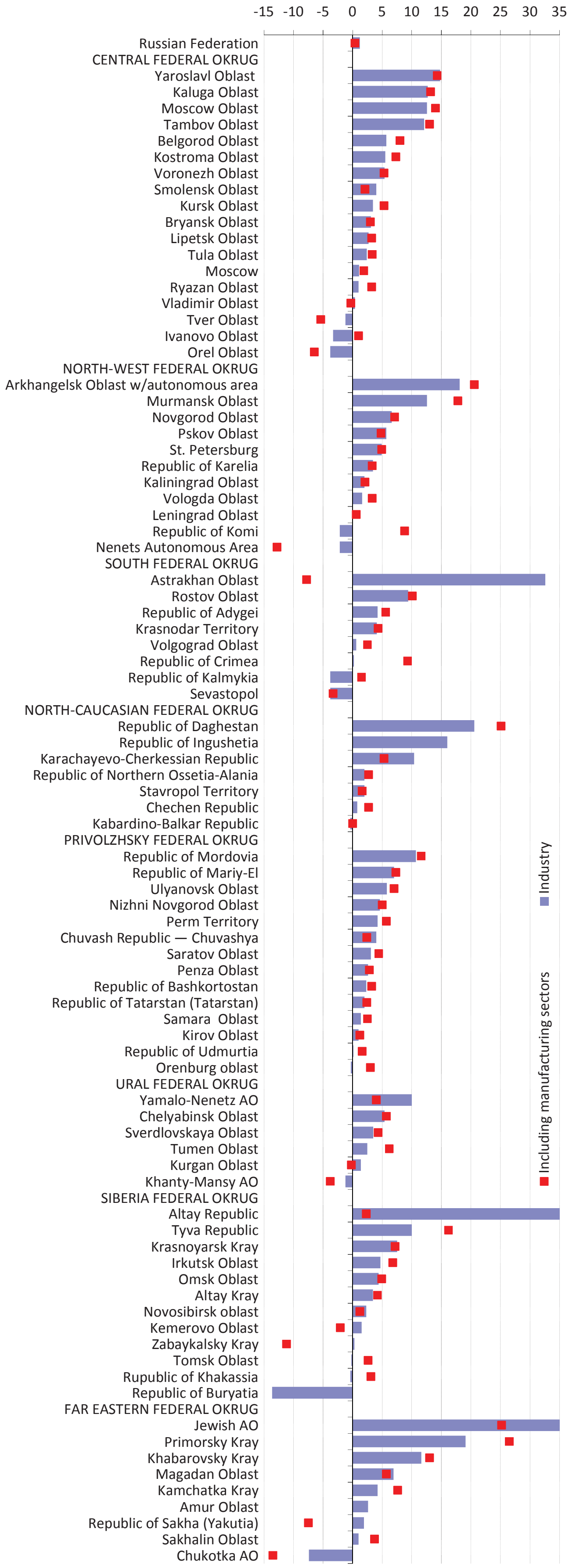


*Fig. 1. Industrial output dynamics in January-November 2017, year-on-year percentage change*

*Source:* Rosstat.

*Table 1*

DYNAMICS AND PROPORTION OF INVESTMENT BY FEDERAL OKRUG AND BY TOP-RATED REGION, JANUARY–SEPTEMBER 2017

| | Year-on-year gains, % | Proportion of investment in Russia, % | | Year-on-year gains, % | Proportion of investment in Russia, % |
|---|---|---|---|---|---|
| Russian Federation | 4 | 100.0 | Siberia Federal Okrug | -3 | 9.4 |
| Central Federal Okrug | 22 | 24.5 | Krasnoyarsk Territory | -13 | 2.6 |
| Moscow | 20 | 11.5 | South Federal Okrug | 21 | 8.4 |
| Moscow Oblast | -3 | 3.7 | Krasnodar Territory | 5 | 3.0 |
| Urals Federal Okrug | 3 | 20.3 | Rostov Oblast | 21 | 1.9 |
| Yamalo-Nenets Autonomous Okrug | -5 | 7.8 | The Republic of Crimea | 320 | 1.3 |
| Hanty-Mansiyskiy Autonomous Okrug | 17 | 6.9 | Far East Federal Okrug | 10 | 7.5 |
| Privolzhsky Federal Okrug | -6 | 14.5 | The Republic of Yakutia | 35 | 2.6 |
| Republic of Tatarstan | -1 | 3.8 | Sakhalin Oblast | -23 | 1.5 |
| North-West Federal Okrug | 4 | 11.1 | North-Caucasian Federal Okrug | 5 | 2.5 |
| St. Petersburg | -4 | 4.0 | Republic of Daghestan | 5 | 1.1 |

* January-to-September 2016

*Source:* own calculations using Rosstat's data.

rently competitive, agglomeration/resource, advantages. Moscow accumulated 11.5% of the country's total investments as the two biggest oil and gas producing (Hanty-Mansiyskiy and Yamalo-Nenets) Autonomous Okrugs represented nearly 15%. Also, there was rapid increase in investment in Yakutia, a new oil and gas producing region.

Geographical target investment areas amplify the resource-led nature of the Russian economy and the dominant status of Moscow with a super fat budget which is basically aimed at developing the transport infrastructure and improving the urban environment.

The residential construction sector in January-November was led by a downward trend (-4%). The North-Caucasian Federal Okrug, the Siberia Federal Okrug and the Far East Federal Okrug were hit hardest, down 24%, 13% and 8%, respectively. New residential supply marginally increased only in the South Federal Okrug and in the North-West Federal Okrug, with the latter being led by Leningrad Oblast (+24%) and St. Petersburg (+3%). Forty six regions, or more than half of the regions, were hit by decline. Regions with big residential supply continued to face a negative trend, namely Moscow (-18%), Voronezh Oblast (-19%), Novosibirsk Oblast (-21%), Tyumen Oblast (-12%) and Sverdlovsk Oblast (-2%). The decline slowed in the Krasnodar Territory (-4%) and stopped in Rostov Oblast and in the Republic of Daghestan.

