The main drivers and dynamics of Russian regions development

Does business climate matter?

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Russia's economic development drivers: objective competitive advantages are the leading

Objective competitive advantages

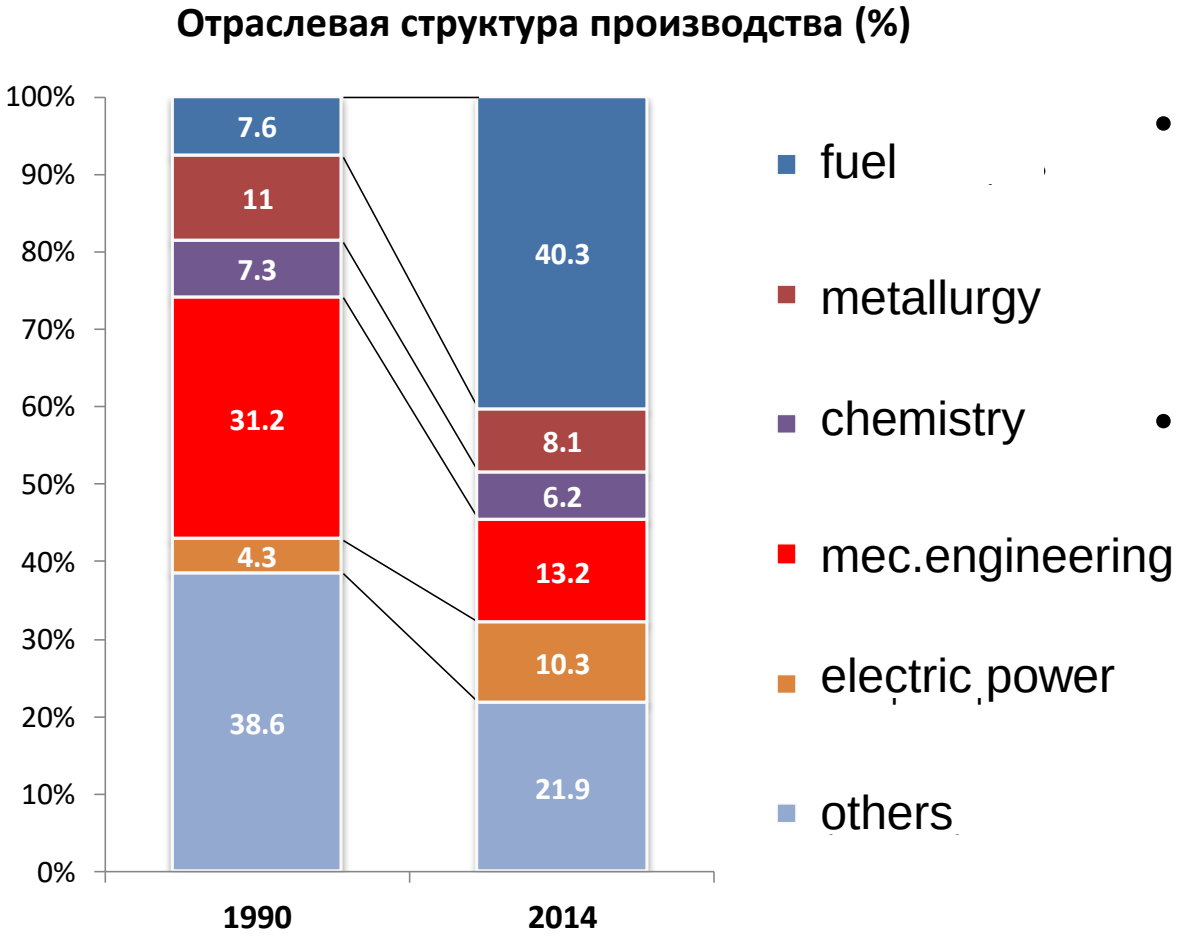
- Resources (oil&gas, fertile soils etc.)
- Geographical location
- Human capital
- Agglomeration effect

Institutions

- **Business climate**
- State spatial policy

Does business climate matter for petro-state with "vertical" & autoritarian system of governing?

Russia's industrial output structure,%



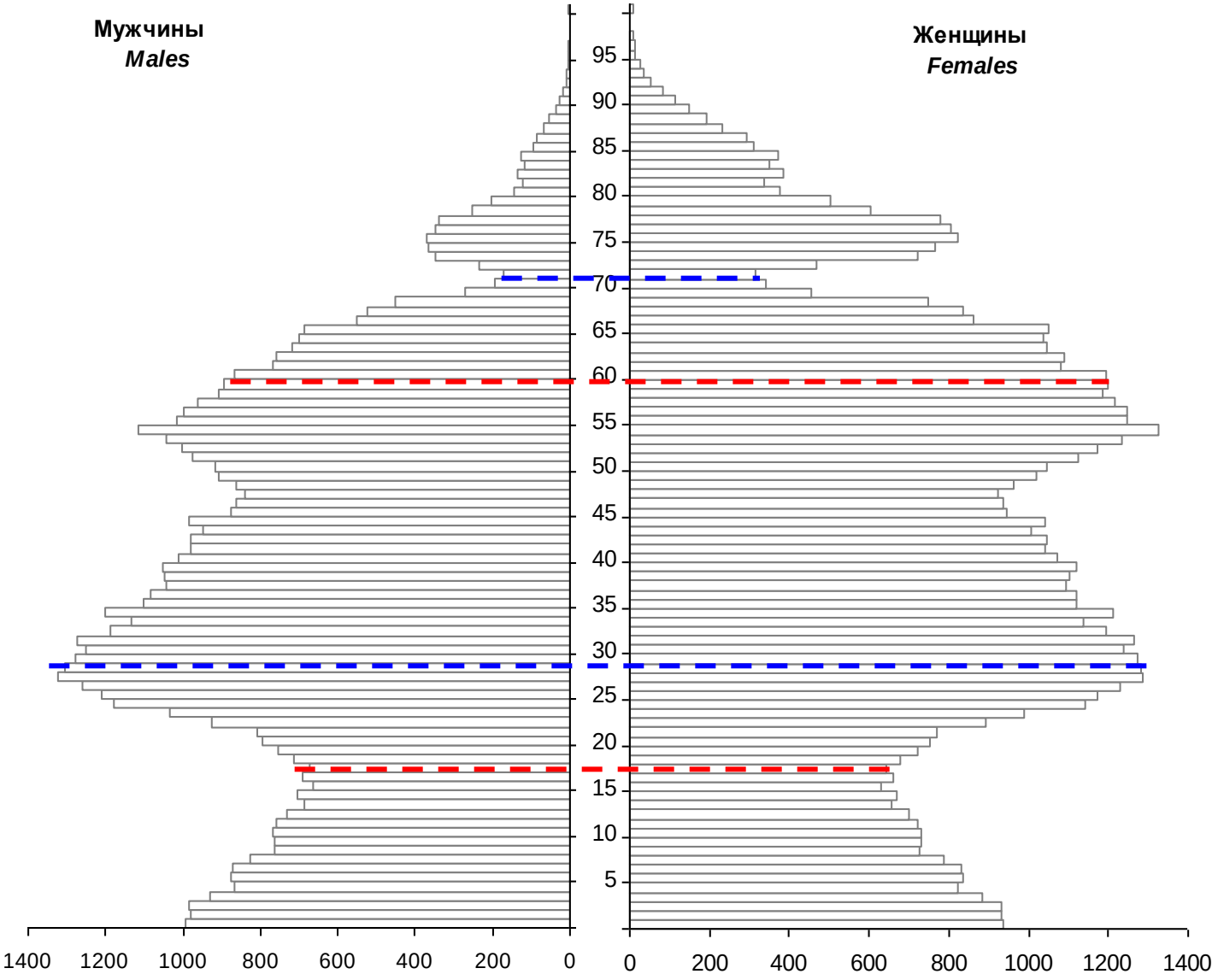
- The main trend is the huge growth of fuel and electric power industries share
- Mechanical engineering share was halved

