

MONITORING OF RUSSIA'S ECONOMIC OUTLOOK:

TRENDS AND CHALLENGES OF SOCIO-ECONOMIC DEVELOPMENT

No. 9(92) June 2019

TRENDS AND CHALLENGES OF SOCIO-ECONOMIC DEVELOPMENT	3
1. FOREIGN DIRECT INVESTMENT IN 2018: RECORD-HIGH OUTFLOW	
A.Knobel, Yu.Zaitsev	5
2. EXECUTION OF THE FEDERAL BUDGET IN JANUARY-MARCH 2019: NO RISKS FOR STABILITY	
T.Tischenko	8
3. THE MARKET OF E-COMMERCE AND PAYMENT SYSTEMS: RAPID GROWTH	
A.Polyakova	12
4. NATIONAL PROJECT EDUCATION: ADVANTAGES AND RISKS	
T.Klyachko	16
AUTHORS	19

Monitoring of Russia's Economic Outlook

Monitoring has been written by experts of Gaidar Institute for Economic Policy (Gaidar Institute) and Russian Presidential Academy of National Economy and Public Administration (RANEPA).

Editorial board: Sergey Drobyshevsky, Pavel Kadochnikov, Vladimir Mau and Sergey Sinelnikov-Murylev

Editors: Vladimir Gurevich and Andrei Kolesnikov



GAIDAR
INSTITUTE
FOR ECONOMIC
POLICY



RANEPA
THE RUSSIAN PRESIDENTIAL ACADEMY
OF NATIONAL ECONOMY
AND PUBLIC ADMINISTRATION

9(92) 2019

Monitoring of Russia's Economic Outlook: trends and challenges of socio-economic development. 2019. No. (92). June / Zaitsev Yu., Klyachko T., Knobel A., Polyakova A., Tischenko T. 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. 19 p. URL: http://www.iep.ru/files/text/crisis_monitoring/2019_9-92_June_eng.pdf

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

TRENDS AND CHALLENGES OF SOCIO-ECONOMIC DEVELOPMENT

The results of the European parliamentary elections 2019, however unrelated they might seem to any major issues on Europe's economic agenda, are quite capable of strengthening some trends existing in the European economy. Instead of the expected profound increase in the number of seats held by the far-right parties in the European Parliament, major gains were achieved by the Liberals and the Greens. It is quite likely that these results will intensify the European Union's political support for the 'green' economy and especially for its energy sector, thus creating even more pressure on the energy sector, and especially on its coal, nuclear and petroleum product segments.

The effects of the practically global-wide persecution of the Chinese company Huawei carried out by the US administration can be even more far-reaching. The Huawei row is permeated with risks and uncertainty to such an extent that it does not matter which ban would finally be imposed on that company by the US (a complete ban on Huawei access to US tech, or temporary restrictions, or restrictions with some exceptions, etc.). However, from the point of view of the global economy this issue is of secondary importance. What matters is, firstly, the almost unanimous readiness of Western companies to terminate or unilaterally change contracts concluded with their Chinese partners despite the risk of losing their most crucial and lucrative market. Secondly, it is the undoubted dependence of the standard-bearer of China's economy on virtually all most-sophisticated Western technologies. Thirdly, it is the potential for a sharp rise in investments (and quotes) of other world-biggest companies operating on that largest global market.

Having been under external pressure for a number of years, Russia's economy continues to be hampered by domestic barriers as well, including the unjustified administrative pressure on businesses. The existence of such pressure was confirmed by the new report submitted by the business ombudsman to the Russian President. According to the report, both experts and businessmen believe that businesses are becoming increasingly vulnerable to unjustified persecution. Naturally, this situation has an impact on the investment climate and has become one of its major features.

Our experts analyzing the dynamics of foreign direct investment note an increase in its inflow in Q1 2019 – from \$ 11.5bn for the whole of 2018 to \$ 8.8bn. However, they believe that due to the economic sanctions remaining in place and to some other factors, including the arrest of Michael Kalvi, one could hardly expect, at least for the time being, a significant increase in the inflow of foreign investment into the Russian economy. It should be noted that according to the RF Central Bank, net outflow of investment from the capital of Russian companies in 2018 amounted to \$ 6.46bn, the highest outflow since records began in 1997.

Having analyzed the execution of the federal budget in Q1 2019, the Gaidar Institute's experts note an increase in non-oil-and-gas revenues by 0.3 p.p. of GDP relative to Q1 2018. This increase in revenues resulted in a federal budget

surplus of around 2.2% of GDP, which was higher than in Q1 2018 when it amounted to 1.8% of GDP. It is noted that as far as the public debt management policy of the RF Ministry of Finance is concerned, the Ministry is facing no problems with the placement of securities on the domestic market. This is largely due to the palpable growth in foreign investors' interest in acquiring Russian debt instruments caused by the favorable relationship between their profitability and credit quality. It should also be noted that Q1 2019 saw a slight increase in Russia's external public debt (by less than \$ 2bn, to \$ 51.1bn), most of which is accounted for by bonds maturing after 2029. On the basis of these data, as well as on the existing forecasts of GDP growth dynamics, our experts have come to the conclusion that over the course of the first months of 2019, the risks to budget sustainability remained at a minimal level.

Having analyzed the dynamics and structure of Russia's internet market, our experts emphasize its rapid growth. Over the course 2018, Russia's domestic internet market grew by 19%, to RUB 1,150bn, while the import of goods ordered over the Internet increased by 29%, to RUB 350 bn. As far as cashless payments are concerned, the leaders in this field were Moscow and Moscow Oblast, where the volume of such transactions exceeded that of cash withdrawals. It should be added that this region accounts for (in value terms) one third of all payment card transactions carried out in Russia. Regional differentiation in this field is very pronounced: thus, the average person in Chechnya accounts for cashless payments for goods and services in the amount of RUB 10,000 per annum, while the median amount of such per-capita payments in Russia is RUB 99,300, and the maximum amount is RUB 403,800.