Besides St. Petersburg and its suburbs, residential supply increased 7% in Moscow Oblast, nearly 12% of country's total residential supply, as well as Samara Oblast (11%), with slow growth in the Republic of Tatarstan and in Nizhni Novgorod Oblast. Residential construction saw a faster recovery in southern regions and in million-cities within the Volga basin. But it was the Republic of Crimea that experienced the highest (2.6-fold) growth rates that were driven not just because of the low base effect – Crimea and Sevastopol collectively increased their share of country's residential supply by 1%. It's highly likely that demand for Crimean real estate will keep growing, as many Russians would like to live in a comfortable southern coastal climate. In 2018, other regions will also see their residential construction begin to recover from the crisis on the back of stronger mortgage lending in 2017.

The retail trade turnover was in a slow upside move since Q2 2017 (up 1% year-on-year in January-November 2017) also due to increasing consumer lending, whereas real personal income continued to shrink. According to data from Rosstat, the retail trade continued to decline (-1.5%) only in the Urals Federal Okrug, whereas the North-Caucasian Federal Okrug and the Central Federal Okrug saw a more marked growth of 2.7% and 2.2%, respectively. The North-Caucasian data have relative integrity because North-Caucasian republics have lots of open-air markets that can be difficult to measure for trade turnover, and therefore statistical write-ups were applied. While retail trade measurements are even less accurate for some regions, there was a clear trend towards improvement – the proportion of regions with upside dynamics increased to 70%.

Region's labour markets slightly improved as well. Part-time employment contracted in Q3 2017 to 2.6% compared with 3.1% recorded in late 2016. The number of regions with an outsize part-time employment rate decreased. This has long been an issue for the Republic of Crimea (6.2%), the city of Sevastopol (4.8%), Ulyanovsk Oblast (5%), Perm Territory, Kirov Oblast, Nizhni Novgorod Oblast and Tomsk Oblast, St. Petersburg (over 4%).

Overdue wage arrears in 2017 were relatively small across the country, remaining almost unchanged throughout the year. Overdue wage arrears per average employed person were much higher in some regions of the Far East Federal Okrug, namely the Primorski Territory and the Khabarovsk Territory (by autumn), with further increase in Amur Oblast.

In September-November 2017, the unemployment rate, as measured using the ILO method, stood low (5.0%), even down 5.3% year-on-year. A minor decline in the unemployment rate was recorded during the year in a few central regions with low unemployment rate as well as some regions with an outsize unemployment rate, such as the Republic of Mari-El, the Republic of Kalmykia, the Karachayevo-Cherkessian Republic, Kurgan Oblast, Atai Territory.

The downward trend was the continuing decline in real personal cash income (down 0.8% in January-October 2017). A short-term period (August and September) of minor income increase was followed by a period of decline (October and November). A more steady growth that may be seen early in 2018 due to publicly announced indexation of public sector wages and retirement benefits is unlikely to be strong because of just 4% indexation.

Regional data cannot always be explained. However, real incomes stopped declining across the board and increased in January-October in 16 regions, with the strongest increase (14%) in the Republic of Crimea and the weakest (up 3–5%) in the Kabardino-Balkar Republic, the Republic of Ingushetia, the Republic of Daghestan, Altain Obalst and Amur Oblast. Heavily subsidized and less developed regions made up the majority of regions with increasing personal cash income. That was for three reasons, namely (1) an outsize proportion of public sector employees (wages in social-led industries were raised faster than elsewhere for the purpose of implementing presidential executive orders), (2) slow optimization of social security expenditure and benefit payments (which bolstered personal incomes), (3) an outsize share of informal economy employees (wages in the informal economy are estimated using statistical write-ups and may be overestimated).

Overall, regions' socioeconomic status in 2017 slightly improved over 2016; yet, the crisis is not over, personal income as well as residential construction decreased in most of the regions as development polarization increased.

**Budget revenues and expenditures**

Regions' consolidated budget revenues increased substantially in January-October 2017, up 8.8% over the same period of 2016. The upside dynamics was led by a 11–14% increase in revenues from profit and property taxes, steady growth in personal income taxes and increased government transfers (*Table 2*). Despite stagnant economy, aggregate income tax revenues from small businesses increased nearly 15%. It was just revenues from excise taxes that reduced substantially because of increased proportion of excise taxes payable to the federal budget.

The highest growth in budget revenues (up 60%) was seen in the Nenets Autonomous Okrug due to the low base effect related to the 2016 collapse, and in the Republic of Crimea (52%) on the back of a 1.5-fold increase (over 2016) in government transfers, and the emergence of large taxpayers, contributing to a 3.5-fold growth in profit tax revenues. Kaliningrad Oblast's revenues were up 42% due to a 81% increase in government transfers aimed at compensating special economic zone resident companies for losses from the revision of allowances following Russia's accession to the WTO. The Yamalo-Nenets Autonomous Okrug, Astrakhan Oblast and Kemerovo Oblast (24%), Belgorod Oblast (19%) and Kaluga Oblast (17%) were also in the lead. However, the biggest gains in revenues were seen in Moscow, up 15%, adding Rb 240bn to the city's budget. Moscow budget revenues will end the year at Rb 2 trillion. This is equal to every fifth rouble of the rest of the regions' budget revenues.

Only 13 regions saw their budget revenues drop, of which the hardest hit were Sakhalin Oblast, down 24% due to a sharp slump of profit taxes (-44%), and the Republic of Ingushetia, down 18% due to a 22% cut in government transfers. In 2017, another two oil producing regions – Tomsk Oblast and the Hanty-Mansiyskiy Autonomous Okrug – saw their budget shrink (down 7% and 8%, respectively) as a result of reduced profit tax revenues by 40% each. Mysterious things happened in the Hanty-Mansiyskiy Autonomous Okrug: profit tax revenues from consolidated taxpayer groups (CTPGs) dropped 6-fold (from Rb 26.8bn to Rb 4.6bn), whereas they mysteriously increased 2.3-fold (from Rb 39bn to Rb 90bn) in Moscow. Kabardino-Balkarian budget revenues were down 9% due to cuts in excise taxes and government transfers. The Chukotka Autonomous Okrug's revenues lost 7% because profit taxes were down almost 2-fold. Each of the troubled regions was facing its region-specific hardships.

