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REGIONAL BUDGETS AND SOCIAL-ECONOMIC DATA (FIRST HALF OF 2016)

Crisis in Russian Regions

Trends and Risks

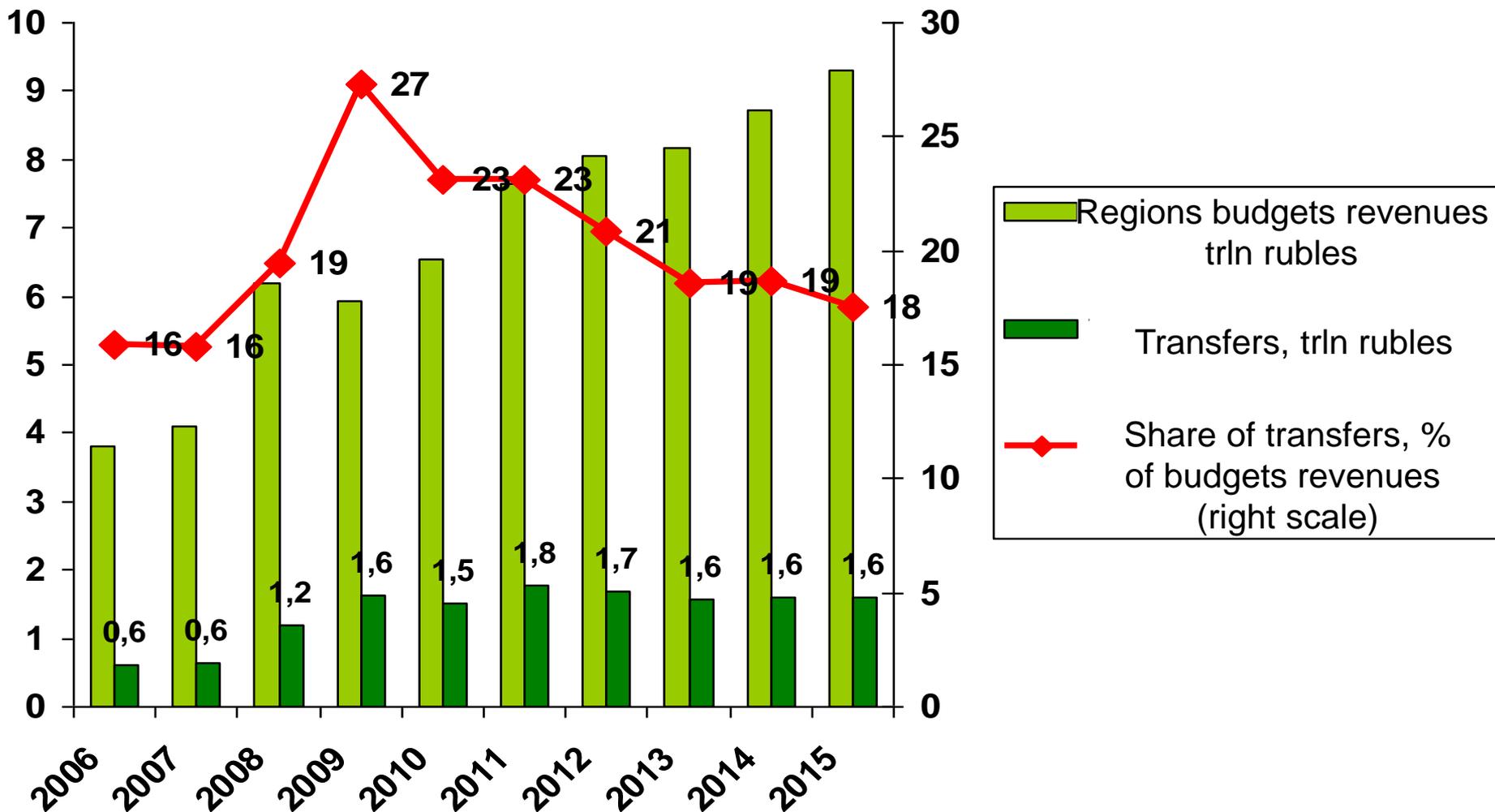
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The new crisis trends differ from previous ones

- **Regional budgets destabilization** – deficit and debts since 2013 (Putin's decrees).
 - **Investment** – reduction since 2013 till now
 - **Money incomes and wages** – stagnation started from the beginning of 2014, recession – since the end of 2014 till now
- **Industrial output** stagnation in 2013, decline since Feb.2015 till mid-2016. Military industry is growing due to the federal budget funding. Food industry growth is due to devaluation + counter-sanctions
 - **Unemployment rate** is extremely low

Transfers dynamics: 30% growth during the previous crisis 2009,
zero growth in 2015 and **12% drop in the first half of 2016**