Online retail is rapidly growing, simultaneously giving impetus to online card-to-card transfers between individuals. The volume of such online sales of secondhand goods has reached RUB 240bn. Although some of the online card-to-card transfers undoubtedly represent transactions in the opaque 'shadow sector', our experts have arrived at the conclusion that on the whole the digital economy augments the transparency of the population's cash flows and increases people's opportunities.

Having analyzed various aspects of the National Project for Quality Education, our experts point to the fact that expenditures for the Project have climbed to RUB 784.5bn, or by 4.9%, relative to the preliminary estimate released last autumn. Most of this increase in expenditures is accounted for by the federal projects 'Modern School' and 'Social Activity'. One of the National Project's major goals is to make Russia one of the top ten countries with the best education systems in the world. As far as this goal is concerned, our experts believe that there exist no insurmountable obstacles blocking Russia from achieving it. The main risk faced by this initiative is the decline in motivation of the National Project's participants, which could make its implementation a mere formality. However, our experts believe that the other goals of the Project are also fraught with multiple risks, including a rise in regional expenditures, a deficit of the current funding of the education system, a rise in reporting instead of finding real solutions to existing problems, and a lack of teaching personnel. ▀

1. FOREIGN DIRECT INVESTMENT IN 2018: RECORD-HIGH OUTFLOW

A.Knobel, Yu.Zaitsev

Judging from the year-end results of 2018, the RF Central Bank pointed out the highest (relative to the entire statistical observation period) outflow of foreign direct investment (FDI) from the capital of Russian companies, amounting to \$ 6.46bn. The plunge in the inflow of foreign investment in Russia is in line with the worldwide downward trend of capital investment (by 19%)¹. The stimuli for FDI inflow into Russia are on the decline due to the presence of political risks, including those associated with economic sanctions.

Russia's foreign direct investment statistics for 2018, released by the RF Central Bank in April 2019, demonstrated a more than threefold drop of the FDI inflow relative to 2017². This movement pattern reflects the worsening outlooks of foreign investors, which are associated with their negative expectations concerning the ongoing policy of economic sanctions pursued by the USA and the EU, as well as the shrinking demand for Russian government bonds observed since 2018.

A positive movement pattern was displayed by the FDI inflow over the first two quarters of 2018, when its aggregate index surged above \$ 10.18bn. However, H2 2018 was marked by an outflow of foreign direct investment, and so the aggregate year-end FDI inflow index for Russia shrank to \$ 8.82bn (Fig. 1). At the same time, the volume of FDI outflow from Russia stayed at its traditionally high level, thus rising by more than 3.6 times above that of FDI inflow.

In 2018, the RF Central Bank registered the highest index (since 1997) of FDI outflow from the capital of Russian companies, to the value of \$ 6.46bn. Over the previous two years, foreign participation in Russian capital had been on the rise. A significant source of FDI in 2018 was reinvestment of the profits of foreign enterprises in Russia (more than \$ 16.7bn). This fact points to the interest in investing in Russia of those foreign companies that have already operated in the Russian market.

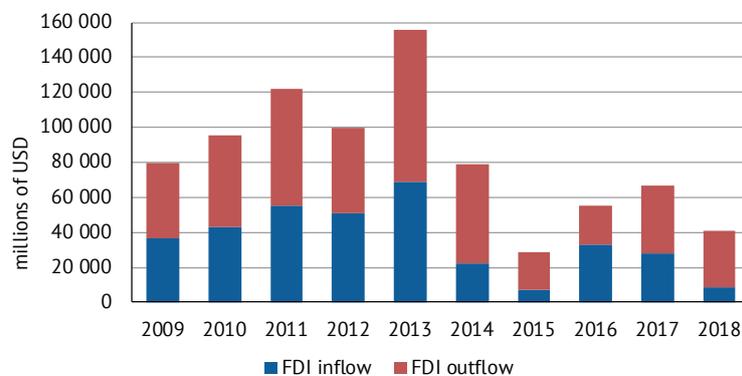


Fig. 1. Foreign direct investment flows in Russia in 2009–2019

Source: own calculations based on data released by the RF Central Bank, 2019.

FDI inflow in Russia

Over the course of 2018, FDI inflow peaked in Q1 (\$ 7.8bn). In Q2, it dwindled to \$ 2.38bn. This movement pattern was shaped, among other things, by the

1 UNCTAD Investment Trends Monitor. January, 2019. URL: https://unctad.org/en/PublicationsLibrary/diaeiainf2019d1_en.pdf.

2 Zaitsev, Yu. K. Foreign direct investment in 2017 // Russian Economic Developments, No. 7 (25). 2018. P. 11–15. URL: <https://elibrary.ru/item.asp?id=35322808>

decision of Turkish company Makyol to abstain from investing in the construction of the Central Ring Road's stretch situated to the southeast of the city of Moscow¹.

Q3 was marked by a net FDI outflow, which can be partly explained by the closure of the deals of sale, by US investors, of shares in some companies, including En+, UC Rusal, and GAZ Group^{2,3}. However, in Q4, an inflow of FDI ballooned once again, to the value of up to \$ 1.42bn.

Traditionally, the biggest investors in Russia have been based in the EU member states, Germany including. At present, more than 2,600 German enterprises are operating in Russia, their aggregate FDI volume at year-end of 2018 amounting to more than € 3.2bn⁴.

FDI in the regions

The distribution pattern of foreign direct investment across the RF territory is very uneven, which has to do with the gross regional product (GRP) indices of the Russian regions. According to available data, at year beginning 2019, out of the total number of 36,500 Russian enterprises with foreign owners, the lion's share was taken up by regions like the city of Moscow, Moscow Oblast, the city of St. Petersburg, and Leningrad Oblast.

In this connection, one of the current goals is to attract FDI into Russia's peripheral regions. In particular, in 2018 the RF government implemented measures designed to promote direct foreign investments in the Far East, by lowering the investment barriers in that region. One of such measures was the introduction of a simplified visa regime for citizens of the countries of the Asia-Pacific Region (electronic visas), including the potential investor countries. This principle primarily applies to those counties that interest Russia from the point of view of foreign investment⁵.