Geographical location for most Russia's regions is disadvantageous

The big cities and rural population density

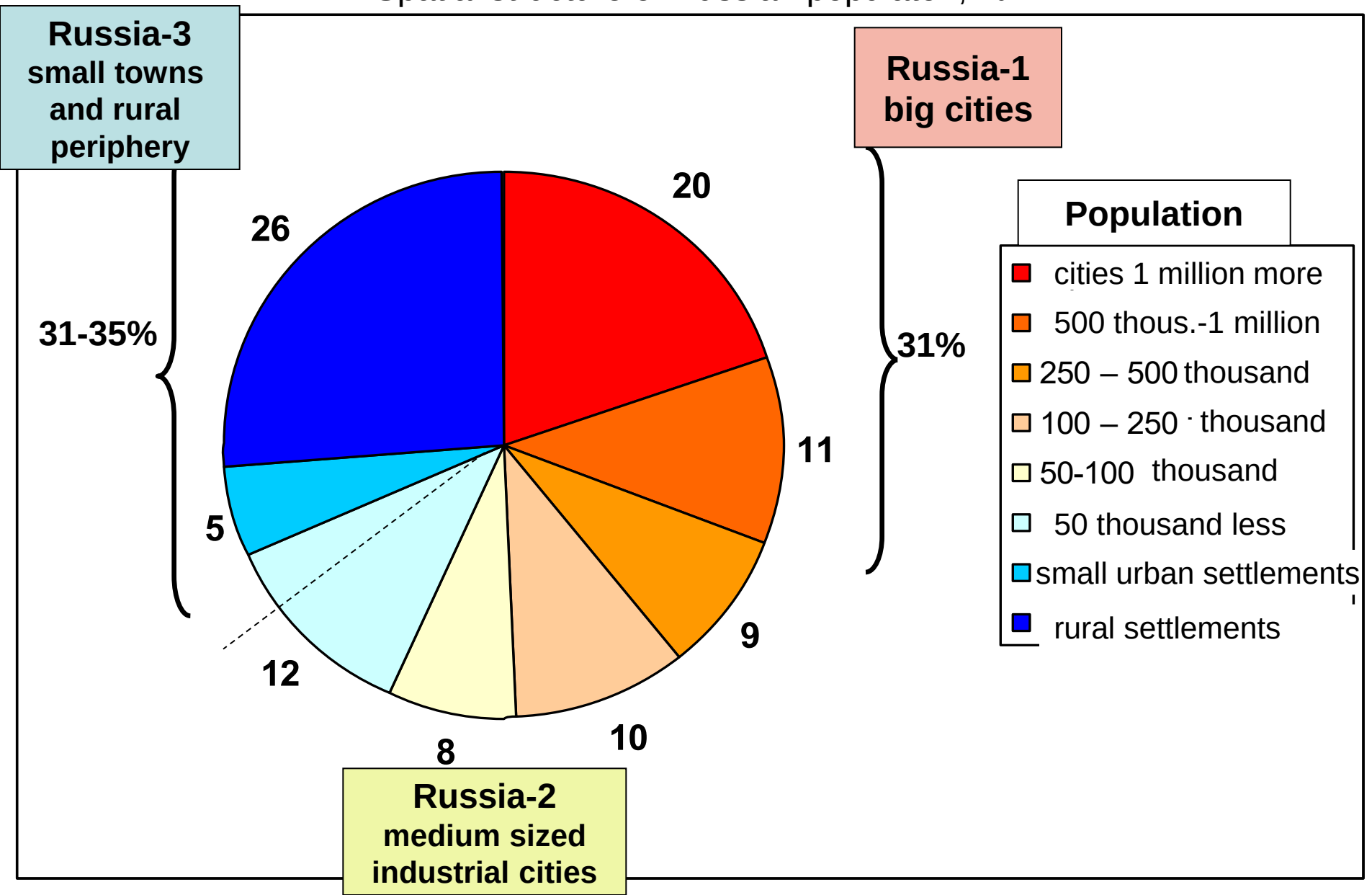
Human capital: problems of depopulation and labor force shrinking due to the age structure **(-8 mln people in working ages by 2025**)

Russia's age structure 2015



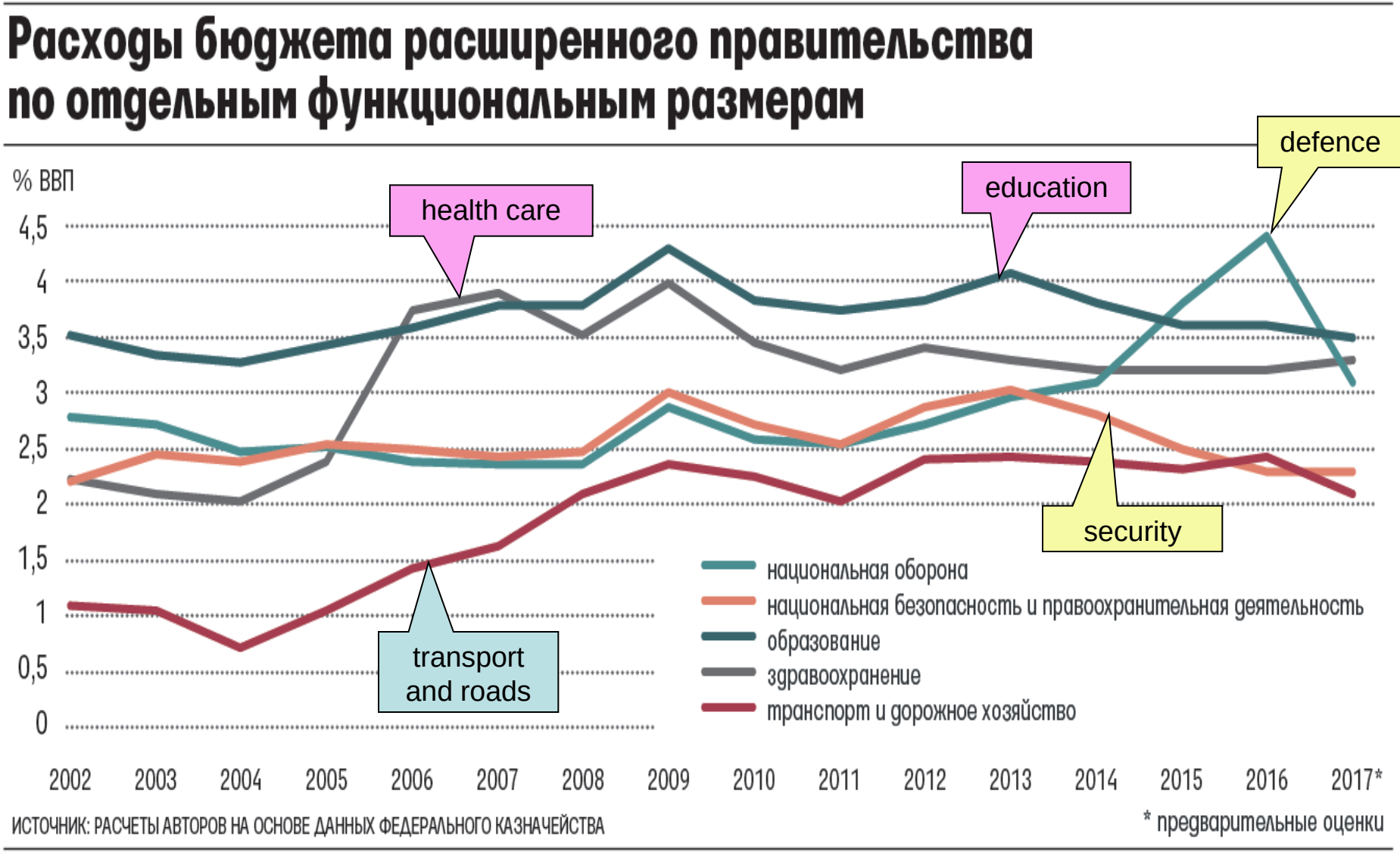
Agglomeration effect matters! But institutional barriers for the big region's capitals are huge (low budget revenues and dependence on regional budget transfers)