Regional budgets revenues and transfers



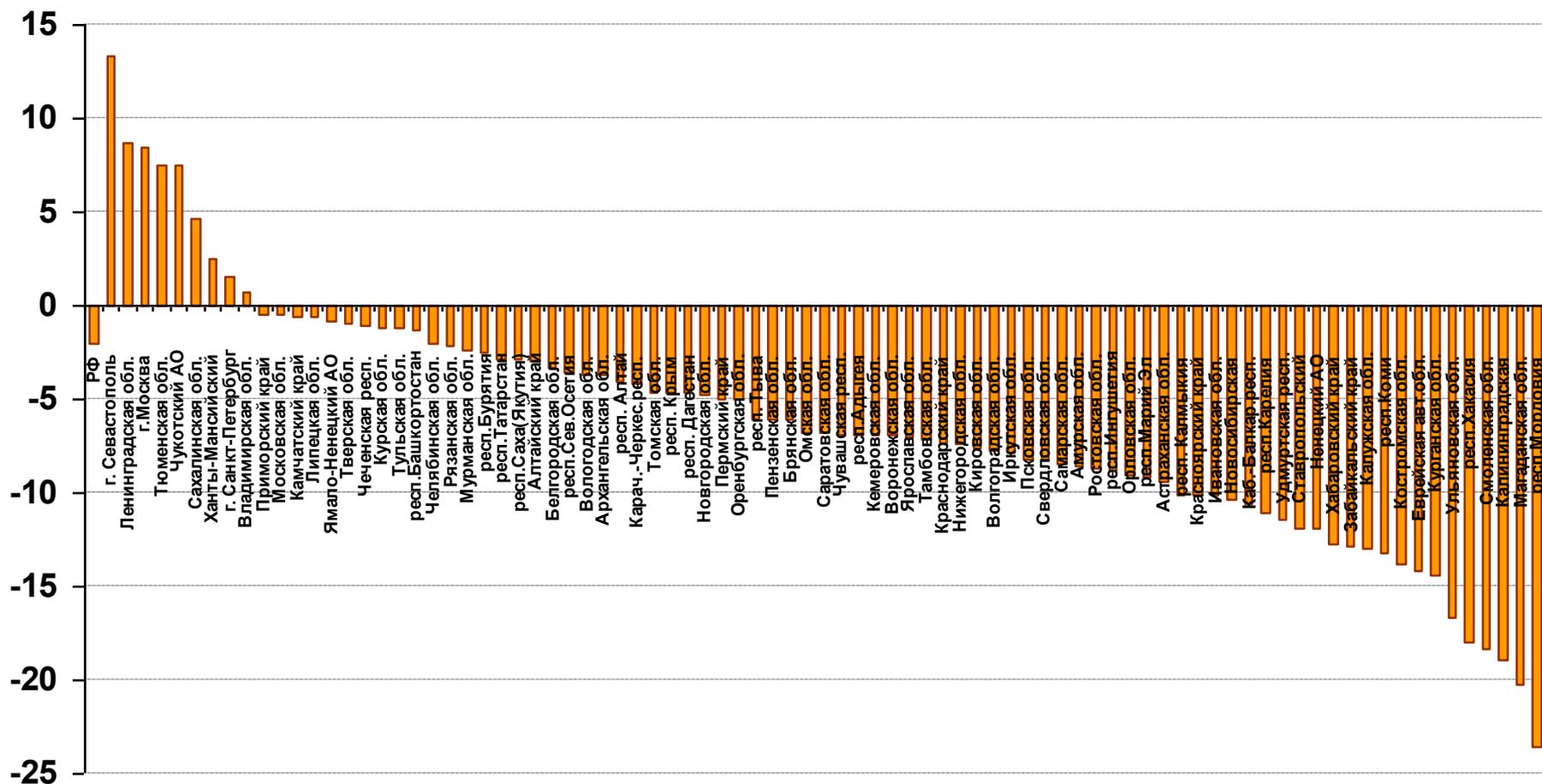
Regional budgets deficit

2013 – 642 bln rubles and 77 regions

2014 – 469 bln rubles and 75 regions,

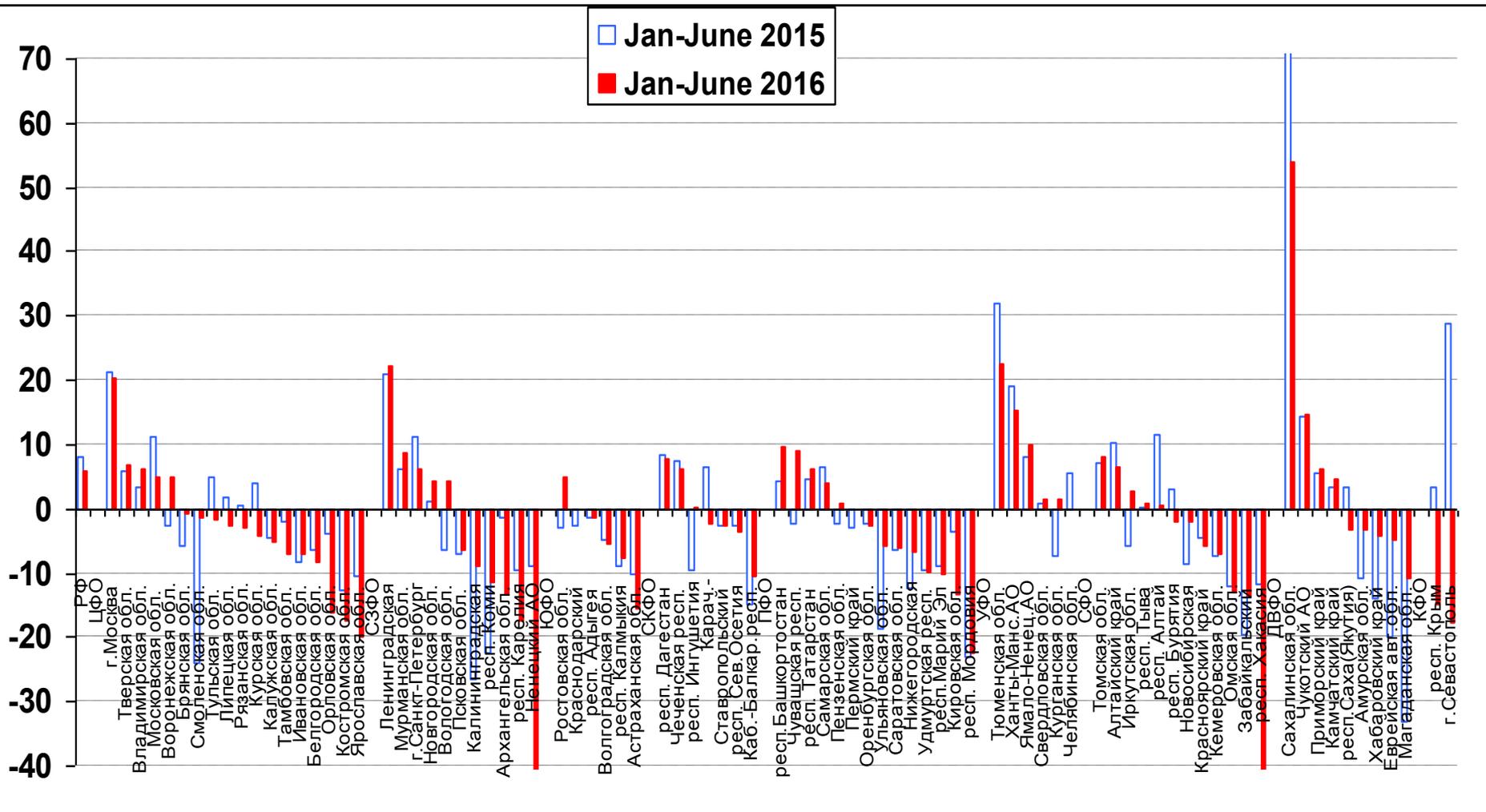
2015 – 191 bln rubles and 76 regions