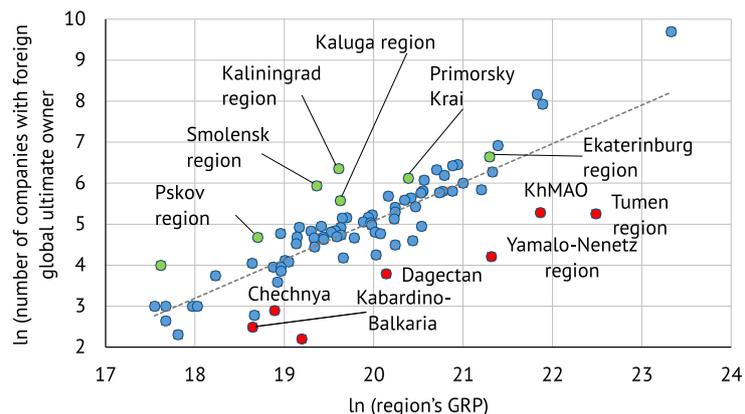


Fig. 2. The by-region distribution of foreign enterprises

Source: own calculations based on Ruslan database.

Future trends

At present, negotiations concerning several investment projects with foreign participation are underway. Thus, its plan to invest in developing the Chukotka

- 1 Foreign investors stay away from the Central Ring Road. Vedomosti, 10 May 2018. URL: <https://www.vedomosti.ru/economics/articles/2018/05/11/769131-investor-otkazalsya-tskad>
- 2 In April 2018, a number of Russian companies were entered in the US Treasury's list of Specially Designated Nationals (SDN). US residents are forbidden from financing those companies. Specially Designated Nationals And Blocked Persons List. URL: <https://www.treasury.gov/resource-center/sanctions/SDN-List/Pages/default.aspx>
- 3 Zaitsev, Yu. K. The April sanctions: consequences for the Russian economy // Russian Economic Developments. No. 5 (25). 2018. P. 31–34. URL: <https://elibrary.ru/item.asp?id=35001978>
- 4 Direct investments from Germany to Russia rose above € 3bn. DW, 15 April 2019. URL: <https://www.dw.com/ru>
- 5 The Far East gravitation pull. Izvestia, 12 September 2018. URL: <https://iz.ru/788349/egor-sozav-gurev-irena-shekoian-tatiana-gladysheva/dalnevostochnoe-pritiazhenie>

1. Foreign direct investment in 2018: record-high outflow

gold fields was announced by Canadian company Kinross Gold. According to preliminary estimations, the volume of FDI in that projects may amount to \$ 1.2bn over the period until 2041, and the number of new jobs – to more than 61,000¹.

In summer 2018, Korean company Hyundai Motor made known its intention to invest about RUB 27bn in the Russian market by filing for the conclusion of a Special Investment Contract (SPIC), which will enable it to secure government support in exchange for investment². The company is planning, in particular, to build an engine plant with a capacity of 150,000 units per annum.

According to the preliminary balance of payments estimates for Q1 2019, the FDI inflow index amounts to \$ 11.5bn³. However, in view of the economic sanctions remaining in place and Russia's worsening investment image (among other things, as a result of the arrest of Michael Kalvi, head of Baring Vostok⁴, and the shutdown of Morgan Stanley's Russian office⁵), it is unlikely to expect, at least for the time being, any significant increase in the inflow of foreign investment into the Russian economy. ▀

1 Canadian gold miners ask Medvedev to simplify their access to Russia's gold fields. Vedomosti, 01.11.2018. URL: <https://www.vedomosti.ru/business/news/2018/11/01/785358-zolotodobit-chiki-uprostit-dostup-k-mestorozhdeniyam>

2 Hyundai may spend more, in excess of \$ 400m, on production development in Russia. Vedomosti, 25 June, 2018. URL: <https://www.vedomosti.ru/auto/articles/2018/06/25/773644-hyundai-razvitie-proizvodstva>

3 Foreign sector statistics. RF Central Bank. URL: <https://www.cbr.ru/statistics/?PrId=svs>

4 Russia's Investigation Committee asked for Baring Vostok founder Michael Kalvi to be held under home arrest. Forbes. 10 April, 2019. URL: <https://www.forbes.ru/biznes/374629-skr-poprozil-perevesti-osnovatelya-baring-vostok-maykla-kalvi-pod-domashniy-arest>

5 Morgan Stanley leaves Russia // Vedomosti, 6 May, 2019. URL: <https://www.vedomosti.ru/finance/articles/2019/05/06/800857-morgan-stanley>

2. EXECUTION OF THE FEDERAL BUDGET IN JANUARY-MARCH 2019: NO RISKS FOR STABILITY

T. Tischenko

In Q1 2019, the federal budget revenues moved up by 0.3 p.p. of GDP against the same period of 2018 due to the rise of oil and gas revenues. Budget surplus constituted 2.2% of GDP. Overall, the dynamic of the main parameters of the federal budget is positive, despite the debt growth, risks of the fiscal sustainability are not getting any stronger.

According to the updated information of the RF Treasury, in Q1 2019 federal budget revenue went up by 0.3 p.p. of GDP or by Rb 512.9bn, as compared to the relevant period of the previous year (Table. 1). Dynamic of the revenues is varied: oil and gas dynamic contracted by 0.3 p.p. of GDP¹ (while nominal growth amounts to Rb 133.7bn), non-oil and gas revenues grew by 0.6 p.p. of GDP (increase by Rb 380.3bn). As a result, the structure of the revenues part of the federal budget changed in favor of non-oil and gas revenues from 54.3% at Q1-end 2018 to 56.5% as of 1 April 2019. Volume of oil and gas revenues obtained in January-March 2019 constituted 24.0% from the expected annual volume, while non-oil and gas revenues came to 22.2%.

