



## REGIONAL REPERCUSSIONS OF THE ECONOMIC RECESSION IN RUSSIA

Since 2014, the Russian economy has been in recession caused primarily by the drop in oil prices and sanctions imposed by the western countries. In 2017, after two years of the negative growth, Russia's GDP and industry production increased by 1.5% and 1.0%, respectively, while the inflation rate decreased to 2.5%. The Russian government wishfully perceives these figures as a sign that the economic downturn is ending. However, there are plenty of other indicators showing that the recession still persists in a number of ways. For instance, the amount of the real disposable income of households, which is the most precise indicator of welfare, has been negative throughout all four quarters of 2017. In fact, the deterioration of the economic situation affected the socio-economic indicators of the regions of Russia, which has an extremely complex geography. Therefore, taking into account the fact that the Russian model of the fiscal budget federalism is based on a competitive relationship between the center and each of the constituent entities of the country, as well as among the federal subjects themselves, to consider the economy of Russia as a sum of the economies of its regions can be seen as a rather accurate approach.

In the regional-economic context, the principal problems of the Russian regions are the heavy indebtedness and falling household incomes and consumption. According to the latest available data as of March 2018 from the Ministry of Finance of Russia, the combined debt of the regions reached 2,263 billion rubles (\$36.5 billion), which in per capita terms would be around 15.7 thousand rubles (\$253.5). In 2011, for instance, this amount was half as much and was still considered as alarming at that time. On the other hand, thanks to transfers from the federal budget, the total regional debt decreased by 1.6% during 2017 and by nearly 2% during the first quarter of 2018.

However, these little positive trends were not uniform across Russia. Some of the regions managed to improve their fiscal balance, while others increased their debt burdens further. Thus, in 2017, 49 regions

managed to decrease their debt stocks, while the remaining 35 accumulated more debts. Currently, 21 regions have already exceeded the 80% limit of their debt to revenue ratio, and seven more regions have debt stocks exceeding 100% relative to their regional budget revenues. The average ratio of region debt to regional revenues is 30.5%. In order to help the regions overcome fiscal difficulties, it was decided by the Russian government to spend 1,700 billion rubles (\$30.9 billion) from the federal budget (including all kinds of transfers to the regions) in 2018, which is 2.5% higher than in 2017. This amount has been increasing in ruble terms during the last six years. To compare, in 2010 it was around 1,398 billion rubles (\$45.3 billion).

In fact, the shortage of revenues in regional budgets is largely a consequence of another, more serious problem of the overall decline of taxable incomes. Since the recent recession in the Russian economy has been accompanied by a serious downturn in incomes of both enterprises and population, this immediately has had its negative effects on consumption and tax revenues leading to a decline in regional budgets. In fact, since the mineral tax and customs duties that are very sizeable and of crucial importance for the whole fiscal system of the country go entirely and directly to the federal budget, about 70% of all regional budget revenues consist of two taxes, namely, the personal income tax and the corporate profit tax. According to the official statistics of the Federal State Statistics Service of Russia, the quarterly measured real disposable income, which is the income after deduction of obligatory payments, adjusted for the consumer price index, is constantly falling since 2014. The third quarter of 2014 was the last time when real disposable income showed a growth of 2.6%. Since then, this indicator is in constant fall and has fallen by 11.6% up to the first quarter of 2018, which is something that never happened since 1990s. Given that the regions are responsible for financing expenses for education and healthcare,

which are the spheres requiring the highest expenditures, the shrinkage of total revenues leads to a further increase of the combined debt.

Moreover, the regional administrations of Russia are responsible for executing the so-called "May decrees" signed by President Vladimir Putin on May 7, 2012, on the day of the inauguration. It consists of 218 orders to the Government of the Russian Federation to be implemented during 2012-2020 and imposes a heavy social spending plan on Russia's regions mainly targeting salaries of state and public sector employees and introducing supportive measures for small and medium entrepreneurship, which are not covered by the federal budget. As a result, there is an increasing vulnerability of the regions in relation to their ability to maintain a credible fiscal policy, which could undermine the very essence of the federal structure of the country.

It is expected that President Vladimir Putin will issue a decree on allocating about 10 trillion rubles (\$159 billion) to the social sphere until 2024 after his inauguration on May 7, 2018, contributing to the easing of the financial burden on regional budgets. However, it will also produce detrimental effects for the fiscal federalism in Russia strengthening the position of the central government. In January 2018, for instance, the Federal Treasury of Russia had to establish control over the budgets of the regions of Kostroma and the Republic of Khakassia for having exceeded the 80% regional budget debt limit, and five more regions currently face the same risk. This is an illustrative example when improper fiscal relations between the center and the regions were converted into a necessity to take total fiscal control over the sub-national units, thereby undermining the fiscal budget federalism principles. It is evident that under the existing conditions of the economic recession, which is aggravated by growing economic sanctions, the regional economic policy requires fundamental reconsideration and changes in favor of granting more autonomous power to the regions.