Deficit, % of regions budget revenues in 2015



Deficit in Jant-June 2016

% of budget revenues



Center

North-W

South

N. Cauc

Volga

Urals

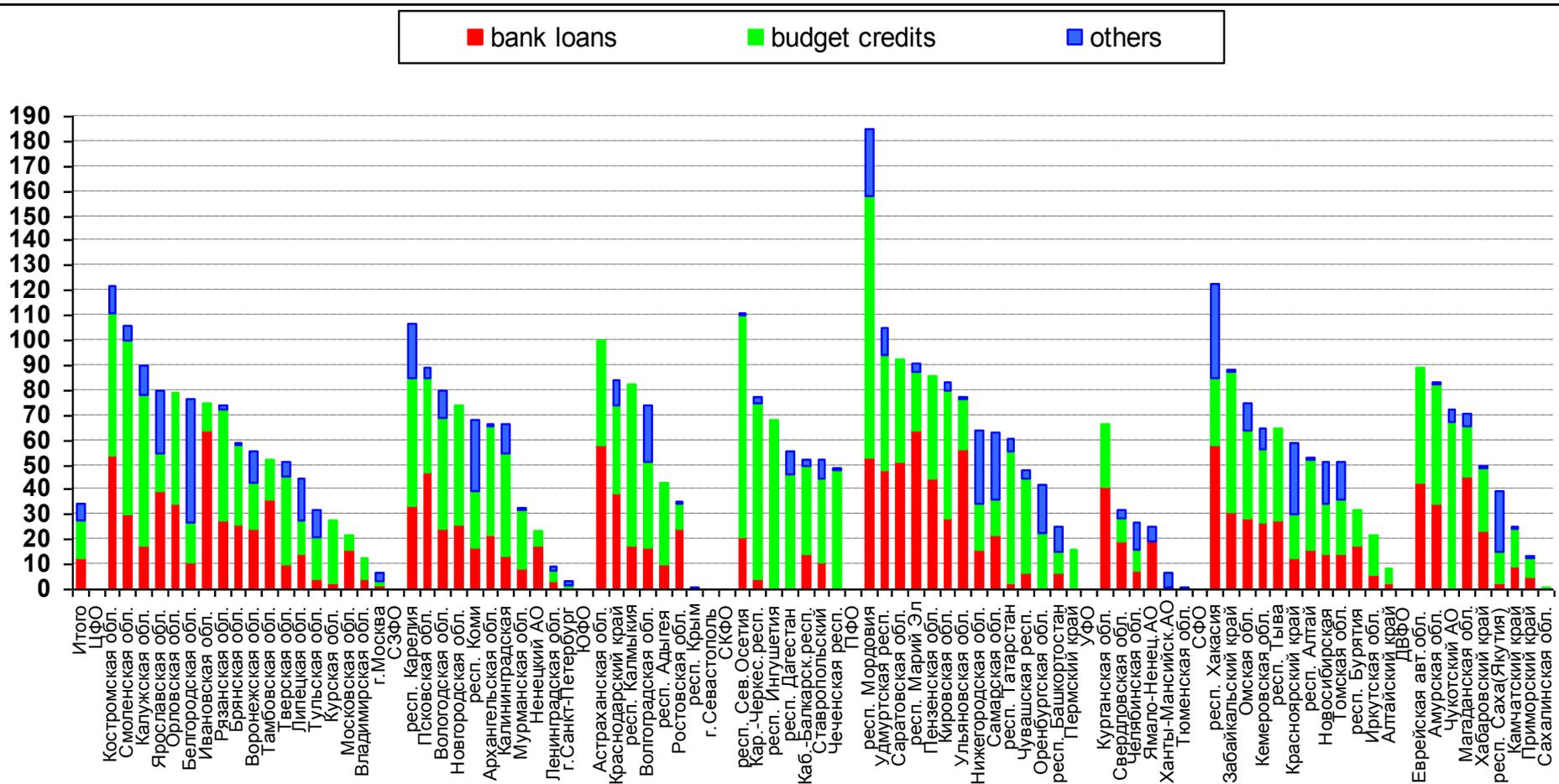
Siberia

Far East

Debts - 2,7 trillion rubles (Aug. 2016)