Table 1

Main parameters of the federal budget in January-March 2018–2019

	January-March 2018		January-March 2019		Changes in 2019 compared to 2018	
	Rb billion	% of GDP	Rb billion	% of GDP	Rb billion	In p.p. of GDP
Revenues, including:	4 076.3	18.2	4 589.2	18.5	512.9	0.3
oil and gas	1 859.7	8.3	1 993.4	8.0	133.7	-0.3
non-oil and gas	2 215.5	9.9	2 595.8	10.5	380.3	0.6
Expenditures, including:	3 671.0	16.4	4 043.4	16.3	372.4	-0.1
interest	205.2	0.9	158.7	0.6	-46.5	-0.3
non-interest	3 465.8	15.5	3 884.7	15.7	418.9	0.2
Surplus (deficit) of the federal budget	404.2	1.8	545.8	2.2	141.6	0.4
Non-oil and gas deficit	-1 455.5	-6.5	-1 447.6	-5.8	7.9	0.7
GDP (in current prices, Rb billion)	22 438		24 800			

Source: Ministry of Finance, Federal Treasury, Rosstat, Q1 GDP, 2019 – own calculation.

The federal budget expenditures in Q1 2019 contracted by 0.1 p.p. of GDP down to 16.3% against January-March of the previous year, mainly due to decline in percentage expenditures by 0.3 p.p. of GDP. In the same time, expenditures in absolute terms went up to Rb 372.4bn during the period under review.

The federal budget surplus in Q1 2019 constituted 2.2% of GDP against 1.8% of GDP in the same period of 2018. At the same time, the non-oil and gas deficit decreased – from 6.5 to 5.8% of GDP. Volumes of additional oil and gas reve-

¹ Average price of Urals in Q1 2019 is 63.17 doll/bbl while the price for the similar period of 2018 was 65.22 doll/bbl. According to Finance Ministry of Russia, the average price of Urals in March of 2019 constituted 65.98 doll/bbl.

2. Execution of the federal budget in January-March 2019: no risks for stability

nues from the target crude price of January-March 2019 constituted Rb 672.6bn against Rb 734.8bn from the Q1 of the previous year.

In January-March 2019, tax revenues (*Table 2*) grew by 0.2p.p. of GDP, or by Rb 442.2bn compared to Q1 of the previous year. The largest growth in tax revenues is noted to proceed from import VAT and from mineral extraction tax (MET) – 0.3 p.p. of GDP as well as from corporate profit tax – 0.1 p.p. of GDP. When compared to Q1 2018, receipts from domestic excise duties and foreign economic activities in the first three months of 2019 shrank by 0.2 and 0.3 p.p. of GDP respectively. From other tax payments, revenues to the federal budget in GDP fractions did not change.

Table 2

Main tax revenues in the federal budget in January-March 2018–2019

	January-March 2018		January-March 2019		Changes in 2018 compared to 2017	
	Rb billion	% of GDP	Rb billion	% of GDP	Rb billion	In p.p. of GDP
Total tax revenues. including:	3819.5	17.0	4261.7	17.2	442.2	0.2
Profits tax	208.3	0.9	254.7	1.0	46.4	0.1
VAT on products sold in RF territory	954.7	4.3	1062.1	4.3	107.4	0.0
VAT on products imported into RF territory	505.9	2.2	611.1	2.5	105.2	0.3
Excises on goods produced in RF territory	158.7	0.7	126.5	0.5	-32.2	-0.2
Excises on goods imported into RF territory	16.8	0.1	18.8	0.1	2.0	0.0
Mineral Extraction Tax	1262.2	5.6	1459.8	5.9	197.6	0.3
Revenues from foreign economic activity	712.9	3.2	728.7	2.9	15.8	-0.3

Source: Federal Treasury (updated information), own calculations.

Regarding certain tax revenues items of the federal budget the following dynamic is noted:

- Rise of receipts from the corporate profit tax due to developing of oil and gas fields in the Far Eastern Federal District (by 0.5 p.p. of GDP which amounts to Rb 11.8bn); receipts from the corporate profit tax in proportions of GDP did not change and constituted 0.7% of GDP with growth at Rb 13bn. in absolute terms;
- Receipts from domestic excises declined by Rb 34.2bn due to reduction of excises on in petroleum feedstock extracted in the Republic of Khakassia and Krasnoyarsk Territory.
- Reduction of revenues from export custom duties on crude oil constituted 0.5 p.p. of GDP or Rb 83.1bn, with growth of revenues from export custom duties on natural gas by Rb 0.2 p.p. or by Rb 85.3bn.

In Q1 2019, growth of receipts from domestic VAT constituted 11% in nominal terms against Q1 2018. However, there was no growth in receipts from domestic VAT relative to GDP level. Although, from 1 January 2019, VAT base rate was raised from 18 to 20%. The thing is, in VAT was paid into the budget from the turnover of goods, work, and services that came around in Q4 2018¹.

¹ As follows from p.1 art 174 of the Tax Code of the Russian Federation, VAT should be paid monthly until the 25th during the quarter that follows the reporting period, the sum of the accumulated VAT is divided equally.

Monitoring of Russia's Economic Outlook

In other words, first receipts of 20% VAT will be considered in the federal budget only starting from early April of the current year.

In the meantime, raise of the base rate could affect VAT receipts in Q1 2019 in case if consumers increased their purchase of goods, work and services in the end of 2018 in the anticipation of the price rises triggered by tax rate rise. Rosstat data on retail turnover indirectly points to such behavior of households: growth of retail turnover of non-consumable products in Q4 2018 relative to Q4 2017 constituted 8.9% in nominal terms, while consumable goods (majority of which were under preferential VAT rate) – 5.6%. Such effect of «forward purchase» most likely will influence the receipts in Q2, as some consumers transferred part of their purchases to the end of the past year. According to preliminary data released by the Federal Treasury, VAT receipts from domestic operation in April 2019 were higher than similar receipts in April of 2018 merely by 7% in nominal terms. The full impact of VAT base rate rise on the budget revenues should appear in the second half of the current year.

Dynamics of the federal budget cash execution on main tax receipts for Q1 2019 is positive on the whole: budget execution regarding annual projected values was in the range from 16.5% (domestic excises) to 26.6% (domestic VAT).

Insignificant decline in expenditures of Federal Budget (by 0.1 p.p. GDP) in January-March 2019 relative to the similar period of 2018 is explained by decline in funding by 0.4p.p. GDP in «national economic» section and decrease by 0.3 p.p. of GDP in «public debt management» section (Table 3). In studied period, some federal budget expenditures rose (in the rate of 0.2 p.p. GDP) in sections «national defense», «environmental protection», «public health service» and «social politics».