## Politics, Foreign Affairs and Security

- During his official three-day visit to Tashkent, President of Turkey Recep Tayyip Erdogan met with President of Uzbekistan Shavkat Mirziyoev to discuss strengthening relations and business dealings between the two countries. As a result of the visit, the parties signed agreements on transport, energy and tourism as part of more than 50 investment projects worth \$3 billion. Moreover, it was officially announced that Uzbekistan would join the Cooperation Council of Turkic-Speaking States.
- During his official visit to Ankara, President of Azerbaijan Ilham Aliyev met with President of Turkey Recep Tayyip Erdogan to discuss bilateral relations in a number of areas, including politics, economy, and energy. In addition, during the visit six documents aimed at strengthening mutual cooperation were signed.
- During his official visit to London, President of Azerbaijan Ilham Aliyev met with Prime Minister of the United Kingdom Theresa May to discuss the issues in the fields of economy, trade, and energy. The sides also discussed regional development and security issues.
- During the three-party talks between the foreign ministers of Russia, Iran and Turkey Sergey Lavrov, Javad Zarif and Mevlut Cavusoglu held in Moscow, the parties discussed tensions around the implementation of the Joint Comprehensive Plan of Action on Iran's nuclear program. In addition, the sides exchanged opinions on other topical regional and international issues.
- During his official visit to Beijing, Defense Minister of Azerbaijan, Colonel General Zakir Hasanov, met with Defense Minister of China, Lieutenant General Wei Fenghe, to discuss prospects for developing cooperation in the military, military-technical, military-educational and other spheres of mutual interest.
- During the meeting of the authorized representatives of the Caspian states (Azerbaijan, Iran, Kazakhstan, Russia and Turkmenistan) organized by the Ministry of Foreign Affairs of Turkmenistan in Ashgabat, the participants discussed the text of the draft agreement on trade and economic cooperation in the Caspian Sea.

- During his official visit to the Hague, Deputy Minister of Foreign Affairs of Belarus Oleg Kravchenko met with Deputy Director General for Political Affairs of the Ministry of Foreign Affairs of the Netherlands Pieter Jan Kleiweg de Zwaan to discuss the current state and prospects of advancing bilateral relations in politics, trade, economy, and humanitarian affairs. The parties also exchanged views on human rights problems, interaction between Belarus and the European Union, and the situation in the region.

## Economy, Finance and Energy

- According to the Ministry of Commerce of China, the trade turnover between Russia and China in 2018 may exceed \$100 billion. It was noted that in 2017 the trade turnover between the two countries amounted to \$84.1 billion, increasing by 19% in comparison with 2016. The trade turnover between Russia and China in January-March increased by 28.2% to \$23 billion. In the reporting period, the volume of exports from China to Russia increased by 23.7% and amounted to \$10.3 billion. At the same time, the volume of imports of Russian goods to China in the same period increased by 32% to \$12.7 billion.
- According to the Financial Market Supervisory Authority of Azerbaijan, the country's turnover of securities amounted to 6.19 billion manats (\$3.59 billion) in the first quarter of 2018, which is by 2.7 times more compared to the same period of 2017. The turnover in the state securities market increased by 9.2 times, while the turnover in the secondary corporate securities market decreased by 22%.
- The Asian Development Bank announced its intention to invest \$5 billion in the program of Central Asian regional economic cooperation until 2020. It was noted that the countries participating in the mentioned program would receive funds for further development of the region's infrastructure and improvement of its transport and energy potential.
- According to the Government of Belarus, the country will raise customs duties on oil and petroleum products, which are exported beyond the customs territory of the Eurasian Economic Union. The export duty on crude oil will be increased from \$111.4 to \$118.5 per

ton. The export duty on straight-run gasoline will be raised from \$61.2 to \$65.1 per ton, with the export duty on commercial gasoline as well as light and medium distillates to go up from \$33.4 to \$35.5 per ton.

- According to the Asian Development Bank, the economic growth of Kyrgyzstan in 2018 will reach 3.5%, with a further 4% growth in 2019.
- According to the State Tax Service of Kyrgyzstan, in January-March 2018 18,309.8 million soms (\$280 million) of taxes and duties were collected in the country. Compared with the same period of 2017, the tax revenues increased by 1,742.6 million soms (\$25.32 million), or by 10.5%.

## Society and Culture

- According to Minister of Culture and Tourism of Turkey Numan Kurtulmus, in January-March 2018, 5.1 million tourists visited the country, which is a new record. It is expected that 36 million tourists will visit Turkey in 2018.
- According to First Deputy Chairman of the State Committee of National Security of Tajikistan Mansurdzhon Umarov, it is planned to establish 18 representative offices at the state border with Uzbekistan. It was noted that Tajikistan would create seven border offices, while the remaining 11 would be established by Uzbekistan.
- President of Belarus Alexander Lukashenko signed a decree that raises retirement pensions by 5.4% on average. The document provides for recalculating retirement pensions as from May 1, 2018, due to the rising average salary in Belarus.
- During his official visit to Ankara, Minister of Culture of the Russian Federation Vladimir Medinsky and Minister of Culture and Tourism of Turkey Numan Kurtulmus agreed on the establishment of a consultative committee in the field of tourism.
- According to the Culture Department of the Bishkek City Administration, city residents enjoyed an entertainment program devoted to the 140<sup>th</sup> anniversary of the Kyrgyz capital on April 29. The city celebrated its birthday with festive events (concerts in the Philharmonic Hall, the scientific and practical conference, performances of on-stage performance groups).