or 35% of regions budget revenues without transfers

Debts, % of budget revenues without transfers



Center

North-W

South

N.Cauc

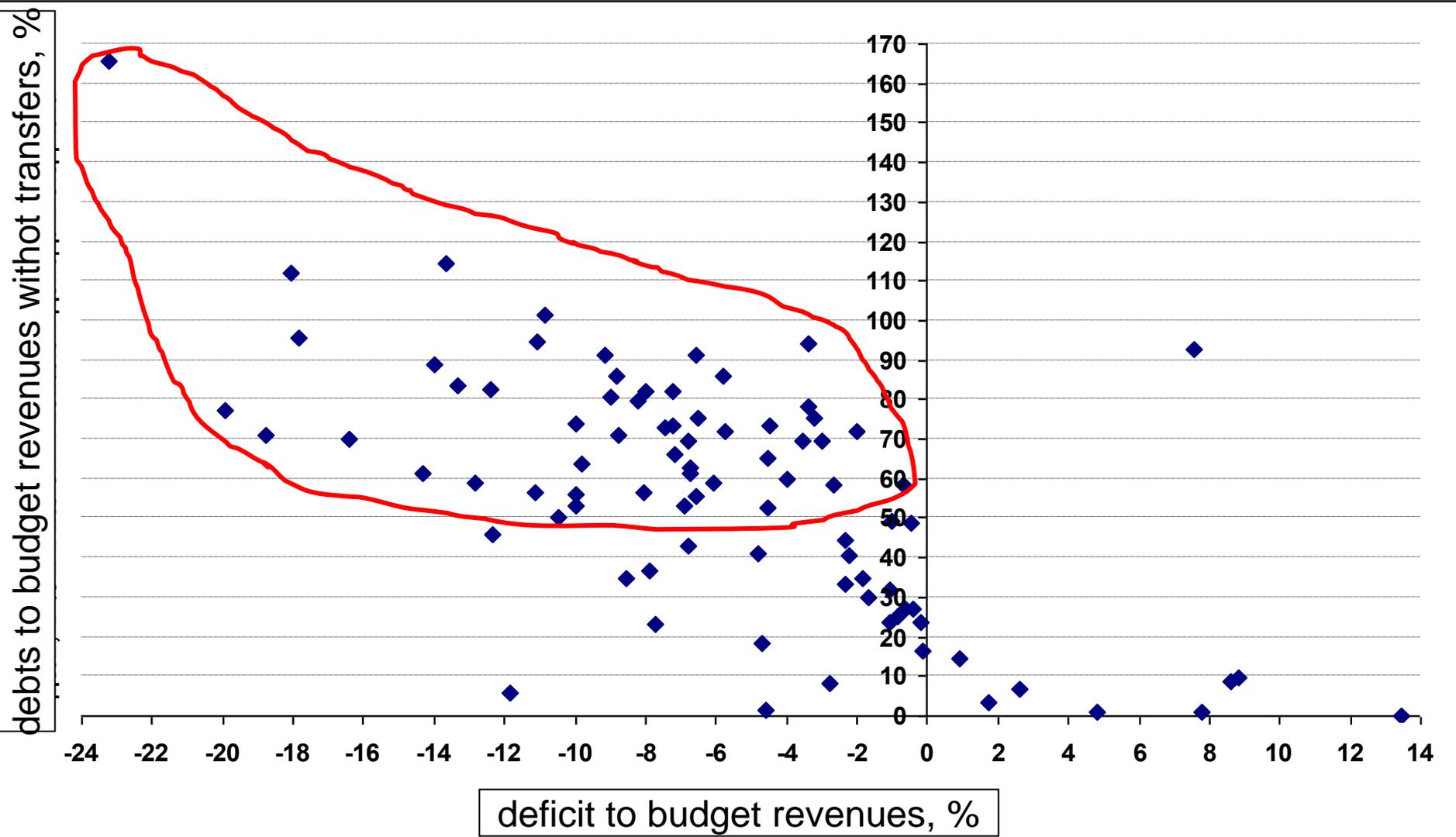
Volga

Urals

Siberia

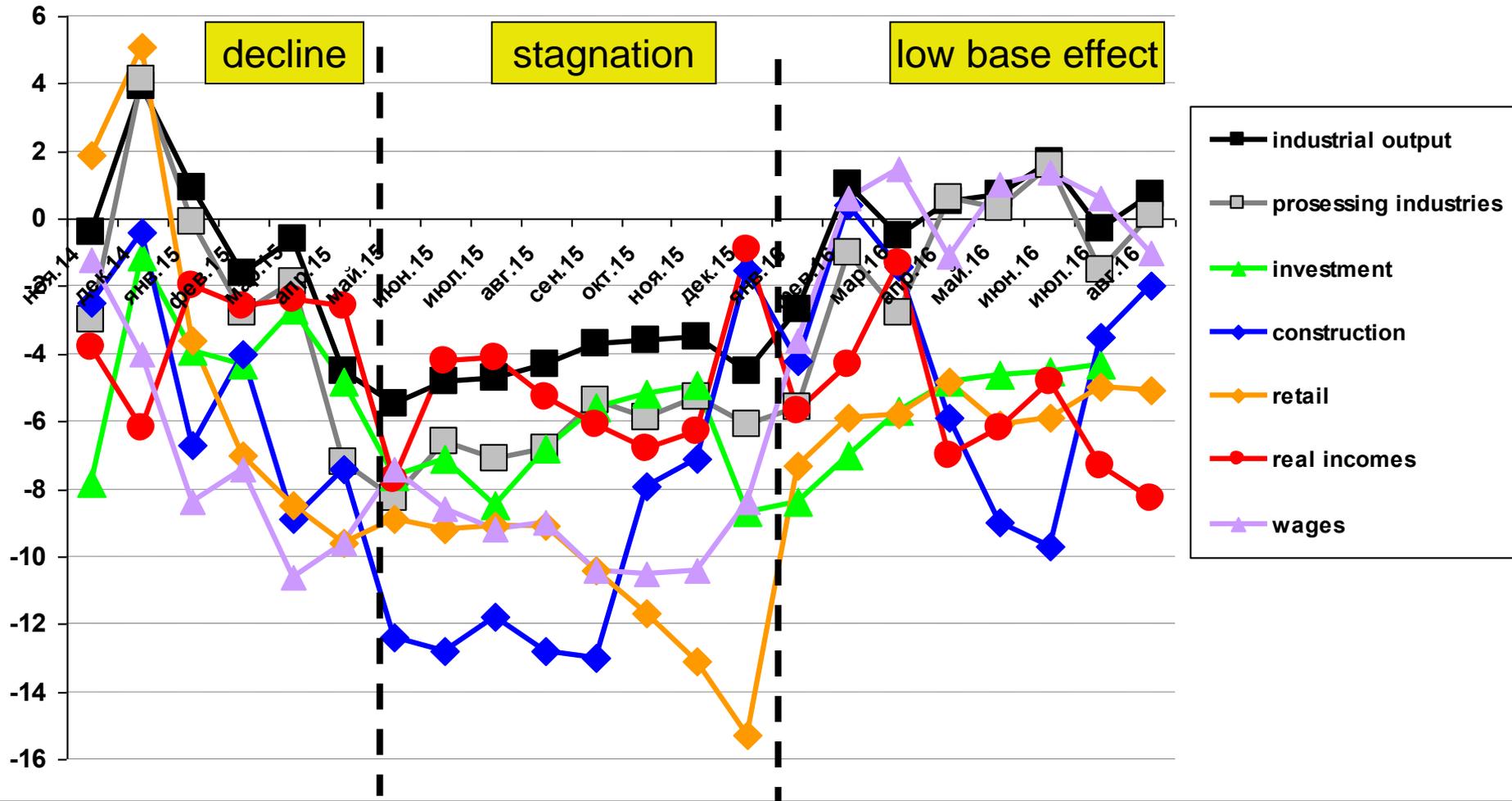
Far East

Maximum risk (deficit + big debts) - 2/3 regions in 2015



Devaluation shock sharply reduced incomes, wages and consumption. Money incomes, retail, investment, construction are still going down