Table 3

Expenditures of the federal budget in January-March 2018–2019

	January-March 2018		January-March 2019		Changes 2019 compared to 2018	
	Rb billion	% of GDP	Rb billion	% of GDP	Rb billion	In p.p. of GDP
Total expenditures including:	3 671.0	16.4	4043.4	16.3	372.4	-0.1
Nationwide issues	243.3	1.1	257.4	1.0	14.1	-0.1
National defense	756.3	3.4	902.8	3.6	146.5	0.2
National security and law-enforcement	396.8	1.8	411.4	1.7	14.6	-0.1
National economy	356.4	1.6	287.9	1.2	-68.5	-0.4
Housing and utilities	34.7	0.1	41.1	0.2	6.4	0.1
Environment protection	27.5	0.1	62.4	0.3	34.9	0.2
Education	171.3	0.8	166.8	0.7	-4.5	-0.1
Culture and cinematography	22.1	0.1	19.0	0.1	-3.1	0.0
Health care	82,1	0,4	160,5	0,6	78,4	0,2
Social policy	1152,7	5,2	1345,2	5,4	192,5	0,2
Physical culture and sports	7,0	0,0	7,1	0,0	0,1	0,0
Mass media	13,1	0,1	10,7	0,0	-2,4	-0,1
Government debt servicing	205,2	0,9	158,7	0,6	-46,5	-0,3
Inter-budgetary transfers	202,4	0,9	212,2	0,9	9,8	0,0

Sources: Federal treasury (online data), own calculations.

Financing of other sections of the expenditure part of the federal budget in shares of GDP did not change compared to the same period of 2018. Overall,

2. Execution of the federal budget in January-March 2019: no risks for stability

the dynamic of the budgetary expenditures in Q1 2019 is in line with national priorities outlined in the Executive Order of the President of 7 May 2018.

Cash execution of the expenditure part of the federal budget in Q1 2019 did not change relative to the same period of 2018 and constituted around 21.5% with minimal values across sections «physical culture and sport» (10.4%) and «national economy» (10.5%) and with the maximum value across the section «environment protection» (32.9%).

In January-March 2019, the following dynamic was noted regarding the flow of federal budget funds taken as sources for covering its deficit:

- Volumes of securities placed on domestic market constituted Rb 490.5bn or 20.2% of annual volume, amid redeemed securities amounting to Rb 181.3bn or 25.2% of annual volume;
- Volumes of bonds placed on foreign market constituted Rb 248.2bn amid redeemed volume amounting to Rb 122.7bn.;
- Proceeds from repaid budget loans issued for partial cover of budget deficits of the RF subjects amounted to Rb 8.9bn, and proceed from issued budget credits for the replenishment of remaining balance on accounts of RF subjects constituted Rb 128.2bn.

At Q1-end, the volume of the state internal debt increased by Rb 331.6bn, mainly due to OFZ-PD placement with permanent income yield coupon and as of 1 April 2019 amounted to Rb 8081.1bn. The Finance Ministry of Russia does not yet experience any problems with placement of federal loan bonds on the domestic market – in January, two issues of OFZ were placed in full volumes and demand on exceeded the supply twofold. According to the Russian Finance Ministry estimates following the results of the sales carried out in March 2019, the foreign investors bought more than half of the bonds. In our opinion, attractiveness of investments into ruble assets is due to growing foreign investors' interest in investing in Russian debt security (highly lucrative rate of income and credit quality of Russian debt) as well as with ruble strengthening and no expectations of interest rates growth. Also, in January 2019 the Ministry of Finance of Russia placed public bonds (OFZ-n) worth Rb 5.0bn on the domestic market.

National foreign debt grew by USD 1,910.7m hitting USD 51.1bn. Without taking into account government guarantees denominated in foreign currencies which value amounted to USD 11.5bn. The proportion of bonds with a maturity after 2029 account for 55% of state foreign debt. Therefore, with projected according to basic scenario of GDP growth rates for the coming 6-year period at 2.7% and onwards with average annual rates of 3.2% through 2030¹, risks of the debt sustainability are brought down to a minimum.

As of 1 April 2019, resources of National Wellbeing Fund in the ruble equivalent shrank by Rb 207.8bn, mainly due to currency difference from revaluation of NWF funds staying on the Bank of Russia foreign currency accounts (Rb -174.1bn) and constituted Rb 3,828.2bn.

Thus, one can summarize that dynamic of the main parameters of the federal budget at Q1-end 2019 is quite positive, no expanding risks of the debt sustainability are noticed. 

¹ Budget forecast of the Russian Federation for the period through 2036 (version of 29 March 2019).

3. THE MARKET OF E-COMMERCE AND PAYMENT SYSTEMS: RAPID GROWTH

A.Polyakova

In 2018, the Russian segment of e-commerce was growing on the back of domestic sales and imports. A factor of growth is the development of payment systems with banking cards becoming an integral part of the everyday life of the Russians. At the same time, there is still a considerable interregional differentiation of the role and place of non-cash settlements in servicing of the retail trade.

According to the estimates of the Data Insight¹, in 2018 the volume of the Russian domestic market of e-commerce was equal to Rb 1,150bn, a 19% increase on the previous year. The imports of goods ordered by the Russians via the Internet are estimated at Rb 350bn (growth of 29% as compared to 2017). The market is developing both extensively and intensively. On one side, there is growth both in the number of orders (by 18% and 34% in Russia and from abroad, respectively) and buyers. On the other side, the average purchase size of orders in Russia and from abroad has decreased by 2% and 4%, respectively, which situation can probably be explained by fluctuations of the rouble's exchange rate. Growth in sales is localized in big cities whose overweight in the overall e-sales volume keeps getting higher.

More frequent purchases of a broader nomenclature of goods often of a higher price range are a result of positive experience amassed by buyers. Another driver of online sales growth is the development of logistic services (deliveries) and payment systems, as well as reduction of prices of such services.