Spatial structure of Russian populaton, %



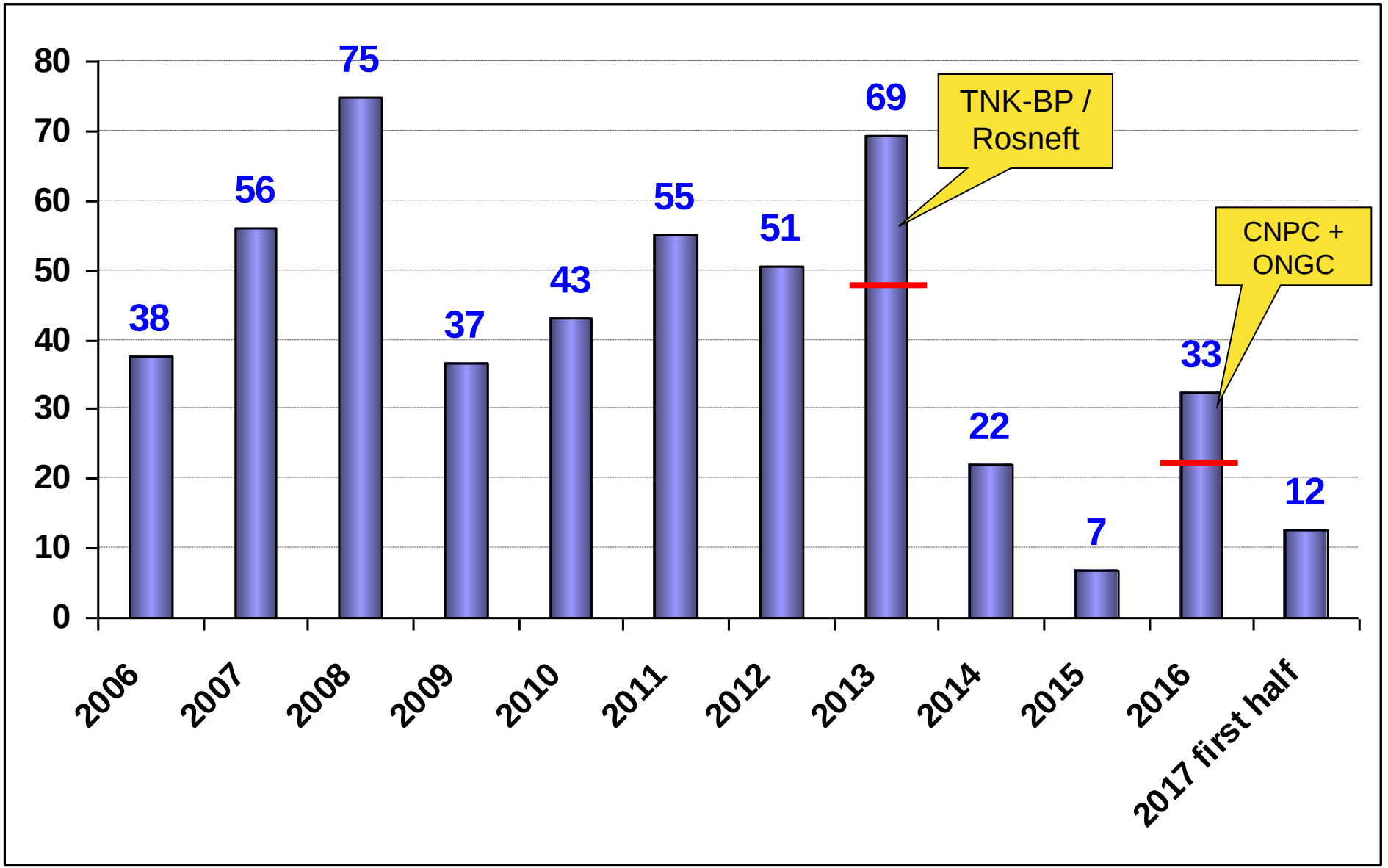
State policy priorities do not provide development

Total spendings (federal, regional, municipal budgets and off-budget funds), % to GDP



Huge drop of direct foreign investment

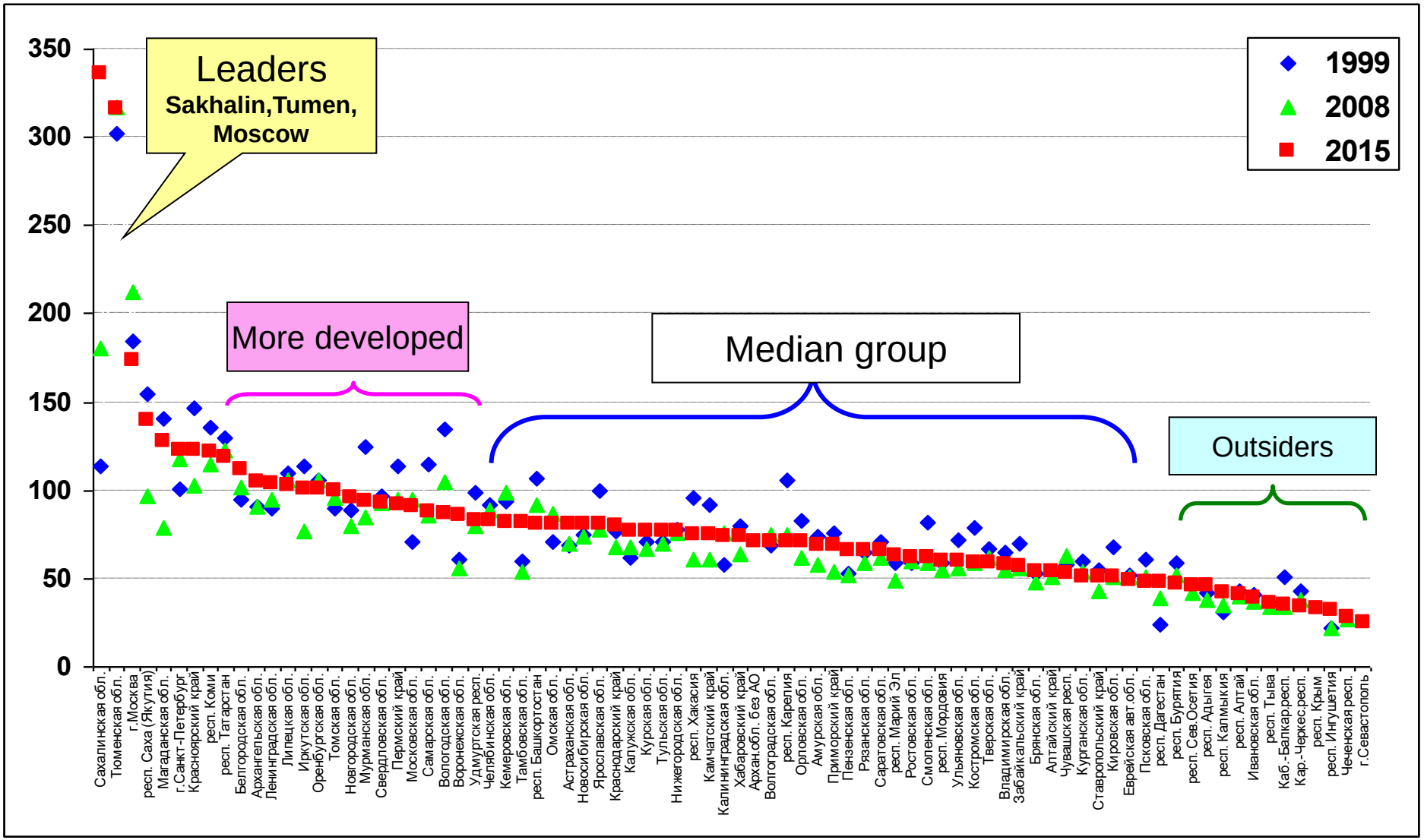
Direct foreign Investment $ bln



There are few developed regions in Russia

Dominance of semi-developed regions (2/3 of Russian regions)