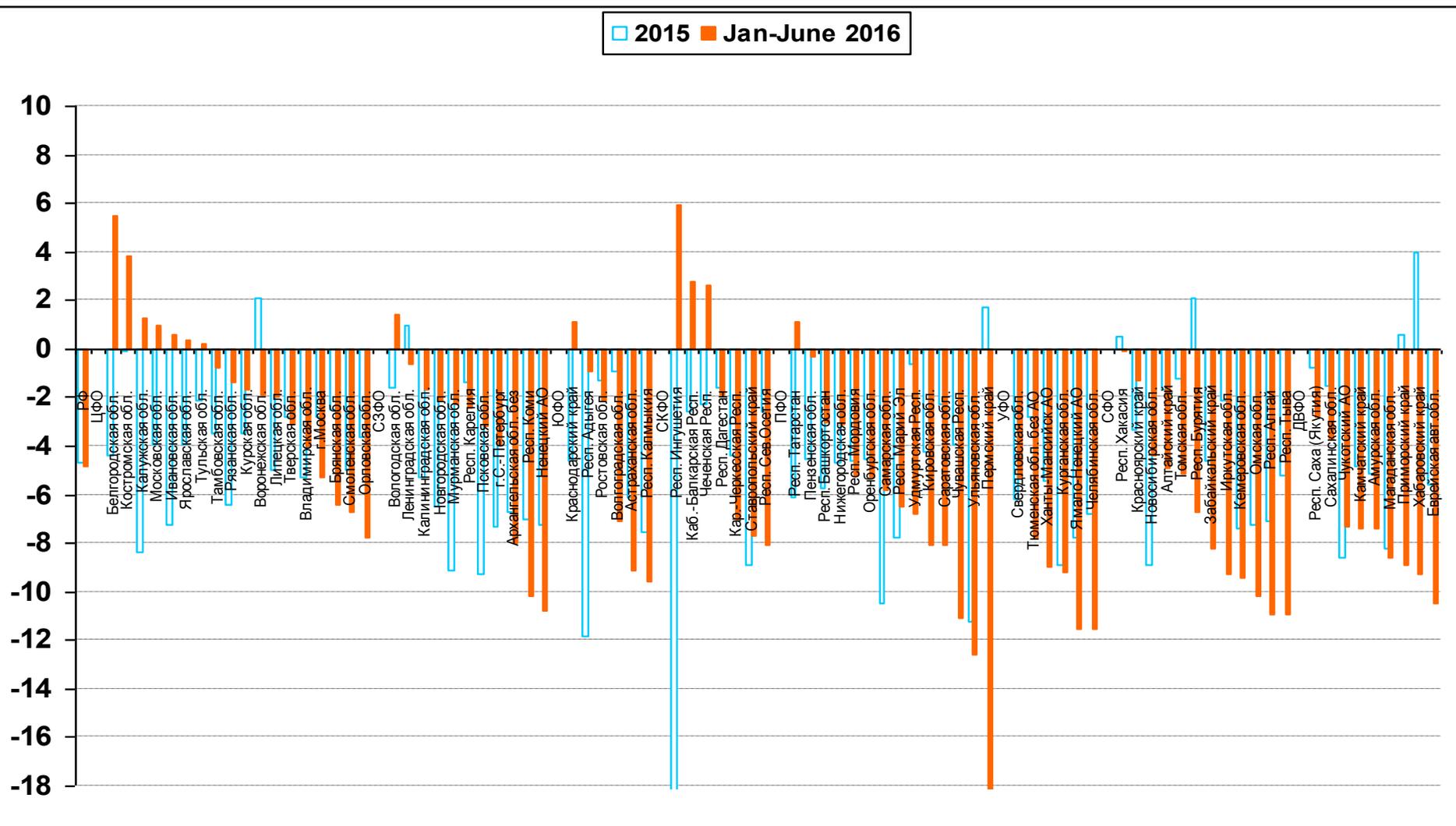
Monthly dynamics, % to the same month of the previous year



Real money incomes decline in 76 regions (2015)