In 2018, the Russian market of payment instruments increased considerably. The most illustrative is growth in the ratio between the volume of transactions related to payment of goods and services by means of bank cards and the volume of cash withdrawal transactions. If in 2017, Rb 100 withdrawn from an automated teller-machine (ATM) accounted for Rb 53 spent on non-cash payment of goods and services, late in 2018 this indicator increased to Rb 70. Note that the share of the money volume of cash-withdrawal operations decreased within a year from 65.2% to 59%².

As per the results of 2018, the average size of a non-cash transaction decreased from Rb 855 to Rb 815. It can be partially explained by growth of 40.9% in the number of transactions simultaneously with a 34.3% growth in the value volume. Note that growth of 2.9% in the cash-withdrawal volume appears quite modest.

In regional terms, qualitative changes are more explicit: in 2018 in Moscow and the Moscow Region non-cash payment operations exceeded for the first time the volume of cash-withdrawal operations (1.29-fold against 0.94-fold a year before). In this respect, the Moscow Region is unique because it accounts for 32.4% of the overall money volume of operations with bank cards in Russia.

1 Internet-trade in Russia in 2018. URL: http://datainsight.ru/sites/default/files/DI_Ecommerce%202018.pdf

2 Based on: The Transactions Carried Out in the Territory of the Region by Means of Payment Cards of Resident- and Non-Resident-Issuers, Territorial Breakdown / The Central Bank of Russia – URL: http://www.cbr.ru/statistics/PrintYG.aspx?Year=2018&pid=psrf&sid=ITM_29338

3. The Market of E-Commerce and Payment Systems: Rapid Growth

The existing situation is characterized by a high diversification among regions: in 29 constituent entities of the Russian Federation cash withdrawals account for over 70% of the money volume of the operations with bank cards (note that this indicator is equal to over 90% in four regions). The identified disparities can be analyzed by means of the indicators of development of the servicing infrastructure of the retail trade business.

As seen from Fig. 1, there is correlation between the share of cash withdrawal operations and the extent of equipment of trading outlets (services) with point-of-sale (POS) terminals¹.

There is an explicit negative dependence of the share of cash withdrawal transactions on the

extent of equipment of trade outlets with POS terminals (that is device for acceptance of payment cards). The city of Sevastopol is somewhat out of the trend, which situation can be explained by the existing limitations imposed on operations of credit institutions and payments systems in Crimea. It makes residents there prefer cash. It is believed that further development of the payment infrastructure in the Russian Federation will facilitate more effectively the reduction of cash transactions than limitations on the amount of a transaction which can be paid by cash.

However, in this view there is an explicit contradiction which the regulator encountered in Q1 2019: banks' commissions for acquiring (that is acceptance of bank cards for payment) which are generally quite reasonable turned out to be too high in a number of regions and this factor made sellers give up non-cash settlements or encourage cash payments.

The average transaction amount is changing one-way: in regions with the lowest average amount of a cash withdrawal there is also the lowest amount of a transaction on payment for goods and services; the higher the amount of a cash withdrawal, the more cash is spent on payment for goods and services per one transaction (Fig. 2). An exception is Moscow and the Moscow Region where more cash is withdrawn per one transaction, as well Dagestan and Ingushetia where relatively more funds are spent on payment for goods and services per one transaction).

The scope of interregional differentiation by the extent of utilization of bank cards can be seen through estimation of the average annual value of non-cash transactions on payment for goods and services per one person. For example, in the Chechen Republic one person accounts on average for Rb 10,000 worth of

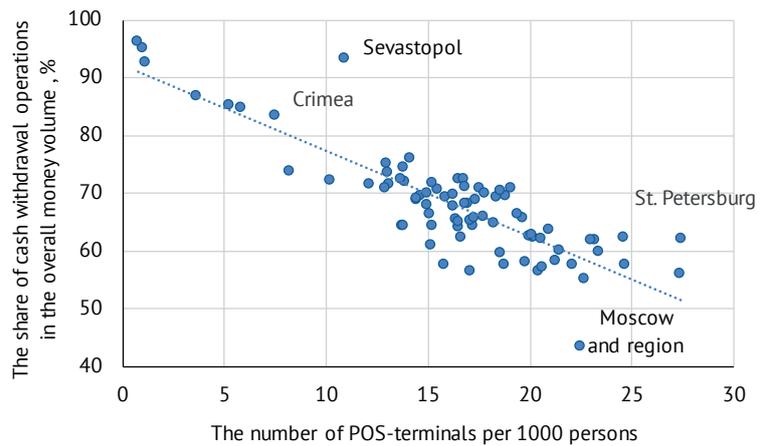


Fig. 1. Correlation between the share of cash withdrawal operations and the number of POS-terminals per 1000 persons as of 01 January 2019

Source: own compilation based on: The Transactions Carried Out in the Territory of the Region by Means of Payment Cards of Resident- and Non-Resident-Issuers, Territorial Breakdown / The Central Bank of Russia – URL: http://www.cbr.ru/statistics/PrintYG.aspx?Year=2018&pid=psrf&sid=ITM_29338; The information on the facilities situated in the territory of the region and meant for carrying out operations with and without use of payment cards, territorial breakdown / The Central Bank of Russia. – URL: http://www.cbr.ru/statistics/PrintYG.aspx?Year=2019&pid=psrf&sid=ITM_22791

¹ The information on device situated in the territory of the region and meant for carrying out transactions with and without payment cards, territorial breakdown / The Central Bank of Russia. – URL: http://www.cbr.ru/statistics/PrintYG.aspx?Year=2019&pid=psrf&sid=ITM_22791

non-cash operations on payment for goods and services a year, while the median value and the maximum value across the country are equal to Rb 99,300 and Rb 403,800, respectively¹.

In the pattern of operations with use of bank cards, a trend of growth in the unit weight of transactions related to the so-called other operations, including cash transfers between individuals' bank cards has emerged (Fig. 3).

Among other things, such operations facilitate the C2C-trade². This segment is actively growing on the back of development self-employment and gradual exit of the self-employed from the shadow. According to the data of the Data Insight, this segment's total revenues exceed Rb 300bn a year with the resale of second-hand goods accounting for 80%.