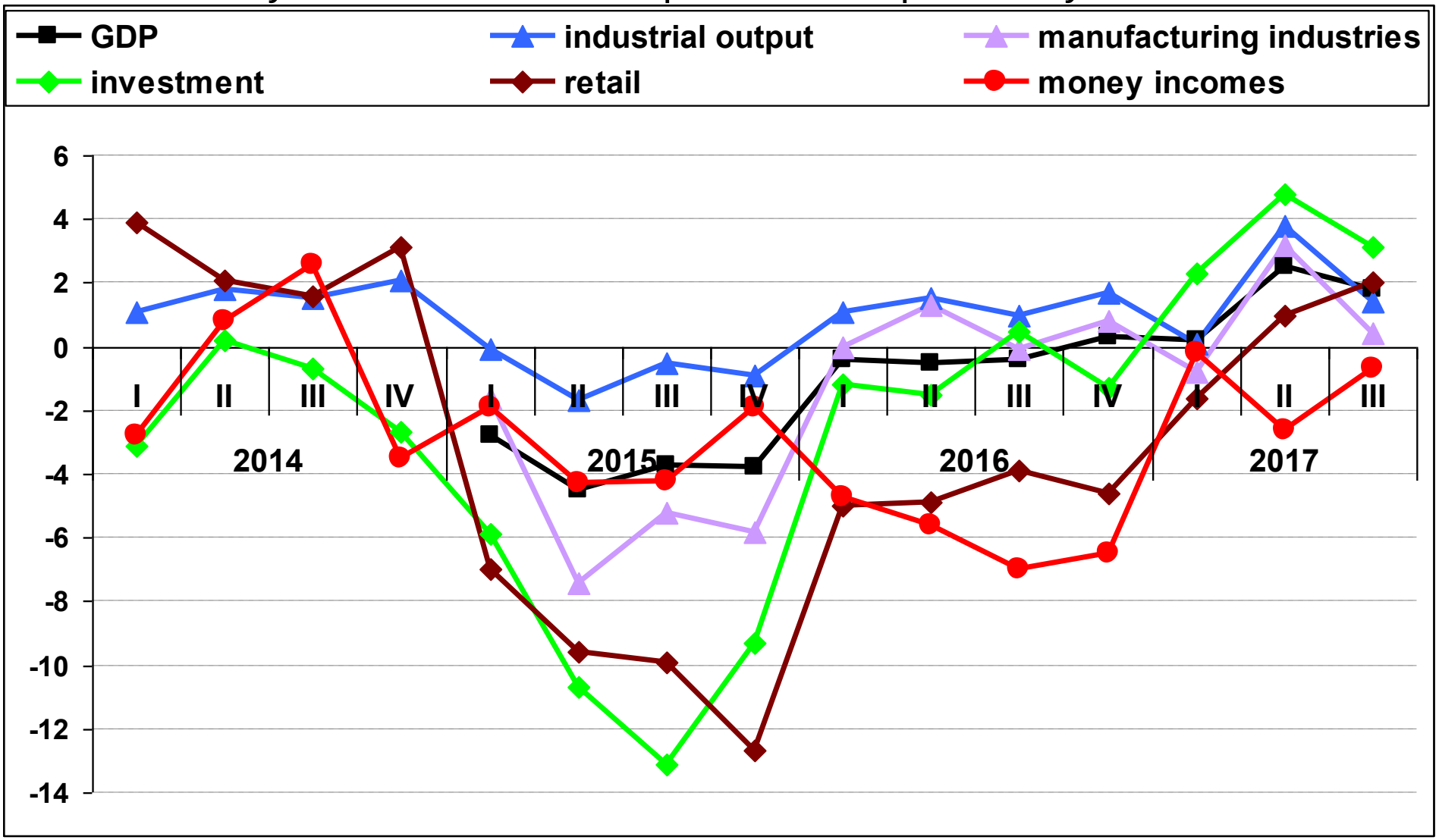
GRP per capita (adjusted for prices differentiation),% to Russia average



The new crisis socio-economic trends

Decline was rather slow and gradually turned into stagnation exepting population real money incomes

Dynamics to the same quarter of the previous year, %



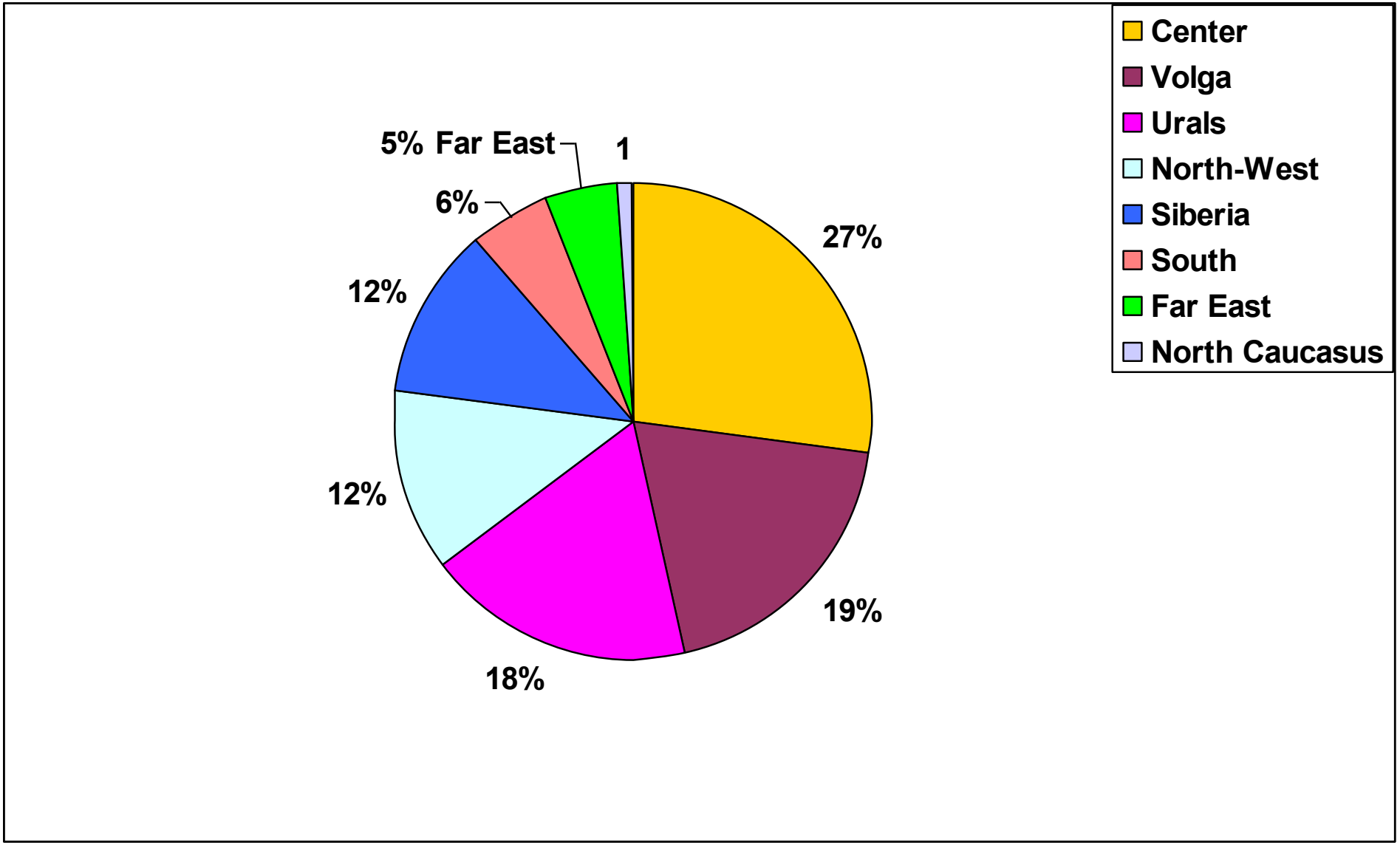
The main problems of the new crisis

- Regional and federal **budgets destabilization**. Federal budget revenues strongly depend on oil prices unlike regional ones
- **Investment drop** from 2013 till the second (-12%)
- Real **money incomes declain** from the end of 2014 till now (-12%) and **consumption drop** (-15%) till first quarter of 2017