Regions' consolidated budget expenditures increased in January-October by 6.6% over 2016, better than the past year's dynamics. Only 16 regions cut back on expenditure. National economy and utilities expenditure was twice the growth rate dynamics of other budgets' expenditure. A noticeable polarization was detected in national economy expenditure which increased substantially in every fifth region and decreased in one third of the regions due to a lack of resources. The fastest growth in national economy expenditure was seen in the Republic of Crimea (89%), Kaliningrad Oblast (75%), the Republic of Chuvashia (57%) and the Republic of Ingushetia (44%).

*Table 2*

DYNAMICS OF CONSOLIDATED BUDGET REVENUE AND EXPENDITURE OF REGIONS (JANUARY–OCTOBER 2017, YEAR-ON-YEAR PERCENTAGE CHANGE) AND THE NUMBER OF REGIONS WITH REDUCED CONSOLIDATED BUDGET REVENUES/EXPENDITURES

| | Gains, % | Number of regions with reduced revenue/ expenditure |
|---|---|---|
| Revenue total | 8.8 | 13 |
| incl. personal income tax | 8.0 | 5 |
| profit tax | 11.4 | 19 |
| excise taxes | -8.0 | 71 |
| property tax | 14.5 | 9 |
| aggregate income tax | 14.7 | 3 |
| government transfers | 7.6 | 27 |
| Expenditure tota l | 6.6 | 16 |
| incl. national economy | 12.4 | 31 |
| ...utilities | 12.4 | 27 |
| education | 4.9 | 8 |
| healthcare* | 6.2 | 31 |
| culture | 13.2 | 9 |
| social welfare policy** | -0.1 | 35 |
| physical education and sports | 23.5 | 19 |

* including compulsory health insurance premiums of non-working individuals to ensure the comparability of calculations.

** net of compulsory health insurance premiums of non-working individuals to ensure the comparability of calculations.

*Source:* calculated using data released from Russia's Federal Treasury.

The dynamics of utilities expenditure were also homogeneous, albeit unstable, with leaders and outsiders interchanging year after year. The most stable priority was the Moscow's urban redevelopment expenditure: Moscow increased the expenditure 30% in January-October 2017, making up 61% of other regions' total budget expenditure on urban redevelopment. The rest of the country simply cannot afford a modern urban environment. The sole city seeking to be like Moscow was Sevastopol, with a 3.8-fold increase in its urban redevelopment expenditure.

2017 saw changes in social expenditure priorities. The growth in expenditure on physical education and sports (23%) was far ahead of the growth in other expenditure, as the FIFA World Football Cup 2018 is just around the corner. Not only host regions but also the city of Sevastopol, the Republic of Crimea, the Karachayevo-Cherkessian Republic and the Republic of Tyva (a 2.2–2.4-fold growth) were among the growth leaders. A substantial increase in culture expenditure in most of the regions could be linked to wage raise for public sector employees of culture as well as upcoming presidential elections. Education expenditure was just above the inflation rate, which, however, was not so bad compared with previous year's spending. In addition, the number of regions that cut back on education expenditure hit its low point (the Kabardino-Balkar Republic, the Republic of Tyva, the Udmurt Republic, the Republic of Komi, Yakutia, Karelia and Sakhalin Oblast). The above regions had to cut on investment in human capital because of a lack of resources.

The dynamics of regions' budget expenditure on healthcare and social welfare policy was incomparable with previous years' spending because of changes in the budget classifier in 2017. Compulsory medical insurance (CMI) premiums of non-working individuals were moved from 'healthcare' to 'social welfare policy' in almost all the regions. CMI premiums of non-working individuals were removed from 'social welfare policy' to 'healthcare' so that the dynamics of expenditure on the above two budget items are measured correctly. The recalculation shows that regions' healthcare expenditure in January-October 2017 increased 6%, but the dynamics has to be assessed with caution because of changes in budgetary accounting.

The recalculation shows that social welfare policy (social security) expenditure in January-October 2017 stood at levels seen in 2016, while it was cut in 35 regions. No optimization measures were applied to previous years' social security, of which social benefits make up more than 70%. In 2017, regions optimized social benefits, increased the rules for benefit recipients with a view to restricting eligibility, with lots of benefits left unindexed. The Ministry of Finance requires regions to balance their budget revenues and expenditures, but the latter are deficient in opportunities including social security expenditure optimization. The Ministry of Labour and Social Security developed a method of paying social benefits on a means-tested basis, and regions should therefore revise and increase their criteria. Fiscal priorities finally prevailed over electoral priorities.

Regions' budget deficit was reduced by keeping the growth in revenues ahead of expenditure. According to the data for January-October 2017, only 22 regions were running a budget deficit (33 regions in January-October 2016). The Republic of Mordovia (24%), the city of Sevastopol (17%), as well as the Kabardino-Balkar Republic and the Jewish Autonomous Oblast (13%) were ranked as top deficit runners. The Republic of Khakassia cut its budget deficit to 9%, with extra aid out of the federal budget. In 2017, Tomsk Oblast ran a 8% deficit amid falling profit tax revenues. The Republic of Kalmykia, Kostroma Oblast and Pskov Oblast have long been running a budget deficit of 5–8%, showing a combination of weak fiscal policy and slim growth in revenues. The number of regions with a budget deficit was supposed to increase by late 2017 because most of the spending went towards covering obligations under government contracts that tend to fall due in December. There will nevertheless be less troubled regions than in 2016, as they keep learning how to make both ends meet.

The issue of regional and municipal indebtedness was also slightly alleviated, with the debt volume down 8% in the period between January and early in November. However, there was a polarization in the debt dynamics – regions with a small debt burden reduced their debt, whereas the most heavily debt-ridden regions did the opposite. The latter remained the same as at the beginning of November 2017, namely the Rublic of Mordovia, the Repbulic of Khakassia, the Republic of Karelia, Kabardino-Balkar Republic, the Udmurt Republic, Kostroma Oblast and Smolensk Oblast (*Fig. 2*). The Republic of Mordovia had a huge debt coupled with a record-high budget deficit, thus worsening its repayment abilities.