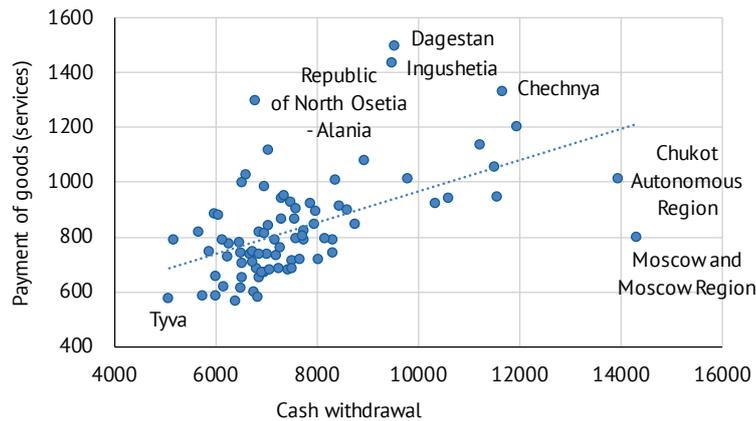


Fig. 2. The average volume of a transaction on payment for goods and services depending on the volume of a cash withdrawal transaction, rubles

Source: own compilation based on: The Transactions Carried Out in the Territory of the Region by Means of Payment Cards of Resident- and Non-Resident-Issuers, Territorial Breakdown / The Central Bank of Russia. – URL: http://www.cbr.ru/statistics/PrintYG.aspx?Year=2018&pid=psrf&sid=ITM_29338

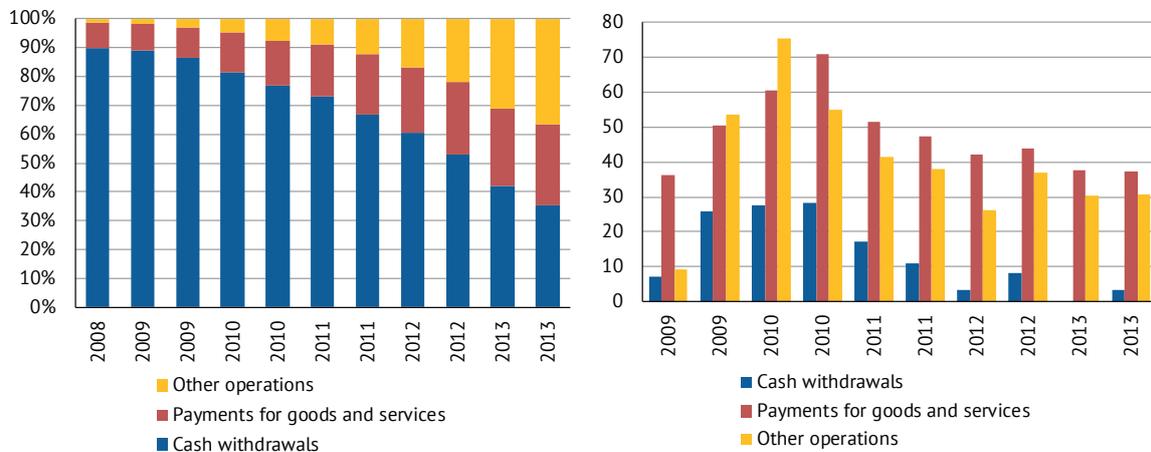


Fig. 3. The unit weight of the types of operations in the overall volume (left-hand) and the growth rates of their money volumes (left-hand), %

Source: own compilation based on: The Operations Carried Out in the Territory of Russia and Beyond it with Utilization of Settlement and Credit Cards Issued by Credit Institutions, by the type of customers / The Central Bank of Russia. – URL: http://www.cbr.ru/statistics/p_sys/t14_1.xlsx

1 Own compilation based on: The Number of Payment Cards Issued in the Territory of a Region and Operations with Utilization Thereof in the Territory of Russia and Beyond it by the Type of Customers (Territorial Breakdown) / The Central Bank of Russia – URL: http://www.cbr.ru/statistics/print.aspx?file=p_sys/T14_11_18-0.htm&pid=psrf&sid=ITM_26139; Estimation of the Number of the Resident Population as of 1 January 2019 and on Average in 2018 / The Rosstat. – URL: http://www.gks.ru/free_doc/new_site/population/demo/Popul2019.xls

2 The scheme of e-trade between one ultimate consumer with the other where the buyer and the seller are not entrepreneurs in terms of the legal meaning of the word.

3. The Market of E-Commerce and Payment Systems: Rapid Growth

while the commerce proper (sale of goods purchased for resale) makes up 4–5% of the money volume of the C2C-online retailing market. A certain portion of cash transfers between bank cards services operations in the unobservable segment of the economy: with development of the system of intrabank transfers small and mid-sized enterprises resort increasingly to utilization of such methods of settlement to evade taxes or reduce costs related to cash withdrawal transactions and schemes.

Nevertheless, the new digital economy is being formed owing to promotion of transparency of households' cash flows and opening up of new opportunities for individuals. 

4. NATIONAL PROJECT EDUCATION: ADVANTAGES AND RISKS

T.Klyachko

The main goal of the National Project 'Education' – to ensure Russia's placement in the top ten countries in general education quality ranking – is quite achievable. However, there exist some risks that the motivation of the project participants may dwindle, and the approach to implementing the project will be purely formal.

As the list of measures to be implemented in the framework of the National Project *Education* is being made more specific, the amount of expenditure earmarked for its implementation also changes. Compared with the initially announced sum of Rb 747,612.43 m (in September 2018), that figure has been increased to Rb 784,453.54m, or by 4.9%. Such growth in the amount of financing was achieved in the main by increasing the amount of federal budget expenditure by more than Rb 35bn. The share of expenditure in the consolidated budget of subjects of the Russian Federation slightly declined, from 5.9% to 5.8%.