1 half of 2016 -5%, the worst are Urals, Volga, Siberia, Far East

Real money incomes dynamics, % to the same period of previous year



Center

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N.Cauc

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Urals

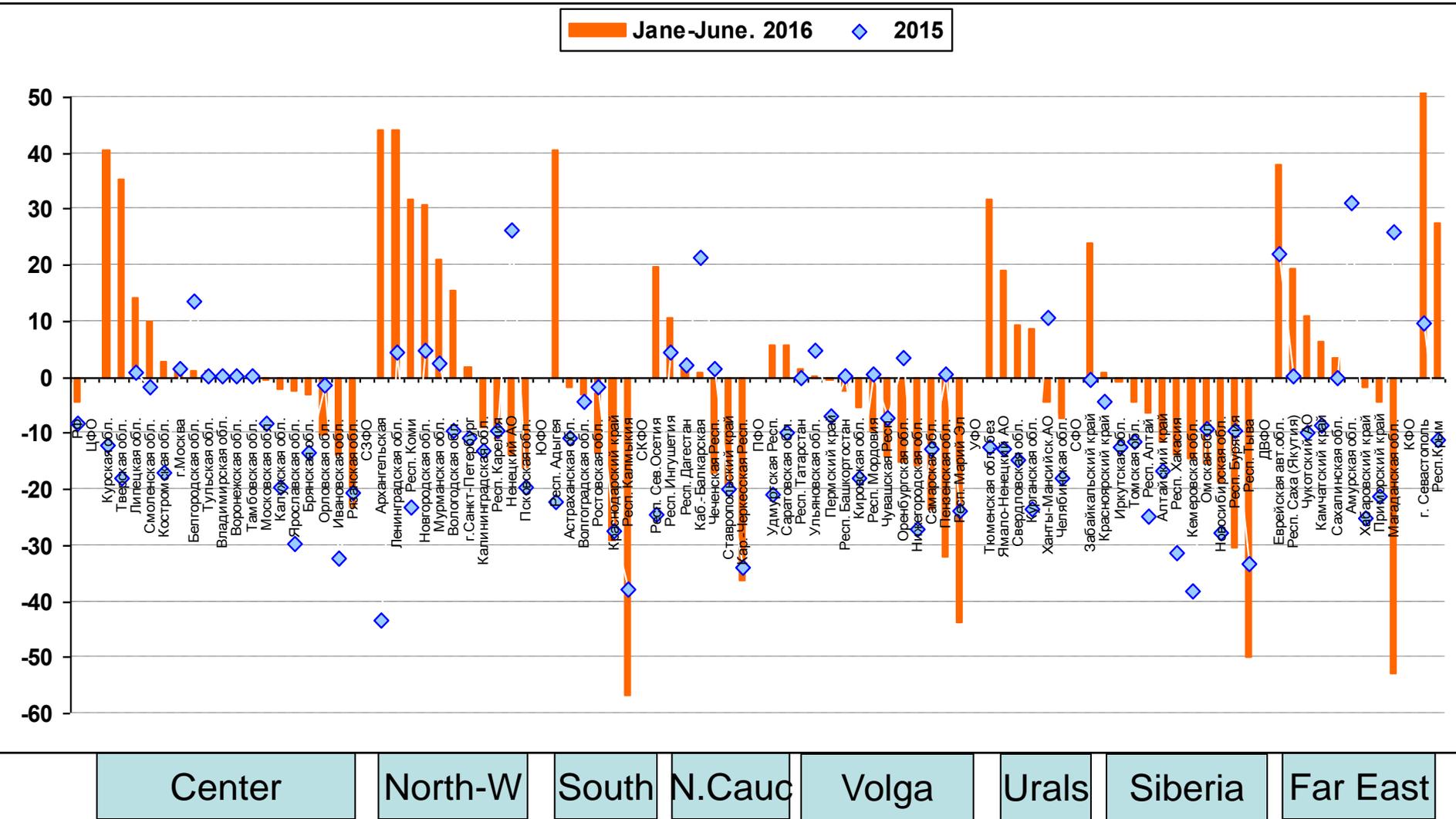
Siberia

Far East

Investment decline: 2013 -0%, 2014 -2,7%, 2015 -8,4%, 1 half of 2016 -4,3%

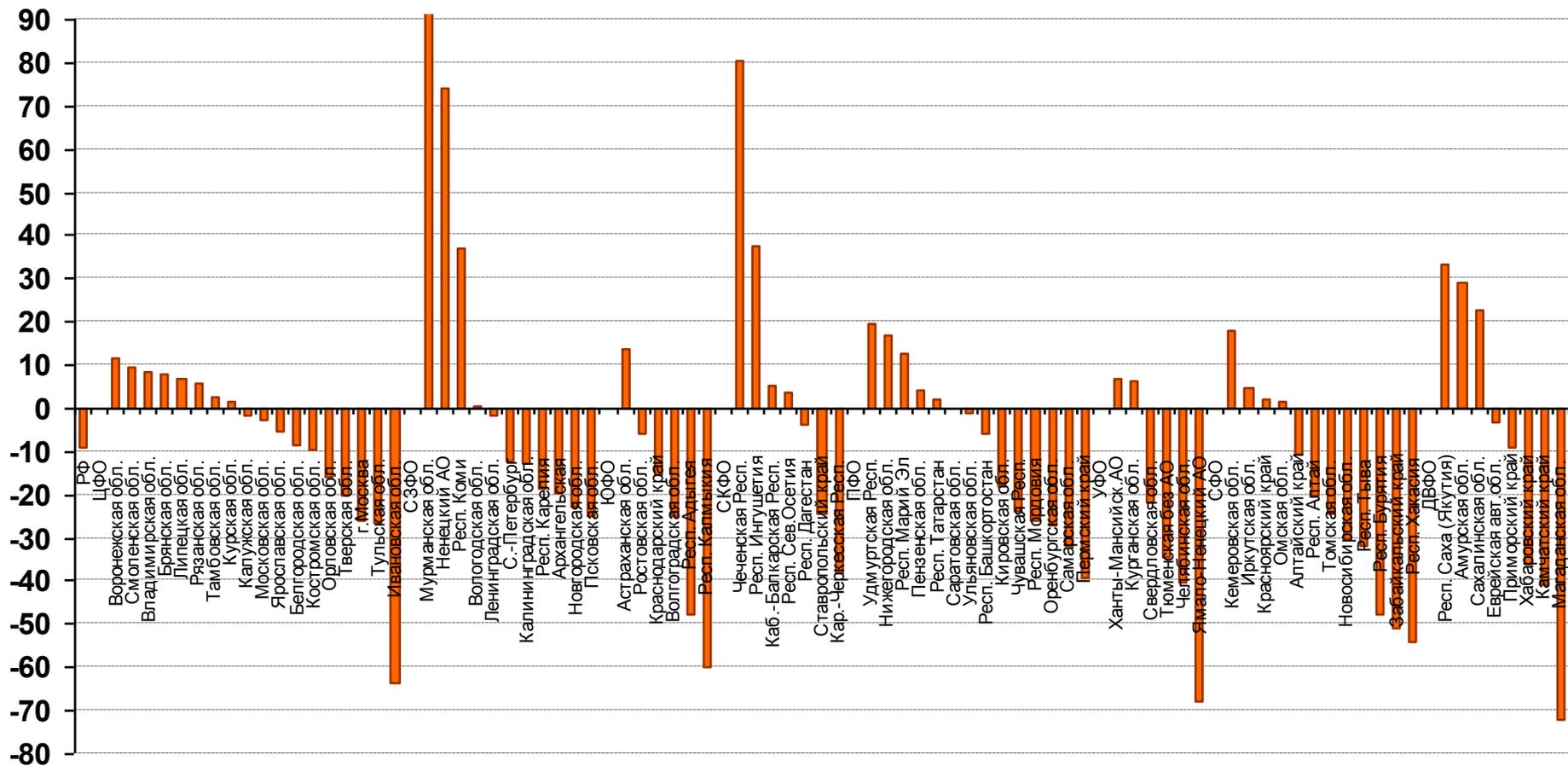
About 50 regions, the worst is Siberia

Investment dynamics to the same period of previous year, %



Housing constructing decline: -9% in June-June 2016 (52 reg.)