Ultra low-cost budget loans accounted for 43% of the debt profile, with high-cost bank loans down to 32%. However, loans from banks made up most of the debt owed by Kostroma Oblast, Orel Oblast, Astrakhan Oblast, Pskov Oblast, Ivanovo Oblast, Ulyanovsk Oblast, the Kabardino-Balkar Republic. Debt servicing costs require a great deal of budget resources: 9% in the Republic of Khakassia, 4-6% in other heavily debt-ridden regions, quite a heavy burden to take on.

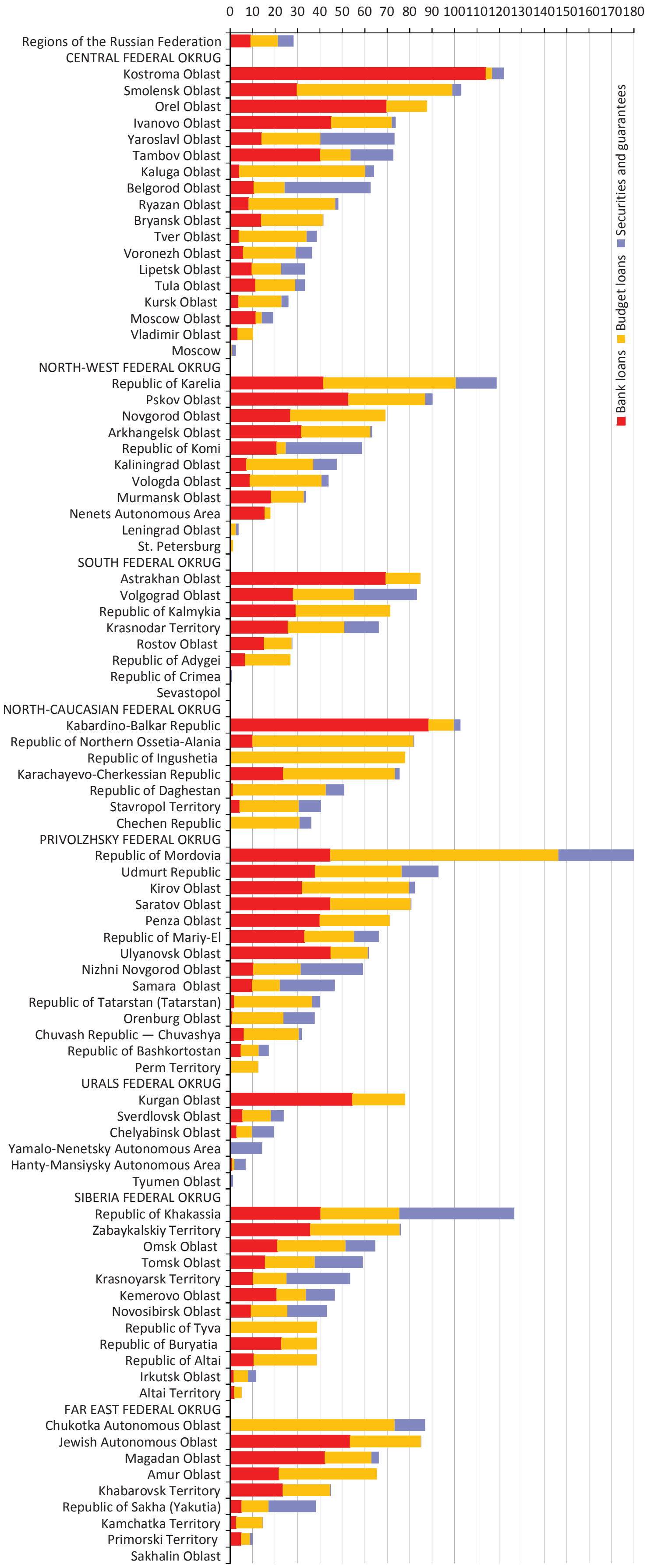


*Fig. 2. Regional and municipal debt as of 1 November 2017, as percentage of own (tax and nontax) regional consolidated budget revenues 2017*

*Source:* calculated using data released from the Russian Ministry of Finance.

The Ministry of Finance plans to slash budget loans in 2018, minimizing them in 2019–2020. To be eligible for a 5–7-year extension on outstanding loans, regions have to run a deficit-free budget, ensure that revenues outpace inflation and curtail inefficient expenditures. Heavily debt-ridden regions can hardly do this, according to the dynamics of budget revenues and expenditures in 2017. Federal government authorities would therefore be caught between whether to bail out or punish regions faced with emergency. The objective of ensuring political stability is very likely to remain the top priority: debts will be discharged, government transfers will increase. No governor has so far been dismissed for inadequate fiscal policy and economic underperformance.

Although it's too soon to draw final conclusions on the 2017 fiscal outturns, main trends are apparent: revenues outpaced expenditures, regions improved their budget equilibrium, the priority of economy expenditures was complemented with expenditures on sports and utilities, human capital expenditure increased at slower pace (comparable with inflation pace), and social security expenditure was heavily optimized despite upcoming elections. There was a regional polarization, with Moscow leaving the rest of the regions trailing behind in terms of budget revenues. The Republic of Crimea became the federal government's geopolitical top priority region in 2017, with increasing inflow of government transfers and investment in the Republic.

## 2. MIGRATION OF SKILLED WORKERS TO RUSSIA: BALANCE OF LOSSES AND GAINS

**N.Mkrtchyan, Yu.Florinskaya**

*The share of persons with higher education in immigration flows and the temporary migration to the Russian Federation is currently lower than that in the emigration flow from Russia. However, in quantitative terms the annual number of intellectual emigrants is small. Migration of persons with higher education inside Russia is mainly directed to metropolitan regions; Moscow and St. Petersburg do not prepare as many experts as they receive from other regions of Russia.*

**Immigration to Russia**

In the international migration, Russia is a recipient-country because no matter how large the extent of the emigration to far abroad countries is the immigration inflow from the near abroad countries has always surpassed it in quantitative terms. In 1992-2016 (according to the adjusted data based on the results of all-Russian population censuses of 2002 and 2010), Russia's population migration gain amounted to 9,142,500 people and substantially made up for the country's losses from depopulation. As regards the level of immigrants' education, it changed greatly throughout the post-Soviet period.

