

## ECONOMIC HEALTH OF THE RUSSIAN REGIONS

Current Level and Changing Dynamics



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## ECONOMIC HEALTH OF THE RUSSIAN REGIONS: CURRENT LEVEL AND CHANGING DYNAMICS



# Economic health index of the regions: brief methodology

The economic health index of the regions is used to assess the current level of development of the Russian regions (status map) and to assess changes in the regional economy (dynamic map). The status map shows how the regions differ according to the current level of development. The dynamic map shows how the regions differ in terms of the pace of change: which regions are seeing positive trends and which ones are deteriorating.

This index was developed for several reasons. First, there is a significant lag (over a year and a half) in the time it takes to publish data on the GRP (gross regional product) of the Russian regions. Moreover, GRP indicators do not fully reflect the situation in a particular region: a substantial part of GRP can be redistributed to the federal government, so high GRP indicators in a particular region do not fully reflect the economic health of the population, business, or budget. Second, various agencies publish fairly large amounts of data about numerous aspects of how regional economies function, and they publish them rather quickly with small time lags. In our opinion, using at least part of these data arrays in the form of integral indicators makes it possible to more fully track both the current state of a region's economic health and how it is changing.

Sources of information used include the operational data of the Russian Federal Tax Service, the Russian Ministry of Finance, the Russian Central Bank, and the Federal State Statistics Service (Rosstat). Most of the indicators used are calculated based on data for the last 12 months (the 'sliding window' principle), and the values of the key figures are given as of the last available date.

Economic health of the Region's population					
Per capita cash income purchasing power					
Proportion of population with cash income below the poverty line					
Per capita retail turnover					
Arrears on loans to individuals					
Economic health of regional business					
Per capita fixed investment					
Per capita housing commissioning					
Per capita profit tax revenue to the Region's CB					
Per capita total income tax revenue (taxes on SMEs) to the Region's CB					
Economic health of the Region's Consolidated Budget					
Direct debt of the Region's CB vs. the TNTR of the Region's CB					
Debt servicing expenses of the Region's CB vs. the TNTR of the Region's CB					
Per capita TNTR of the Consolidated Budget					
Note:					

Indicators used to assess the current level of development of the Region

CB – Consolidated Budget; TNTR – Tax and Non-Tax Revenue; Direct debt – the amount of debt of a Constituent Entity on government bonds, bank and budget loans, and other debt and the debt of municipalities in the form of bonds, bank loans, and other debt. Guarantees and the debt of municipalities on budget loans were not taken into account.

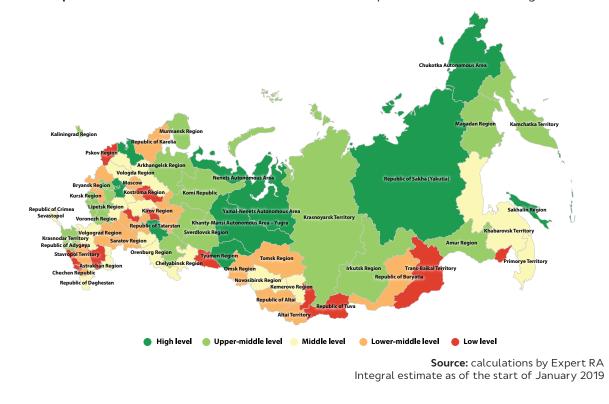


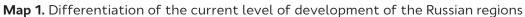
#### Indicators for assessing changes (dynamics) in the regional economy

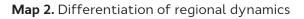
Changes in economic health of the region					
Changes in the real incomes of the population					
Changes in retail prices in comparable prices					
Changes in the share of the population with incomes below the poverty line					
Changes in the level of arrears on loans to individuals					
Changes in the economic health of regional business					
Changes in fixed investment in comparable prices					
Changes in housing commissioning					
Growth in profit tax revenue to the Region's CB					
Growth in total income tax revenue (SMEs) to the Region's CB					
Changes in the economic health of the Region's Consolidated Budget					
Changes in the direct debt of the Region's CB vs. the TNTR of the Region's CB					
Changes in the debt servicing expenses of the Region's CB vs. the TNTR of the Region's CB					
Growth in the per capita TNTR of the Consolidated Budget					

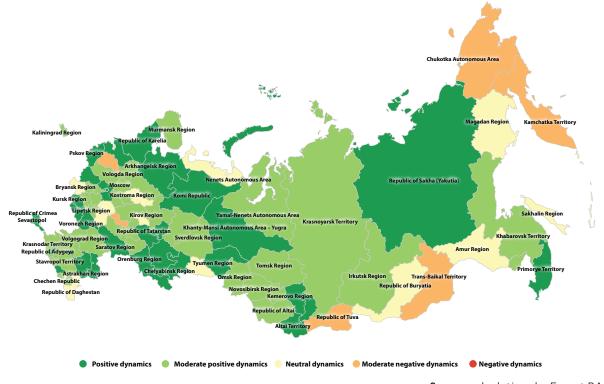
Using linear functions and established benchmarks, the values of these indicators were converted into a score. Based on the scores obtained as well as the weight vector (whose values were determined by experts and also depend on the significance of the indicator), integral points were generated for the current level (status) of the economic health of the Region and changes in the economic status were generated for the economic dynamics.











**Source:** calculations by Expert RA Integral estimate as of the start of January 2019



### Economic health index of the regions: key findings

There is currently a high degree of differentiation in the development of Russia's regions. There continues to be a gap between the values of key metrics (the public's wellbeing, the state of business, and a region's consolidated budget) of regions with high and low levels of development.