Housing construction dynamics, % to June-June 2015



Center

North-W

South

N.Cauc

Volga

Urals

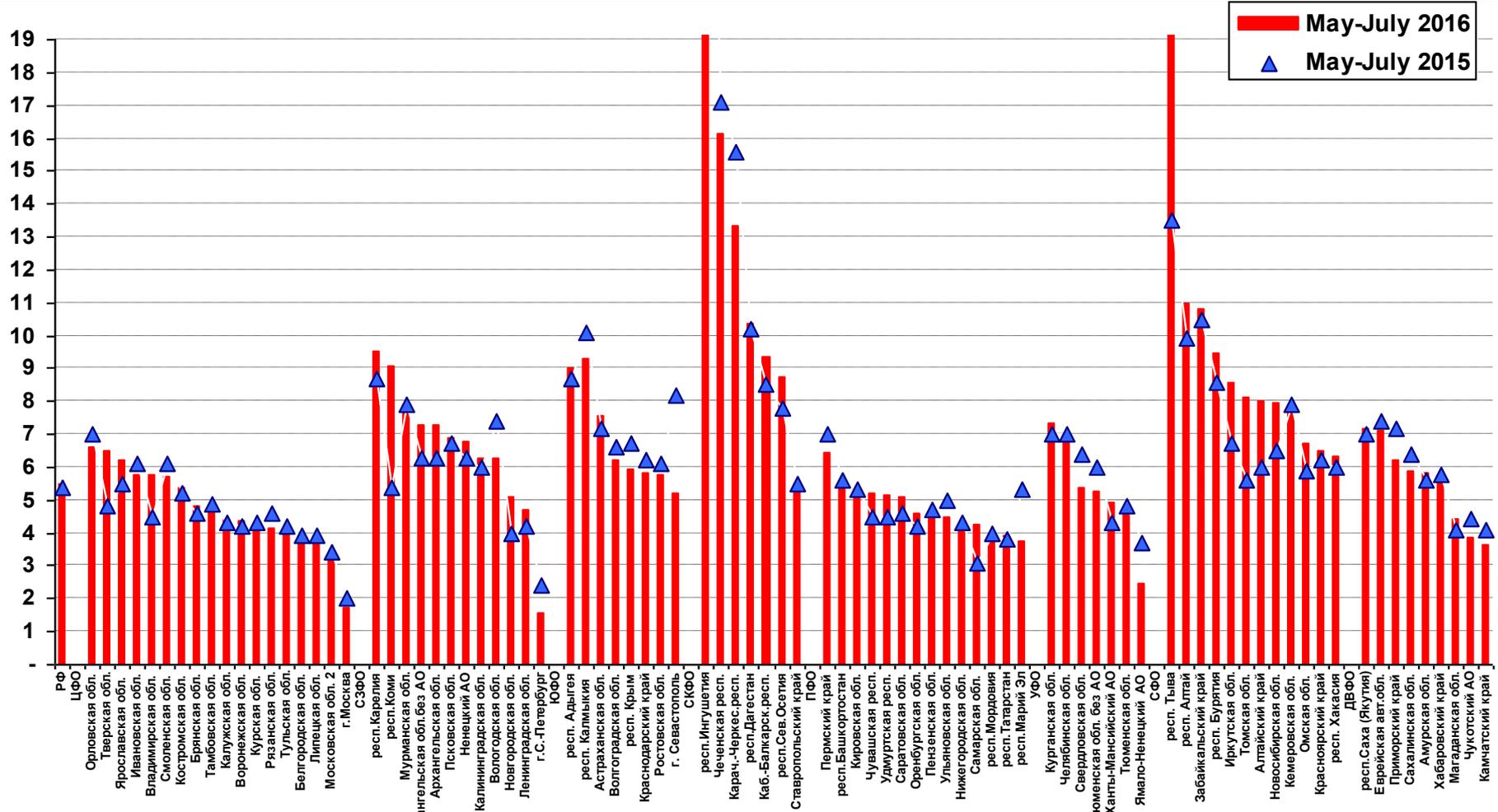
Siberia

Far East

Unemployment rate is extremely low (5,7%) and stable

Several factors prevent unemployment growth

Unemployment rate, % ILO methodology



Center

North-W

South

N.Cauc

Volga

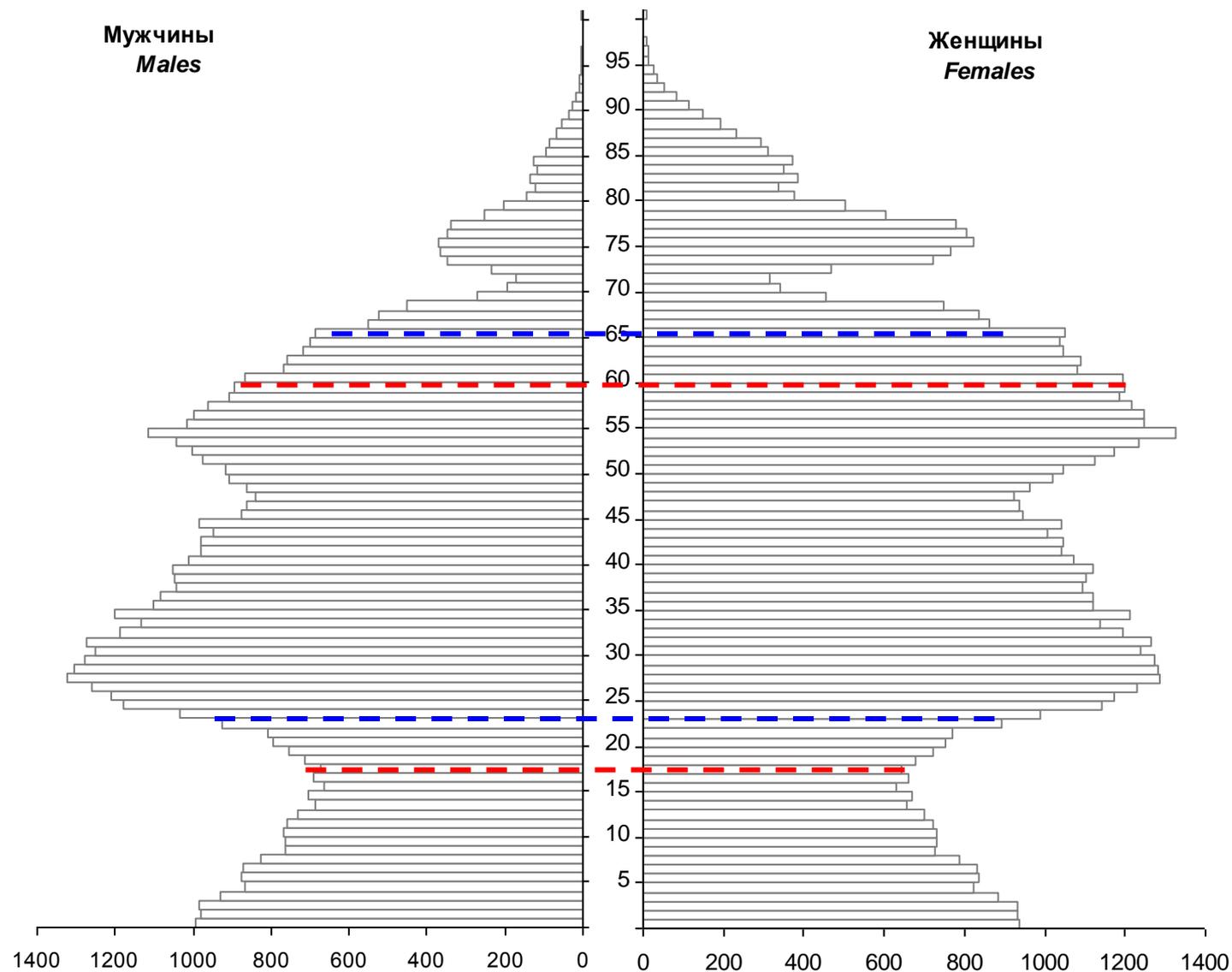
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Siberia