In the 1990s, as seen from the Rosstat's data the distribution of immigrants by the level of their education was generally in harmony with that of the population of Russia, while the share of persons with higher education was in some years even higher than in the Russian population. In the 2000s, the levels of education of immigrants and the Russians were almost the same. However, later the situation started to change: as seen from comparison with the data of the 2010 population census the share of persons with higher education in the immigration flow happened to be lower than in the Russian population. Young migrants who came to Russia in the past few years were less educated than their middle- and elder aged compatriots and the influx of such rather low-educated people may complicate their integration in the society, however, in terms of current economic needs it is quite favorable (as it permits to fill some labor market free niches which the Russians do not want to take for some reasons).

Despite preferences introduced in the field of skilled and high-skilled labor migration, Russia has failed to attract any substantial number of such migrants: in particular, within a six-year period of preferences being in force only 151,000 foreign labor migrants received work permits as high-skilled workers (411,000 migrants got work permits as skilled workers, but this category included not only persons with higher education).

Generally, judging by surveys (because there is no statistics on education of temporary migrants) in the flow of the temporary labor migration the share of people with higher and incomplete higher education amounts to 13%-17% which is explicitly below the similar data on the population of Russia (28% as per the data of the 2010 census among people at the age of over 15 years old). However, there is another problem, too. The available education potential of labor migrants in Russia is underutilized: according to numerous surveys about a third of the migrants with higher education and nearly half of the migrants with vocational high education work at jobs which require no skills.

**Intellectual Migration from Russia**

As seen from the emigration statistics the methods of emigration accounting applied by the Rosstat are inadequate to the real-life situation. The Russian statistics of departures registers mainly the expiry of the period of the temporary registration in Russia of nationals from post-Soviet states, rather than emigration of Russian nationals abroad. So, according to the Rosstat's data out of 353,233 people departed from Russia in 2015 only 51,800 people were Russian nationals of which 15,243 persons left for far abroad states; in 2016 313,210 people left Russia, of which 58,739 people were Russian nationals, including 14,752 persons who departed to far abroad countries. At the same time, the Russian emigration statistics does not take into sufficient account real emigrants with the Russian citizenship who leave for developed countries because it takes into account only those people whose departure is accompanied with the migration deregistration, while most emigrants preserve their status, retain their housing in Russia and do not deregister. This is proved by comparison of the Russian data with the national statistics data of recipient countries: they differ severalfold.

According to researchers' estimates, at present nearly 2.7m native Russians live abroad, of which about 1.5m people retain the Russian citizenship. The geography of emigration is becoming more and more diversified: in addition to the leader-countries of the 1990s (when departures were mainly along "ethnic" emigration lines) – Germany, the US and Israel – numerous new destinations where countries of Central, South and North Europe and Australia prevail have emerged.

The level of education of emigrants to western countries is much higher than in the Russian population: according to the Rosstat's data depending on the country of the destination 30%-70% of such emigrants had higher education. As seen from the foreign country statistics and the results of in-depth interviews with emigrants of the past six years, the current decade saw real growth in skilled (intellectual) emigration from Russia; however, it has nothing to do with annual departures of millions and even hundred thousands of people. Judging by the statistics of recipient countries, about 100,000 people immigrated annually to developed countries in the past few years and on average nearly 40% of them had higher education. By now, the number of Russians with higher education abroad is likely to amount maximum to 800,000 people. According to the latest available data (from the population censuses), in 2010–2011 the strength of this category of Russians in the OECD countries amounted to 660,000 people and yielded in quantitative terms to the number of emigrants with higher education from such countries as the UK and Germany.

The main channels of emigration of Russians with higher education[1] are the following: departures for taking master's degree and post-graduate studies (about one-third of the respondents) and a job abroad (about 25% of the respondents); note that every second emigrant to Europe who took advan-

1 The data were obtained by the authors during in-depth interviews with emigrants with higher education who left Russia after 2010 and lived in developed western countries.

tage of the above two channels managed to secure the so-called “Blue Card” which is issued to skilled workers. The third most common channel (one respondent in five) of emigration abroad is moving there as a family member of a foreign national or a Russian national who signed a contract on work abroad.

For most emigrants, the “expulsive” factor behind their decision to move abroad was a substantial worsening of the economic situation after 2014 which led to problems on the labor market, reduction of wages and salaries and shrinkage of carrier opportunities. For 25% of emigrants, the factors that they rated first were the political situation, disillusionment after the 2012 elections and, particularly, the developments of 2014. For respondents who left Russia to study abroad (master’s decree and post-graduate programs), a decisive factor was the opportunity to get education abroad which was not available in Russia or was inferior in terms of quality here and sometimes even cost more money. The “attractive” factors happened to be more important than “expulsive” ones for some elder respondent, too, who did not intend to study, but were willing to acquire the experience of working and living abroad.

The intellectual migration from Russia is not necessarily an irrevocable flow. Judging by the emigrants’ plans, they can be divided into the following *three groups*: nearly one-third of them are those who know for sure that they will never return to Russia; the second group is quite a small one (about 15%) and includes those who constantly monitor the labor market in Russia and in case of an interesting job proposal being made are prepared to come back in the near future[1]); the third group -- the most numerous one (about a half of all the respondents) – is made up of emigrants who do not rule out the possibility of returning to Russia for permanent or temporary residence but concrete timelines and prospects are unclear to them.

**The In-Country Migration**

As seen from sociological surveys[2] of skilled migrants in Moscow, St. Petersburg, the Moscow Region and the Leningrad Region, the share of recently arrived migrants (who came within five years before the survey in question) to those regions is higher than that of the micro census carried out in 2015. So, the mobility of the population is higher than that one can see from the official statistics. One in ten skilled workers in metropolitan regions is a recent migrant who arrived in the past five years from Russian regions.