The highest jump in the amount of expenditure was demonstrated by the Federal Project *Modern School* – by Rb 17,201.52m, which amounts to nearly a half of the entire expenditure growth (46.2%). According to the national project certificate, the regions should co-finance the implementation of measures designed to develop a modern school system: the planned expenditure target amounts to 90.3% of the consolidated budget resources. Meanwhile, out of the sum of more than Rb 253bn of the federal funding allocated to that project, more than 240bn will be channeled through interbudgetary transfers directly to regional budgets. The regional budgets, in their turn, will transfer a total of Rb 41,298.85m (earmarked for the Federal Project *Modern School*) to municipal budgets.

The Federal Project *Social Activity* is the second to benefit from the increased budget financing. The additional sum amounts to Rb 18,918.62m (growth by 3.3 times). The allocation of such substantial additional funds to the issues associated with young people and the development of volunteer and coaching activities probably aims at compensating for the cuts in the corresponding federal budget function over recent years.

There were no changes in the amount of funding allocated to the other federal projects compared with their initial targets.

One of the main goals of the national project is to place Russia among the top 10 countries in general education quality ranking. The setting of this particular goal was the response to this country's relatively low ranking demonstrated by the international comparative data on schooling outcome provided by the OECD PISA Study. At the same time, in 2018 Russia ranked 9th in the World Bank's Human Capital Index calculated on the basis of general education quality data, with due regard for all the achievements of Russian schoolchildren in international schooling quality studies. So, if the achieved results are not squandered over the next few years, no problems can be expected in achieving this particular goal as stated in the Presidential Executive Order. If such is to be the case, then the principal risk will be associated with the dwindling motivation of the

4. National Project Education: advantages and risks

participants in the National Project *Education*, who may begin to implement it only on a formal level.

The second indicator of an improving education quality has to do with the international competitive potential of Russia's higher education system – the placement of some of Russian higher educational establishments in the Top 500 universities in the Academic Ranking of World Universities. In this connection, the status of a globally competitive university must now be earned by a higher educational establishment in each federal district, and also in not less than 10 subjects of the Russian Federation. Such an approach may help in somewhat playing down the prevalence, in the Federal Project *Young Professionals* (subproject *Global Competitive Potential of Higher Education*), of the higher educational establishments based in the cities of Moscow and St. Petersburg.

The achievement of the second goal of the national project – 'raising a harmoniously developed and socially responsible individual on the basis of the spiritual and moral values of the peoples of the Russian Federation, their historical, national and cultural traditions' – is assessed by the following two indicators:

- increasing the share of children aged 5 to 18 years participating in extracurricular education programs, from 71% in 2017 to 80% in 2024;
- increasing the number of people involved in the activity of non-governmental associations based at educational establishment for universal comprehensive education, secondary vocational training, and higher professional education, from 1.6m in 2017 to 8.8m in 2024.

It seems that it is the goal of sharply increasing the number of students involved in the activity of non-governmental associations (5.5 times) that required to radically increase the amount of expenditure earmarked for the Federal Project *Social Activity*.

The targets for setting up modern complexes for physical culture and sports in rural areas were shifted from the Federal Project *Modern School* to the Federal Project *Success for Every Child*, that is, the function of these complexes is actually linked to the provision of extracurricular studies for children and young people, and not only to the gym classes at school. A note should be made of the special focus placed on the creation of an infrastructure for extracurricular activities of schoolchildren in rural areas.

Another important factor is that rural schools will get an access to high-speed internet networks. This will enable them to switch over to modern educational technologies, and the rural school students will be able to use a broad spectrum of educational resources and education platforms. However, these broader opportunities will require a serious upgrading of the professional qualification of rural schoolteachers and the attraction of younger people into the schoolteacher corps.

So, the education issues in rural areas are to be addressed by the Federal Projects *Modern School*, *Success for Every Child*, *Digital Education Environment*, *Teacher of the Future*, and *Social Activity*.

The Federal Project *Young Professionals* (subproject *Modernization of Secondary Vocational Training*) envisages that as early as 2019, 'not less than 700 workshops equipped with a modern material and technical base in one of the fields of competence' should be set up. It is expected that the number of such workshops will grow every year by 700–1000 units throughout the project implementation period. However, as the phrase 'in one of the fields of competence' has not been removed from the text, this indicator appears to be

questionable, because it becomes possible to set up all the workshops only of one and the same 'competence'. Meanwhile, what is actually meant here, is that modern resources centers should be established in the framework of the secondary vocational training system, in order to provide young people with opportunities for gaining the skills necessary for handling state-of-the-art equipment.

The main risks associated with the implementation of the National Project *Education* and the subordinated federal projects are as follows:

- the need for additional expenditures in the budgets of RF subjects earmarked for the upkeep of the newly created material and technical base (infrastructure), as well as for the payment of salaries to the staff of the new educational organizations;
- a campaign-like approach to implementing these projects, formality and increased volume of reporting instead of actions aimed at tackling the real problems associated with the development of regional education systems;
- one of the key targets set in the project is *Education Level*. In this connection, the following factors are sadly overlooked: a) the education system is inertia-ridden and has lengthy 'technological cycles'; b) in the modern world, the education level largely depends on the learning activity of individuals (self-education). Consequently, it is necessary to create self-education incentives for various population groups, and this is not envisaged in the national project;
- a lack of comprehensive approach to implementing each specific project, as well as to implementing the federal projects on a more general level, and a lack of proper coordination in their implementation.

Among the *negative consequences* of a formal and improper implementation of the national project, we can point out as follows:

- growth of regional budget deficit;
- shortage of teaching personnel;
- deficit in the current financing of the education system;
- loss of trust, on the part of the general public and the educational community, in the measures implemented in the framework of the National Project *Education*. ▀

AUTHORS

Yuriy Zaitsev, senior researcher, Center for International Trade Studies, RANEPA

Tatiana Klyachko, Director, Center for Continuous Education in Economics, IAES, RANEPA

Alexander Knobel, Head of World Trade Department, Gaidar Institute; Director of Center for International Trade Studies, RANEPA

Aleksandra Polyakova, leading researcher, Standard of Living and Social Protection Department, INSAP, RANEPA

Tatiana Tischenko, senior researcher, Budget Policy Studies Department, IAES, RANEPA