Far East

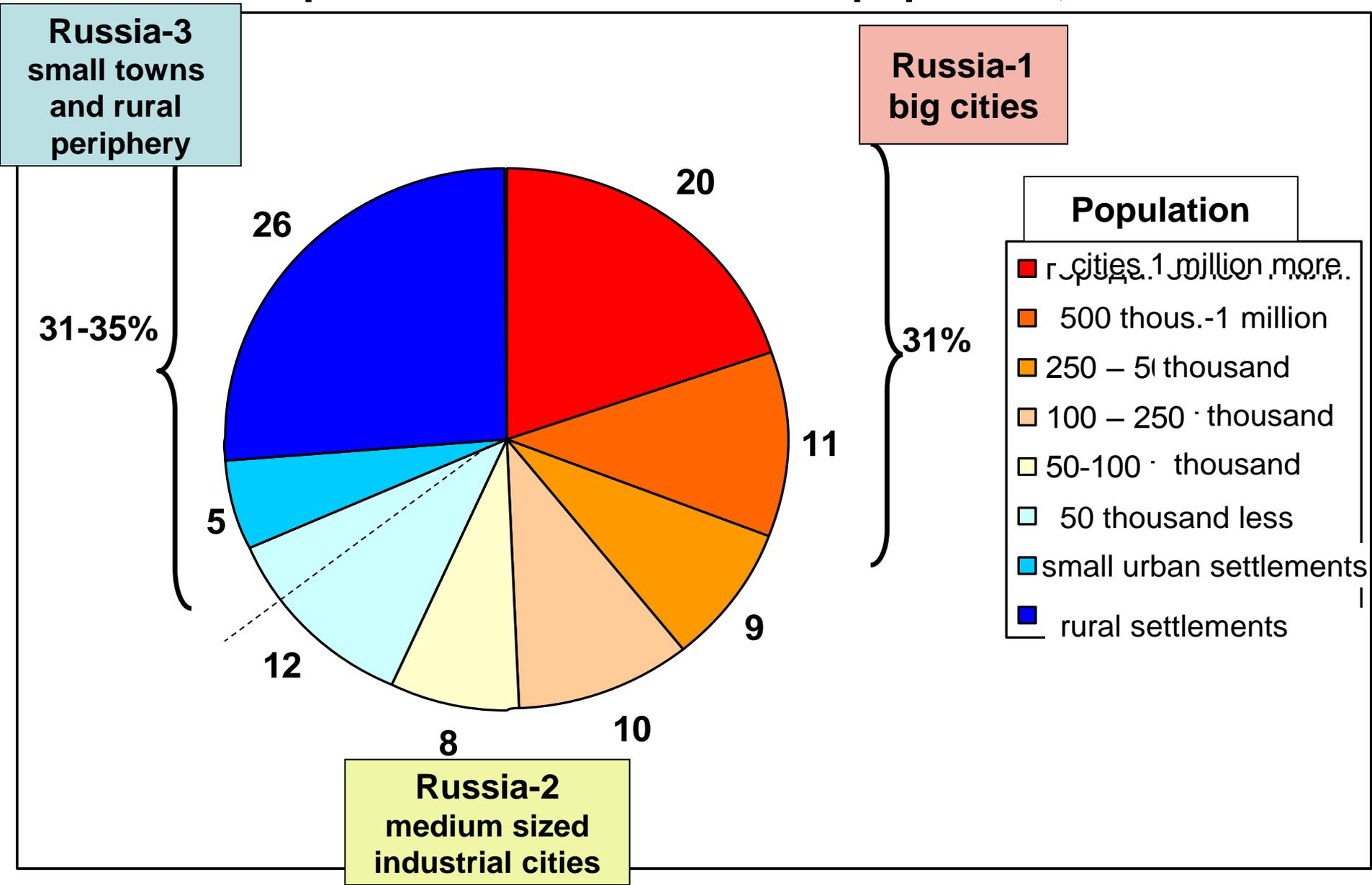
Demographic structure mitigates risks

Russia's age structure 2015



From regions to Core-Periphery model

Spatial structure of Russian populaton, %



Spatial projection of crisis

- **Russia-2**

- **Industrial regions/towns**

- Budget investment in military industries
- Slow industrial output decline,
- Localized unemployment rate growth
- Money incomes and consumption decline

- **Russia -1**

- **The biggest agglomerations**

- Money incomes and consumption decline
- Market services shrinkage as well as public sector employment
- Adaptation via lifestyle negative transformation, emigration...

from development to survival