Skilled in-country migrants are naturally integrated in the labor market of recipient regions and do not form individual “migrant” niches.

It was found out that the educational migration was not the main channel of the inflow of skilled workers to regions in question; Moscow and St. Petersburg do not prepare that many skilled workers as they receive from other regions though the influx of prospective university students from other regions to higher educational establishments of these two cities is quite high.

1 The number of such people would be much higher primarily owing to those who left Russia to take master’s degree and post-graduate courses abroad, but the developments of 2014 and the subsequent crisis, including that on the labor market changed their plans to return home.

2 The quantitative analysis of the skilled in-country migration was carried out in the Moscow (Moscow and the Moscow Region) and St. Petersburg (St. Petersburg and the Leningrad Region) metropolitan regions; also, a telephone survey at random systematic stratified sample of mobile phone numbers was carried out.

Skilled migrants live on a permanent basis mainly in Russia's most attractive regions; temporary labor migrants among them amount to less than 20%, while executive managers and high-skilled workers, to only 8% and 15%, respectively. Unlike low- and medium-skilled workers, their pay permits them to buy or rent housing in large cities or metropolitan regions.

In-country migrants with higher education do not consider themselves as "outsiders" as regards their financial standing in Moscow and St. Petersburg and credit for this goes to their higher education. In addition, as seen from the estimates of the way of living of migrants a transfer to the metropolitan regions of Moscow and St. Petersburg is unambiguously a advantageous and, by judgmental estimates, positive strategy for skilled migrants.

# 3. FOREIGN EXCHANGE REGULATION AMENDMENTS

**A.Levashenko, A.Koval**

*In 2017, Russia adopted material amendments to its Federal Law On Foreign Exchange Regulation and Control, which on the one hand intend to remove restrictions preventing residents for foreign exchange purposes who stay abroad for lengthy periods from using foreign accounts and on the other hand to increase foreign exchange control requirements. Russia took extra measures late in the year to establish an automatic exchange of information in tax matters with the rest of the world.*

The existing regulations and provisions set forth in Russia's Federal Law On Foreign Exchange Regulation and Control No. 173-FZ dated 10.12.2003 (in force as of 29.12.2017) are in variance with developed countries' practices and unreasonably undermine opportunities for doing business for Russian companies and nationals.

Quite a number of restrictions on foreign exchange transactions had been removed by 2006–2007 (special accounts requirements for foreign exchange transactions, surrender of foreign exchange proceeds, etc.), yet there are many still in force in Russia, namely the ban on foreign exchange transactions between residents, repatriation requirements for foreign exchange proceeds, the closed list of permitted transactions involving foreign account crediting, the notification and reporting requirement for such accounts. Such restrictions are imposed on specific persons – residents for foreign exchange purposes.

Residents for foreign exchange purposes have to date been recognized as nationals of the Russian Federation, excluding those who stay abroad throughout the entire calendar year. The definition of resident individual for foreign exchange purposes was revised on 1 January 2018 under a draft bill prepared by the Russian Ministry of Finance. The revised version of the Federal Law On Foreign Exchange Regulation and Control designates any and all nationals of the Russian Federation as resident individuals, including a provision that exempts resident individuals who stay abroad more than 183 days in total during the calendar year from the obligation to notify tax authorities of their accounts (deposits) held with banks outside of the Russian Federation, as well as a provision that permits such persons to conduct foreign exchange transactions while staying abroad. While the update intends to facilitate residents for foreign exchange purposes who stay abroad for lengthy periods, it does not remove all the restrictions on the residents (leaving intact the ban on transactions between residents). In OECD countries, however, there is no such thing as a "resident for foreign exchange purposes".

The adopted updates and amendments show that mechanisms underpinning Russia's foreign exchange legislation are aimed at fixing tax issues rather than achieving macroeconomic objectives of ensuring a stable balance of payments. According to the international practice, objectives of tax, "anti-money laundering" and other controls should be accomplished within a particular legal framework, but foreign exchange control is often overreach, thus impeding ordinary business activities and increasing costs of doing business.

In particular, Article 19 of the existing Federal Law On Foreign Exchange Regulation and Control establishes a repatriation requirement for foreign exchange proceeds – the money payable under residents' foreign trade contracts must be returned to their accounts held with authorized (i.e. Russian) banks. Banks acting as foreign exchange control agents are responsible for making sure the foregoing requirement is observed. A new Bank of Russia's Instruction 181-I is to take effect on 1 March 2018, revoking the requirement that the transaction ID be filled out while leaving intact the requirement that all the documents be submitted for the purpose of foreign exchange control to the authorized bank (the contract and other information; exporters may initially submit the general information on the contract, and the export contract itself must be submitted to the bank not later than within 15 working days after registration of the contract). Although the Instruction provides for certain simplifications for exporters (it takes one working day for a contract to be registered, the registration fee for export contracts is set at 6 million roubles instead of the previously existing $50,000 requirement), the basic approach has remained intact: exporters have to compile a package of documents to meet the requirements set forth in foreign exchange laws and regulations whose violation entails administrative liability (fines). No such requirements are imposed on foreign counteragents in developed countries.

A draft bill on Amendments to Articles 9 and 12 of the Federal Law On Foreign Exchange Regulation and Control (with regard to foreign exchange transactions between residents) past the first reading on 14 December 2017. Today, employers – Russian companies – acting as residents for foreign exchange purposes may pay to residents working abroad on a contract basis only in roubles via their accounts held with authorized banks. This payroll practice is highly inconvenient for the above category of Russian nationals and appears to be economically unsound. The draft bill proposes to extend the list of permitted foreign exchange transactions between residents as well as provides for the possibility of crediting such money to residents' foreign accounts so that Russian nationals working abroad on a contract basis with Russian companies can be paid via their foreign accounts. In addition, the draft bill has a provision under which such payments can be made using the money legally credited to foreign accounts.