There is no "turn to the East" in the industrial development

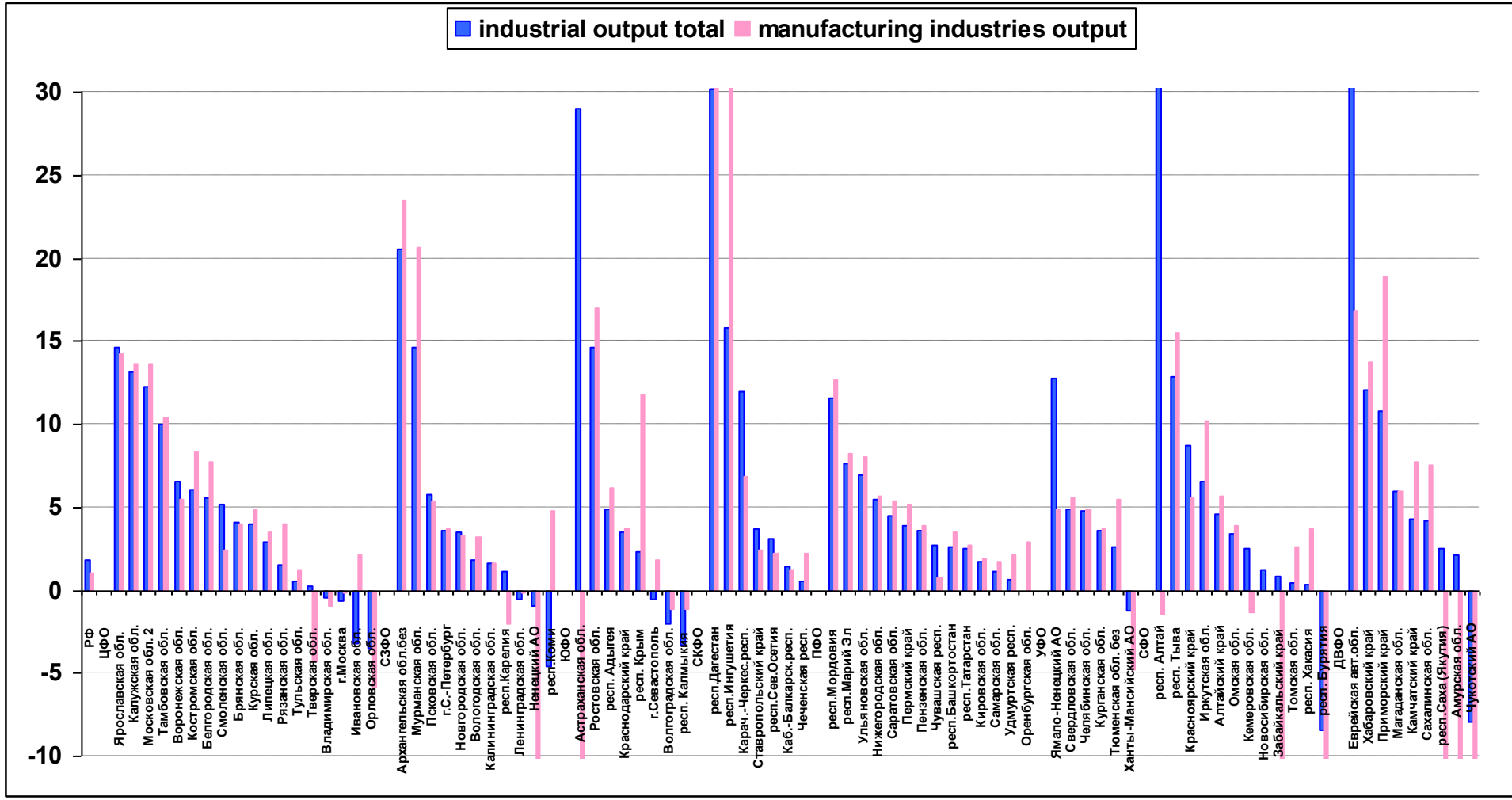
Far East industrial output – 5% of Russia total, population share - 4,5%

Share of federal districts in the total Russia's industrial output 2016 г., %



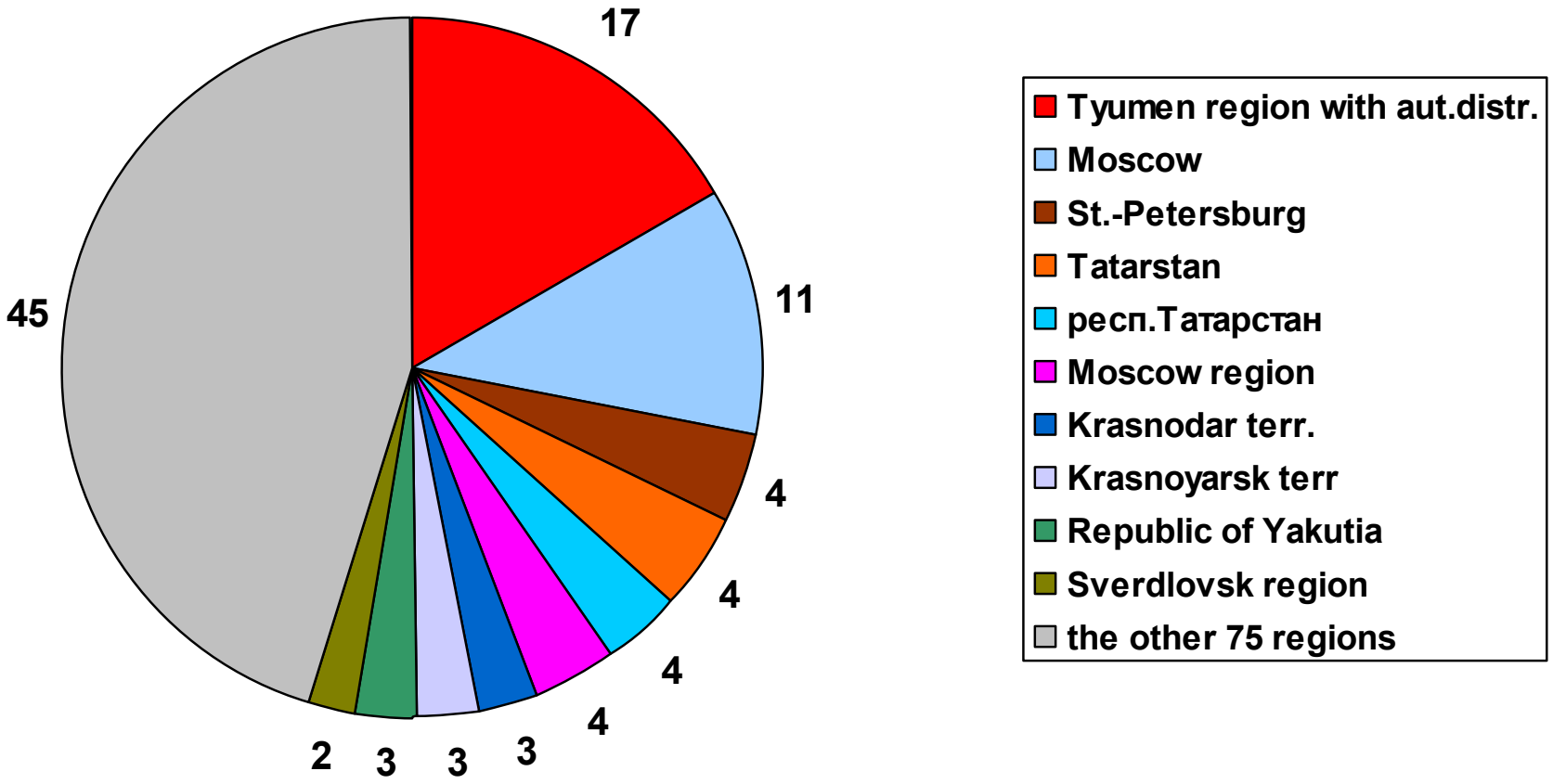
Industrial output drop in 2015 has been replaced by slow growth in 2016-2017 nearly in the all regions

Regions industrial output dynamics Jan-Oct 2017, % (Russia total +0,9%)



Investment spatial share. Competitive advantages are the main factors. The share of Far East – only 7,5%

Regions share in the total investment in Russia (Jan-Sept 2017), %



Investment drop -12% (2016 to 2013)