Portrait of a successful region: the availability of raw materials or institutional revenue, in some cases supplemented by a highly differentiated manufacturing sector (including with the processing of raw materials extracted in the region). Leading regions are growing, in part thanks to the effect of 'positive feedback': the existence of resources (natural, industrial, and a financially reliable population) contributes to a high level of economic and investment activity, which enhances a region's development and its appeal to investors.

Portrait of an underperforming region: a lack of revenue from raw commodities, little semblance of a corporate sector, the dependence of the regional economy on budget funding, and the outflow of the population to more developed regions. Such regions may show discernible positive dynamics due to a small boon or the effect of a low comparative base. But in order to catch up with the leading regions, they need to improve their metrics at advanced rates, and one-off boons are not enough for this.

In the medium and long term, the proactive position of the regional authorities and their systemic actions have a significant impact on the level and dynamics of the regional economy, the wellbeing of the population, and business efficiency.

Statics Dynamics	Low current level	Below average	Average current level	Above average	High current level
Positive dynamics	4 regions	5 regions	7 regions	7 regions	6 regions
	2.3 mln people	7.9 mln people	13.5 mln people	11.5 mln people	17.3 mln people
Moderately positive dynamics	3 regions	13 regions	8 regions	10 regions	2 regions
	1.3 mln people	18.2 mln people	18.6 mln people	23.2 mln people	13.0 mln people
Neutral dynamics	4 regions	2 regions	3 regions	2 regions	3 regions
	2.7 mln people	2.2 mln people	5.2 mln people	0.9 mln people	5.8 mln people
Moderately negative dynamics	3 regions 2.2 mln people	_	1 region 0.6 mln people	1 region 0.3 mln people	1 region <0.1 mln people
Negative dynamics	-	_	-	-	_

**Table 1.** Distribution of Russian regions per the economic health matrix(as of January 2019)

**Source:** calculations by Expert RA As of January 2019:

In 61 out of 85 regions, a positive trend can be seen in the economic health indicators of the population over the past 12 months. In addition, nine regions had positive dynamics in all four of the indicators used.

Regions with a high current level of development have increased per capita income purchasing power among the population, which makes it possible to purchase a fixed set of consumer goods and services at prices specific to a particular Region at a rate of 2.4 times or higher. Such regions have a reduced share of the population with incomes below the poverty level and a rather low level of arrears on loans to individuals (except for residents of Moscow whose loan arrears exceed the level of other regions from the top ten as well as the average Russian level as of the last available date).



Regions with a low current level of development have low per capita income purchasing power among the population. For example, in the case of the Tyva Republic, per capita cash income is slightly less than the cost of a fixed set of goods and services, while in Kalmykia, the Karachay-Cherkess Republic, and Ingushetia, per capita income is only 21% higher on average than the cost of a fixed set of goods and services at prices specific to this particular region. The regions of this group have a high proportion of the population with incomes below the poverty line: for example, in Tuva and Ingushetia, the proportion of this population is as high as 40.5% and 32.0%, respectively. At the same time, the situation with the payment discipline of the population in servicing loans differs significantly between the regions of this group. For example, in the Republic of Mari-El, the level of arrears is lower than the average Russian level (this may be partially due to a lower amount of debt per resident and, as a result, a shift in the sample of loans in favour of higher quality borrowers in this region). At the same time, in Karachay-Cherkessia and Ingushetia, the level of arrears on loans to the population stood at 10.5% and 16.5%, respectively, as of 1 December 2018.

Positive dynamics in the economic health indicators of regional business can also be seen in 61 of 85 regions. In addition, 14 regions had positive dynamics in all four of the indicators used.

Regions with a high intensity of investment processes, rather high efficiency of companies, and relatively well-established small businesses are the leaders in the current level of economic health of regional business. Relatively high revenue from profit tax and total income is a sign of the effectiveness of companies and the development of small businesses. The leading regions also have a high level of housing commissioning, which indicates there is effective demand (including with the involvement of residents from neighbouring regions) and the appropriate infrastructure – construction, energy, financial, etc. A number of regions from the top ten have small population numbers, so there are rather high specific indicators of investment, profit tax revenue, and taxes from small businesses.

For the consolidated budgets of the overwhelming majority of Russian regions, 2018 was the best fiscal year in at least seven years. The consolidated budget surplus of the Russian regions exceeded RUB 500 billion. Consolidated budget indicators improved in 81 of 85 regions. Part of this surplus was spent on reducing state debt. This surplus will also make it possible to finance expenses in 2019, including those related to the execution of the new May decrees issued by the Russian President.

Regions whose budgets have practically no debt and, as a result, have no need to spend a portion of their tax and non-tax revenues (TNTR) on servicing such debt hold leading positions in the current level of the economic health of consolidated budgets. The absence (or low level) of a debt burden is due to both high per capita TNTR rates (high independent fiscal capacity) and a conservative debt policy pursued by the region's financial authorities. Conversely, the underperforming regions have a fairly high ratio of direct debt and TNTR in terms of this indicator, with a substantial portion of TNTR being used to pay interest (for example, in Mordovia, interest expenditures account for almost 8.8%) as well as low rates of specific tax revenue generated by the region's economy.

The strongest positive changes in budget indicators were recorded in regions that have a relatively low current level of regional budget health, i.e. the effect of a low comparative base. For instance, in Khakassia and Karelia, direct debt vs. TNTR decreased by 36% compared to a year ago, while in the Kabardino-Balkar Republic, it declined by 28%. In addition, Khakassia reduced debt servicing expenses relative to the TNTR by 7 percentage points.

As a result of the positive foreign economic conditions and the effective management of the surplus, the debt burden of the Kemerovo Region decreased significantly.

A significant deterioration was only seen in the Republic of Mordovia, where both the debt burden (direct debt vs. TNTR) and debt servicing costs (relative to TNTR) increased.



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