Despite some measures aimed at liberalizing the foreign exchange control in Russia, a bill was adopted on 14 November 2017, including amendments to the Federal Law On Foreign Exchange Regulation and Control and the Administrative Offenses Code of the Russian Federation (to be in effect from 14 May 2018) and measures to step up foreign exchange control. The bill includes the following amendments:

- more detailed requirements to information that residents (legal entities) should provide to a bank, specifying exact dates of contract revenues and dates on which non-residents are to meet their obligations under foreign trade contracts on account of advance payments made by residents and repayment dates specified in contracts;
- authorized banks may deny foreign exchange transactions to customers on the ground of failure to meet the requirements set forth in Russia's foreign exchange laws and regulations as well as failure to provide documents, or on the ground of having provided unreliable

documents or documents that fail to meet the existing requirements. Customers previously could be denied transactions only if they were suspected of criminal money laundering;

- unincorporated private entrepreneurs were for the first time designated as persons being subject to administrative liability for offences involving foreign exchange;
- office holders were for the first time designated as separate persons in terms of administrative offences that are subject to a special regime of liability – 20.000 to 30.000 roubles (while persons other than office holders are subject to 75–100% (!) of the value of illegal foreign exchange transaction/deal). For further foreign exchange offences an office holder may be subject to disqualification for six months to three years.

Hence the adopted updates and amendments intend to step up foreign exchange control. While Russian laws and regulations have further restrictions on cross-border bank transactions, OECD countries tend to impose restrictions only where there is a risk of criminal-money laundering and terrorist financing.

Note that Russia's Federal Tax Service (FTS) issued a letter on 16 July 2017 No. ZN-3-17/5523@ to confirm that failure to notify tax authorities of opening an account with a foreign bank as well as report on cash flows via the account not only holds residents for foreign exchange purposes liable for failure to meet notification and reporting requirements for foreign accounts, but also all the transactions that have been conducted via such accounts must be held illegal. This, in turn, is subject to administrative liability – a penalty equal to 75–100% of the value of illegal foreign exchange transaction.

The regime of liability for offences involving foreign exchange, when it equals the total value of foreign exchange transaction, poses unreasonable risks to Russian residents for foreign exchange purposes. Most of law-abiding residents' offences involving foreign exchange are often committed due to their unawareness of sophisticated foreign exchange regulation rules, while other residents simply fail to notify the FTS of their foreign accounts. The FTS has viable mechanisms designed to obtain information from tax authorities of other countries on Russian residents' foreign accounts (information is exchanged by request, making it difficult to develop the full picture). Furthermore, the restrictions prompt Russian residents to renounce their Russian citizenship so that they no longer be subject to Russia's foreign exchange control requirements.

Additionally, Russia is taking further steps toward being involved in the international automatic exchange of financial and accounting information while leaving intact a reporting requirement for foreign accounts held by residents for foreign exchange purposes that are set forth in the Federal Law On Foreign Exchange Regulation and Control. It is the international exchange that, in our view, makes it possible to ease considerably the existing foreign exchange restrictions because Russian tax authorities will be able obtain by themselves information they need to ensure that taxes are paid in full and correct manner. A new round of activated bilateral relations under the Multilateral Competent Authority Agreement for the Common Reporting Standard 2014 (CRS MCAA) was announced on the OECD website on 21 December 2017. Russia has agreements with 71 countries on the exchange of information on foreign accounts of residents for tax purposes, including OECD countries, Cyprus, China, Liechtenstein, Saudi Arabia, British Virgin Islands, Bermudas, Belize, Cayman Islands. Offshores will unilaterally provide information on Russian residents for taxation purposes. Russia has no such agreements with Canada, Israel, Panama and Bahrain. The United States is not involved in the exchange within the CRS MCAA framework, using arrangements provided for by FATCA's extraterritorial regulations to obtain the information required.

Although Russia has committed to undertake the first exchange in 2018, a domestic law has yet to be adopted that will govern the financial institution report-making procedure in compliance with the Common Reporting Standard (CRS OECD). A draft Federal Law On Amendments to the Tax Code of the Russian Federation (in the context of the implementation of international automatic exchange of information on financial accounts and documents related to international groups of companies) was submitted to the State Duma for consideration, but the draft law itself establishes only a reporting requirement, so a by-law has to be drafted as well. Countries which have announced their intention to exchange information in 2017–2018 have already adopted laws that require financial institutions to prepare reports, by-laws that provide a detailed report-making procedure pursuant to the CRS OECD, compiled a list of financial institutions and accounts that are not subject to reporting. Therefore, Russian government authorities should increase efforts to implement the international automatic exchange of information in tax matters while discontinuing the use of archaic foreign exchange regulation standards.

# 4. THE EFFECT OF ANTI-SANCTIONS: MODIFIED GEOGRAPHY OF THE IMPORTS AND TRAFFIC FLOWS

**S.Aksyuk, T.Mikhailova**

*A substantial modification of Russia's foreign trade on the back of introduction of a trade embargo (anti-sanctions) have spurred the imports of banned commodity groups to switch over from the EU near abroad countries to geographically distant countries. A switchover of the EU imports from the banned commodities to other commodity groups was not virtually observed. Note that the geography of traffic flows of imports through the border of the Russian Federation was in direct correlation with the reduction of the total import volumes from bordering countries.*

After sudden changes in Russia's foreign trade in 2014, a topical issue in the foreign trade was modification of the composition and geography of the imports to the Russian Federation under impact of anti-sanctions. The economic theory suggests that a ban on imports of some food products from Europe, the US and Canada should stimulate a switch-over to other trade partners, that is, facilitate growth in imports of commodity groups being under the anti-sanctions from other countries. For example, a ban on imports of cheese from France should promote growth in imports of cheese, say, from Argentina. But as transportation costs from Argentina are higher, such a switchover will lead to higher general costs of imports. Note that the total import volume of goods included in the embargo list is expected to fall. Also, it is possible to switch over to imports of other goods from countries against which the embargo was imposed. For example, instead of cheese from France importers may switch over to wine which is not under the embargo. The extent of flexibility in selection of import goods depends on importers' cost pattern.