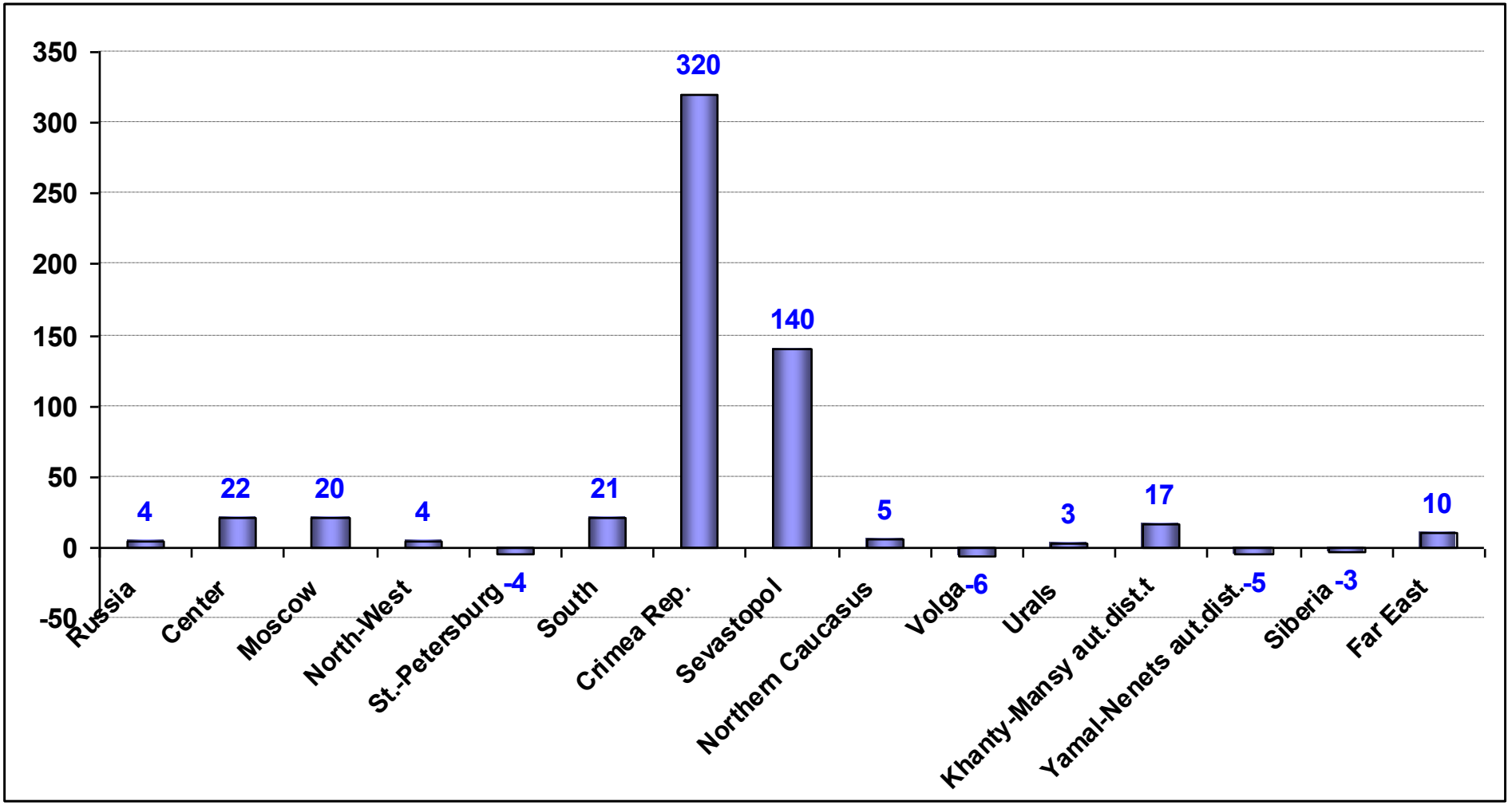
Leaders are the biggest agglomerations and the main oil&gas extracting regions

	Dynamics,%		Share %		Dynamics,%		Share %
	2016 to 2013	2016 to 2015	2016		2016 to 2013	2016 to 2015	2016
Russia total	**-11,7**	**-0,9**	**100**	***North-West Federal Dist.***	**-9,0**	**8,3**	**11,3**
Center Federal District	**-5,6**	**-1,3**	**25,9**	St-Petersburg	**1,8**	**12,4**	**4,0**
Moscow	**2,4**	**0,7**	**11,6**	Leningrad region	**-19,1**	**11,6**	**1,8**
Moscow region	**-14,5**	**-2,8**	**4,3**	Komi Republic	**-12,8**	**12,8**	**1,4**
Voronezh region	**8,4**	**0,1**	**1,9**	***Siberia Federal District***	**-23,2**	**-4,2**	**9,6**
Urals Federal District	**5,5**	**8,8**	**18,7**	Krasnoyarsk territory	**-15,0**	**0,9**	**2,9**
Yamal-Nenets aut.district	**20,0**	**22,5**	**7,5**	Irkutsk region	**-4,4**	**17,5**	**1,8**
Khanty-Mansy aut.district	**4,9**	**2,6**	**5,5**	Kemerovo region	**-43,0**	**-13,4**	**1,1**
Sverdlovsk region	**-20,0**	**-8,9**	**2,4**	Novosibirsk region	**-44,2**	**-18,9**	**1,0**
Tyumen region	**1,7**	**14,5**	**1,8**	***South Federal District***	**-42,9**	**-16,4**	**7,6**
Chelyabinsk region	**-29,4**	**-15,3**	**1,3**	Krasnodar territory	**-62,6**	**-29,3**	**2,9**
Volga Federal District	**-15,6**	**-7,7**	**16,6**	Rostov region	**-12,7**	**-12,2**	**2,0**
Tatarstan Republic	**0,0**	**0,0**	**4,4**	Volgograd region	**4,5**	**-9,1**	**1,2**
Bashkortostan Republic	**8,7**	**4,2**	**2,5**	***Far East Federal District***	**-11,1**	**-2,9**	**6,7**
Samara region	**-27,2**	**-21,7**	**1,8**	Yakutia Republic	**32,3**	**28,8**	**1,9**
Perm territory	**-27,1**	**-3,3**	**1,6**	**Sakhalin region**	**-5,8**	**-18,8**	**1,7**
Nizhny Novgorod region	**-38,6**	**-14,2**	**1,5**	***North Caucasus Fed.Dist.***	**-2,0**	**-3,7**	**3,3**

Russia's autorities & business priorities

Crimea is the leader (share of budget investment - 80-85%)

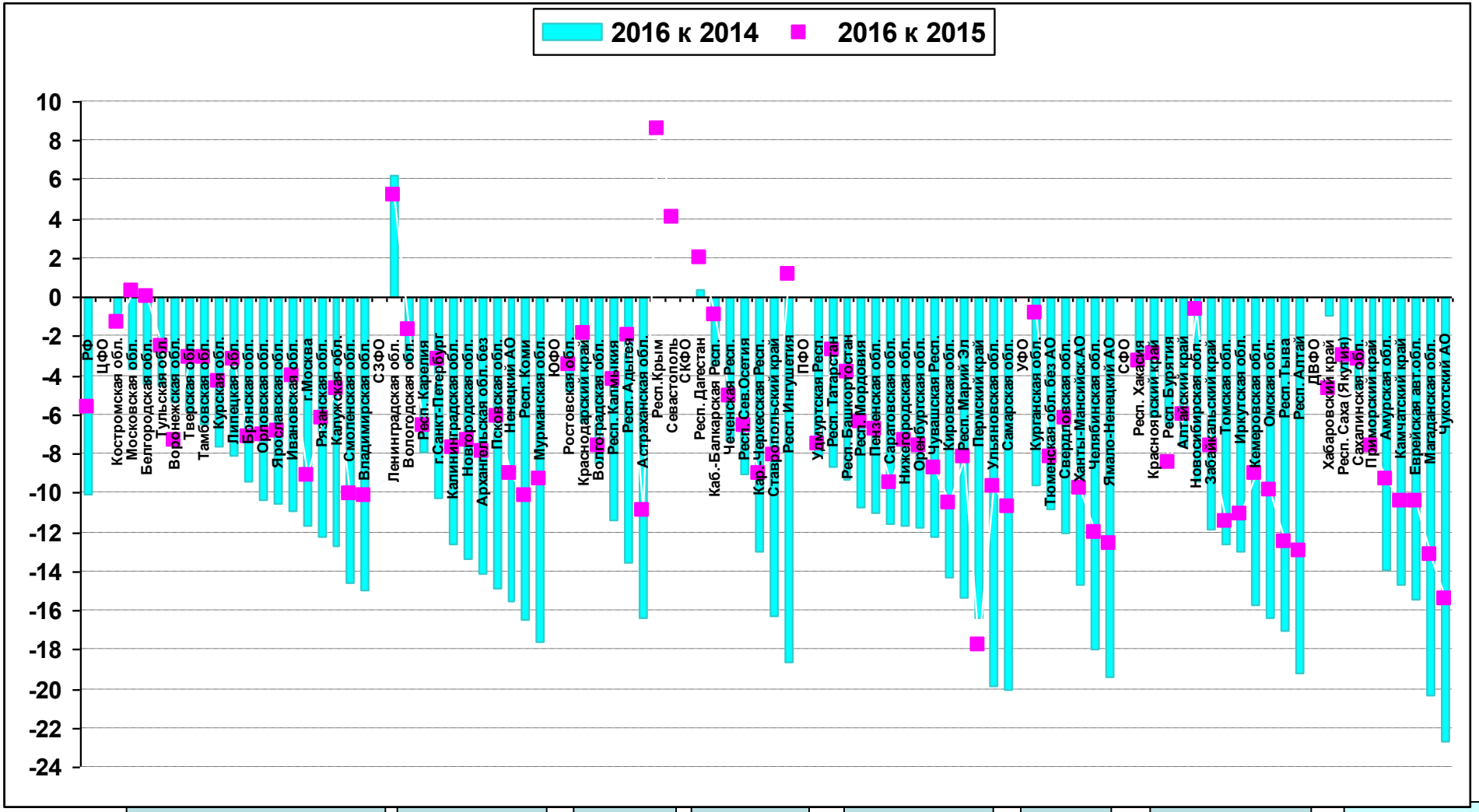
Investment growth in Jan-Sept 2017, % to 2016



Money incomes dynamics:
2015 -4,1%, 2016 -5,6%, Jan-Sep 2017 -0,8%

Slowdown to 2010 level is painfull for population but not extremely

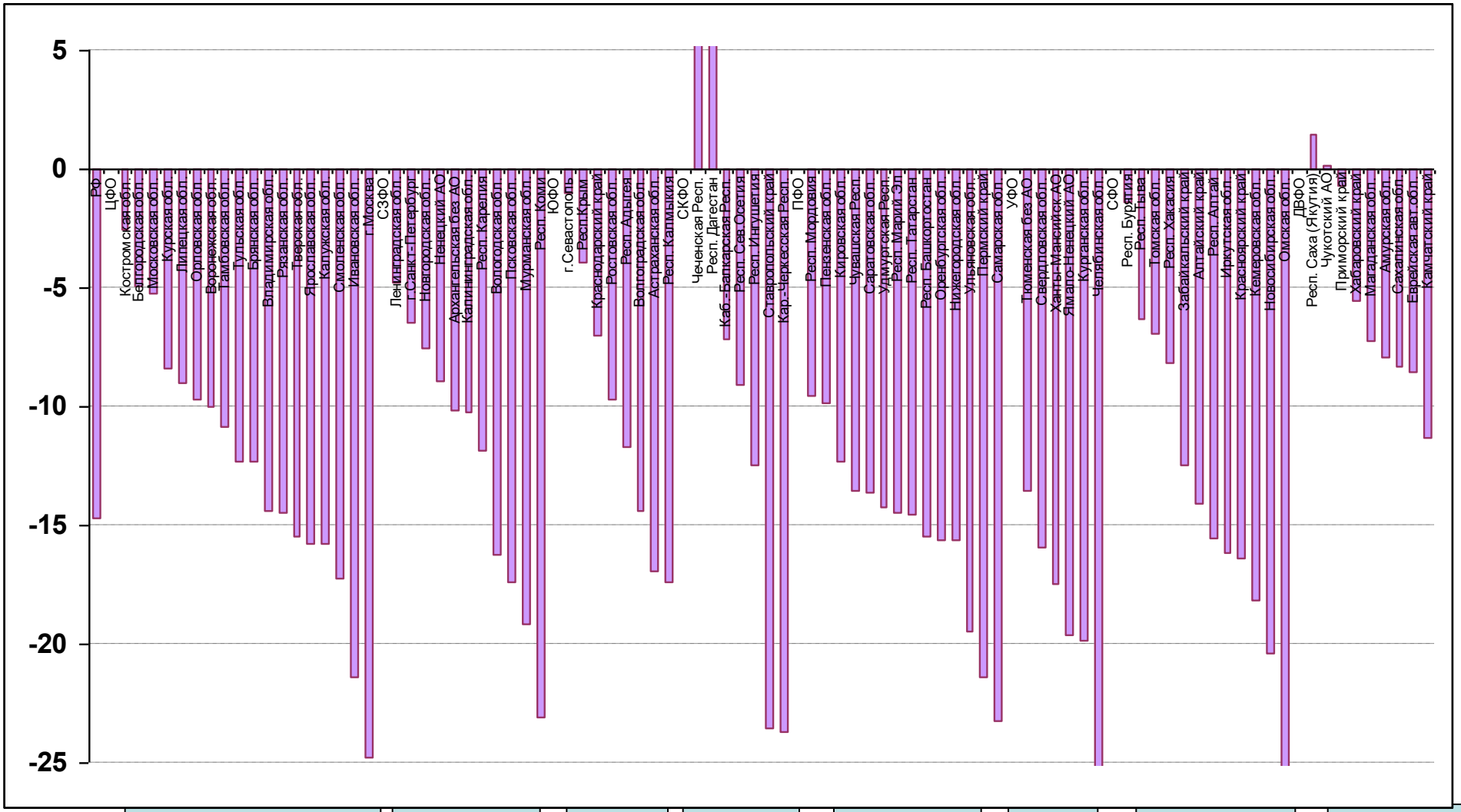
Real money incomes dynamics, %



Huge retail (consumption) declain till 2017

2015 -10%, 2016 -5%, Jan-Oct 2017 +0,8%

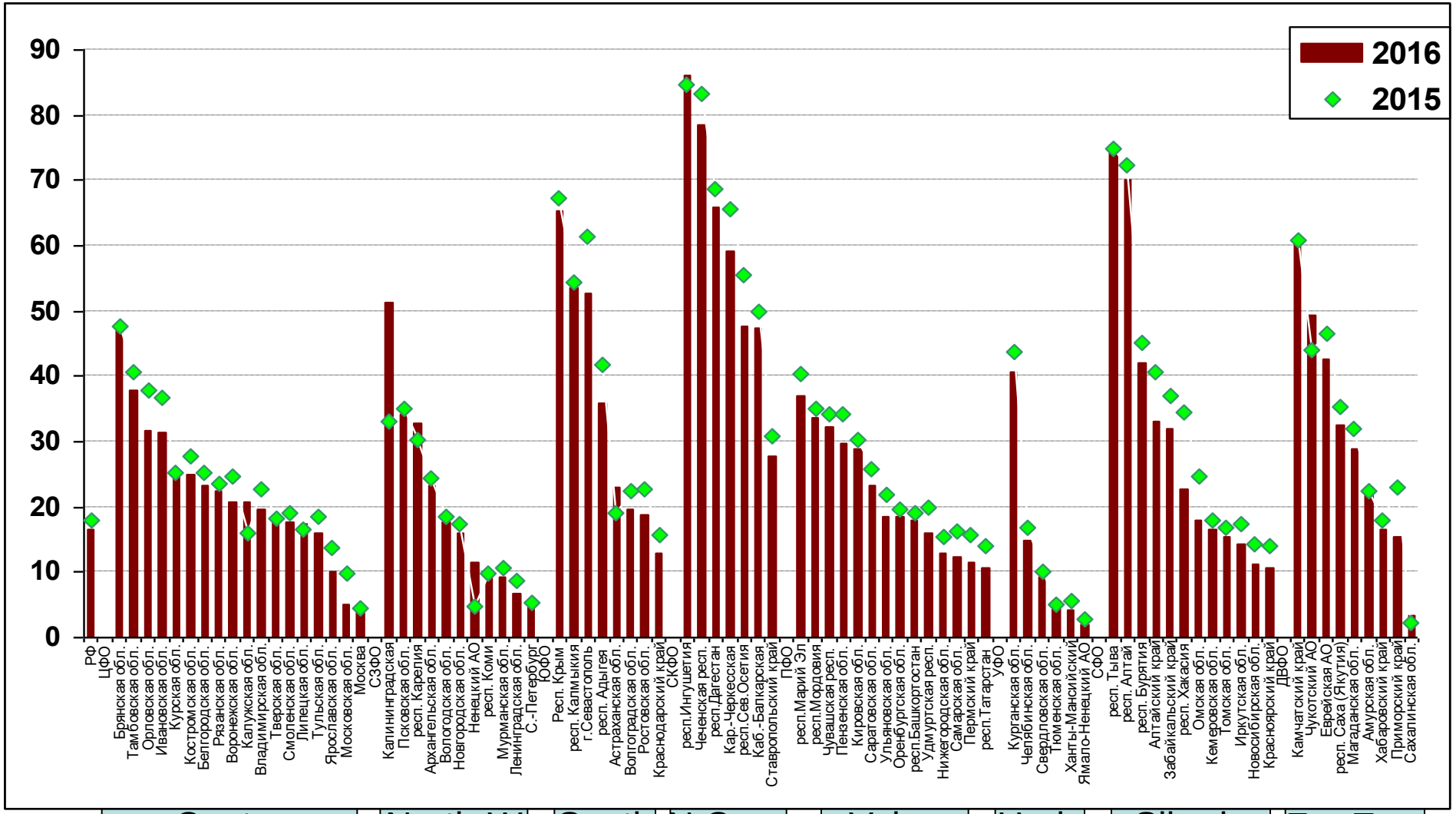
Retail dynamics 2016 to 2014, %



Inter-budgetary relations keep regions under federal control

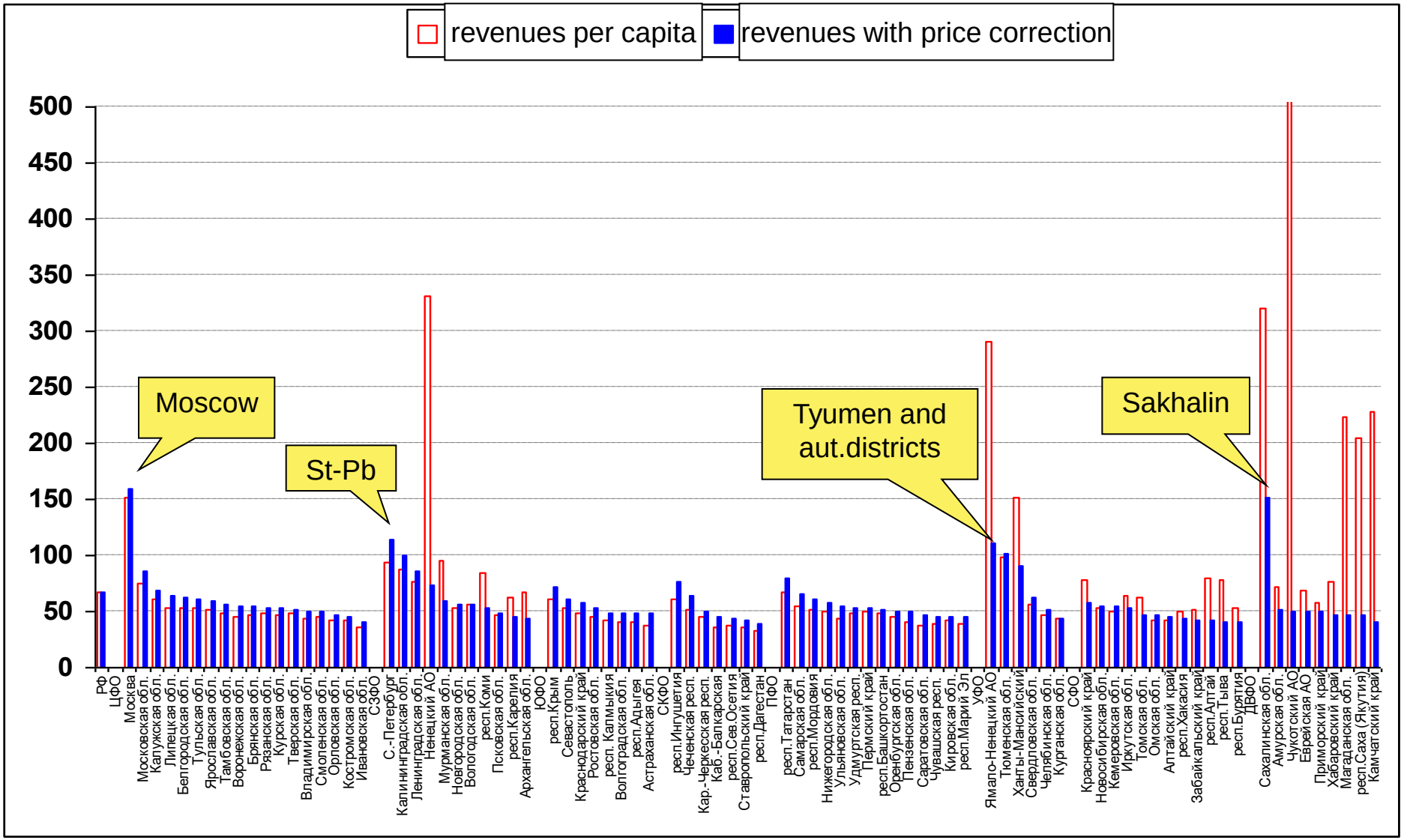
Nearly half of the regions stronly depend on federal budget transfers

Tansfers share in region's budget revenues, %



There are only 6 regions with the big per capita budget revenues allowing spend money for the regional economy's support

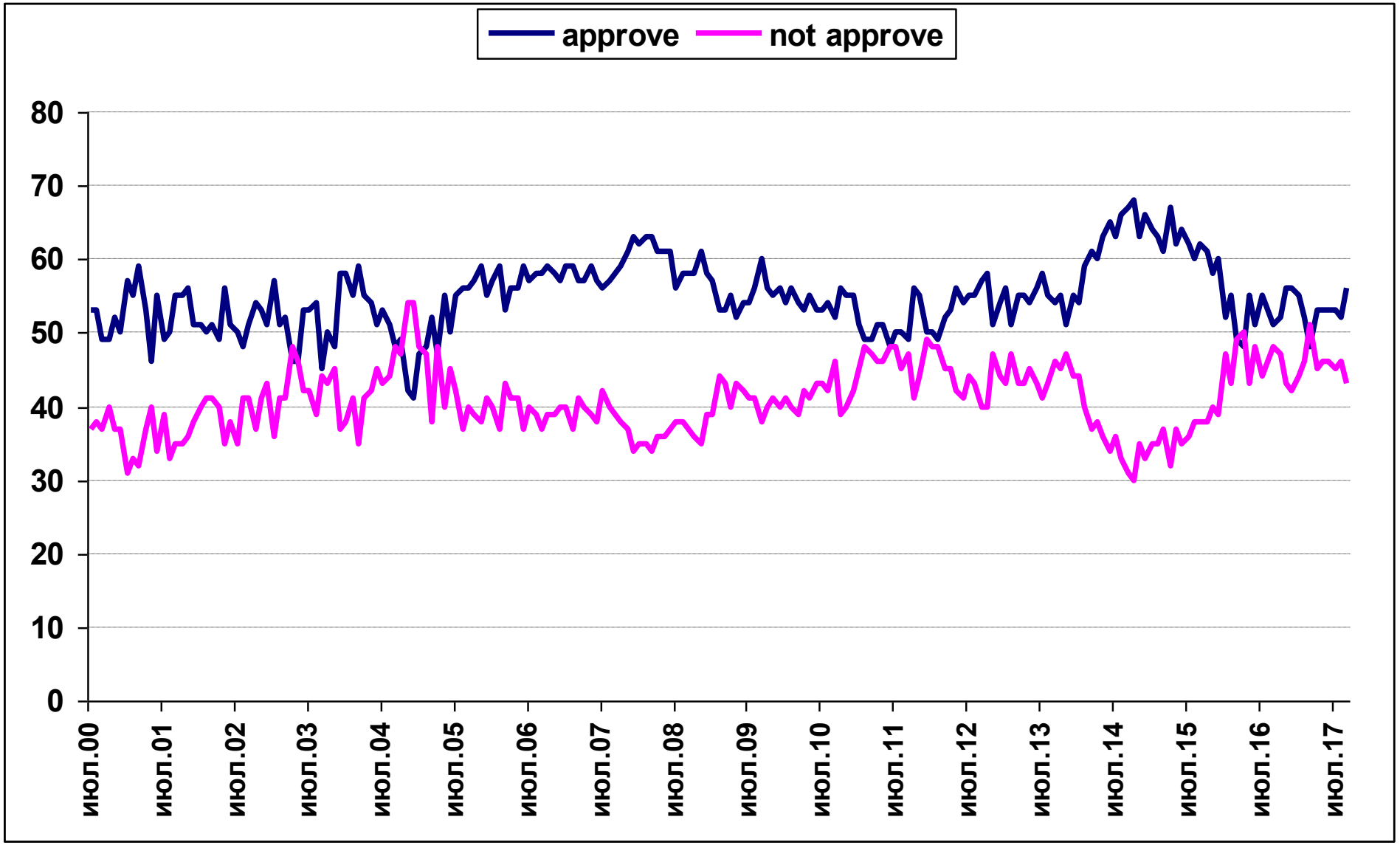
Budget revenues per capita after transfers redistribution in 2016 (thous.rub.)



Can regional authorities govern with population support? No!

Attitude to governors is nearly 50:50

Levada center opinion polls, %



Conclusion

- The biggest problems for all Russian regions are the drop of population in the working ages, real money incomes and consumpion decline and nearly total and deep investment reduction
- Priorities of the state spatial development policy (Far East, Nortern Caucasus and Crimea) are implemented in transfers and federal budget investment but have weak effect on spatial development
- Only a few the most rich regions have big enough budget resources to support economic development
- Business climate influences regional development much more weaker compared with objective competitive advantages
- Regional development forecast is obvious – federal cities and the main oil&gas extracting regions will grow faster. Spatial inequality will grow due to the shrinking oil rent .