Importers' fixed costs include all such things which are related to preliminary work, establishing of business relations, legal advice, book-keeping of transactions, marketing operations in Russia and other. If fixed import costs are specific in respect of the counter-agent country, it is easier for importers to reorient to other goods from that country. If they are specific in respect of the goods, it is expected that importers will find new suppliers in other countries. In addition, one should take into account depreciation of the rouble against foreign currencies and, subsequently, the reduced demand on import goods in Russia.

To evaluate the abovementioned effects, econometric methods were used to review commodity flows from foreign countries to Russia's regions with goods being divided into the two groups: goods under the embargo and those off the list of banned goods.

The analysis permitted to make the following two conclusions. Firstly, as regards goods under the embargo the general geography of import flows to Russia changed dramatically late in 2014 and 2015 as compared to 2013 and the beginning of 2014. As seen from the analysis of the global data, with all other factors being equal countries which are geographically situated close to each other trade more actively, that is, trade flows get weaker with the


*Fig. 1. The effect of introduction of the embargo on imports of goods from the countries against which the embargo was imposed*
*Source:* own calculations.

distance. According to our own calculations, the effect of the distance on trade flows between foreign countries and Russia's regions was twice as weak in 2015 as compared to 2013. It means that Russian consumers switched over to more geographically distant counter-agents.

Secondly, the authors did not identify any long-term effect of a switchover to the goods off the embargo list. Q1 2015 saw a short-term switchover to other goods when imports of the embargo-free goods from the countries against which the embargo was imposed increased for awhile. However, that effect was never observed later. The estimated effect – cleared of the effect of distance and depreciation of the rouble exchange rate – from introduction of the embargo on imports of goods under the embargo and embargo-free goods from the countries against which the embargo was imposed is shown in *Fig.* 1.

So, there is a more active switchover of import commodity flows between different countries than between different commodity groups from the same country. Note that they manage to orient quite easily to geographically distant trade partners. It means that the role of fixed import costs specific to the counter-agent country is not great. It is the pattern of demand inside Russia that matters: they import goods which consumers need regardless of the geography of suppliers.

It is important to point out changes in the geography of traffic flows of imports through border crossing points. Due to the embargo, the loading of check-points on the border of the Russian Federation (or on the borders of Belarus and Kazakhstan, member-states of the Customs Union) is going to change. The intensity of cargo flows at border crossing points with EU countries is expected to fall due to the embargo, so, it cannot but reduce the loading of border check-points. It is believed that the reduced loading can make border crossing points more attractive: the traffic flow will reorient to less loaded check-points.

In addition, the hostilities in the east of Ukraine closed some border crossing points on the Russian-Ukrainian border for cargo traffic and this situation may result in redistribution of traffic flows. However, it is important to take into account the general reduction of the trade turnover between Russia and Ukraine in the period under review to estimate the extent of redistribution of traffic flows.

The research carried out by the RANEPA and the Gaidar Institute[1] used econometric methods to analyze the foreign trade data. It was tested

1 Tatyana Mikhailova and others. The Analysis of the «Анализ of the Effect of Modified Trade Conditions on Routing of Cargo Flows through Border Crossing Points of the Russian Federation. The RANEPA, Moscow 2017.

whether a redistribution of traffic flows to alternative border crossing points (neighboring check-points in geographic terms) due to reduced loading and the hostilities took place. It was relative growth or a drop with general trends in Russia's foreign trade[1] taken into account rather than actual growth in absolute terms or a drop in the freight turnover through a border check-point were evaluated.

*Table* 1 presents the list of border crossing points which saw statistically significant growth in the traffic flow of imports. Border crossing check-points Bugayevka and Valuiki are situated on the northern part of the border of the Lugansk Region and the border with the Kharkov Region of Ukraine. These are the nearest border crossing points to the north of the area of the hostilities, so, traffic flows reoriented towards them.

*Table 1*

BORDER CROSSING POINTS WHERE THE INTENSITY OF THE IMPORT CARGO FLOW INCREASED

| Border check-points | Comments |
|---|---|
| Bugayevka (motor transport), Valuiki (railway) | Border with Ukraine |
| Ivangorod (motor transport)), Chernyshevskoe (motor transport) | Border with the EU |
| Vyborg ( sea transport) | Atlantic basin seaport |
| Novosibirsk (Tolmachevo) (air transport), Vladivostok (Knevichi) (air service) | Air carriage |

On the EU border, there are only two border crossing check-points whose relative attractiveness increased: Ivangorod and Chernyshevskoe. These are border cities which observe a considerable pendular flow of private trips: residents of Ivangorod go shopping to the Estonian city of Narva, while Chernyshevskoe is situated on the border between the Kaliningrad Region and Lithuania. Other border crossing check-points on the border with the EU did not receive any additional traffic. So, it can be concluded that reduction of the loading of border crossing check-points failed to become an attractive factor in selection of traffic routes: import cargos flows did not switch over by and large to less loaded border crossing points.

Other border crossing points where higher intensity of import flows was observed included the sea port of Vyborg. This fact can be explained among other things by growing trade with far abroad countries because such carriage is carried out by sea. Also, the airports of Vladivostok and Novosibirsk increased their cargo traffic flow owing to far abroad counter-agent countries.

Summarizing the results, it can be concluded that loading of border crossing points is not on average a decisive factor behind the selection of an import cargo route. As seen from our earlier research[2], the quality of the Russian domestic transport infrastructure has a much smaller effect on the choice of the route. Accordingly, modernization of the domestic transport infrastructure will boost not only trade turnover inside the Russian Federation, but also Russia's foreign trade. Imports of consumer goods to Russia can be flexibly rearranged between suppliers with the general commodity

1 The Effects of goods, regions and counter-agent countries were monitored individually to take into account the effects from introduction of the embargo and modified geography of the foreign trade.

2 Tatyana Mikhailova and others. The Analysis of Spacing Effects of Localization of Commodity Flows through Border Crossing Points of the Russian Federation. The RANEPA, Moscow, 2015.

pattern remaining almost unchanged. Note that the role of transportation costs and geographic distance to a counter-agent country is not that important. No switching over to other commodity groups of regular suppliers has taken place. Loading of the border infrastructure is not an essential factor behind routing of import cargo flows, either. It is the quality of the domestic transport infrastructure that matters.

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