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## [The Kremlin's Lack of New Year's Resolutions](#)



The year 2017 ended unexpectedly in one respect: There are hardly any reassuring promises from the Russian authorities. That is an odd omission considering there is a presidential election looming. When running for his third term in 2012, Putin published seven policy essays, two of which focused on the economy. On 7 May 2012, Putin signed the so-called 'May decrees'. In brief, in the 'ideological' department, Russians were given a promise of a balanced economy, not heavily reliant on global oil price fluctuations, as well as state support for infrastructure; government would take a light touch approach with the economy, withdrawing as much as possible from non-monopolised sectors. On a 'social' horizon, promises focused on elevating real income and pensions. For instance, the authorities pledged wage increases in real terms throughout the country by a factor of 1.4-1.5 by 2018; the salaries of medical workers and university teachers were to be doubled vis a vis the regional average, while school teachers' salaries were to reach the average remuneration level for their respective regions.

Despite the 2018 elections approaching, there are no such promises in the offing. At the pre-election press conference on 14 December 2017, Putin merely [reported](#) on his track record, claiming that the May decrees were 'fulfilled in 94%'. However, it is unclear what exactly Putin took into account to arrive at this figure (perhaps the hundreds of instructions given to ministries). However, the wages in the public sector have not reached those promised levels yet. In 2012-2017, the real pay actually [fell](#) by more than 5%, with the real income in the country shrinking by more than 10%. The planned increase in doctors' and academics' salaries [has not been achieved](#), and teachers' salaries have not matched the regional average, either. A simple example: even in Moscow, where life is prosperous, a physician's salary in the third quarter of 2017 was [90,752 roubles](#), while the average pay for the region stood at 91,815 roubles. In other words, doctors' salaries are just below the regional average instead of being twice as high.

### **Layoffs and statistical tricks**

Even this meagre growth was achieved through large-scale layoffs. For example, over 13 thousand physicians were dismissed in Moscow alone, which was [more than 10%](#) of the total. Statistical manipulations are another method of claiming the targets have been reached. One typical manipulation was that all benefits and extras were either cancelled or radically reduced while some 'basic' salary rather than the total income was allegedly increased. These manipulations were so vivid that they were [reported](#) even by the official pro-Putin organisation 'All-Russian People's Front' (Obshherossiyskiy Narodnyi Front) which, of course, mentioned certain extreme cases in specific locations. In the overwhelming majority of the regions, the proportions are even worse than in Moscow (and it is important to bear in mind that the main costs associated with the upkeep of schools and hospitals are covered from regional budgets). A radical deterioration of the quality of Russia's statistics is a separate yet little-known [problem](#): the statistical error has reached 1.5-2% of GDP, which is the level of anticipated economic growth for the coming years.

In his answers, Putin compares statistical figures with the distant year 2000 rather than the beginning of his most recent six-year term. He recalls that GDP has risen by 75% since 2000 (however, in 2003, Putin [promised](#) to double this rate within a decade) while industrial output has risen by 60%, the real earnings and pensions have grown 3.5 times, etc. These figures are close to official statistics. However, if we [look](#) at the growth rate in salaries and retirement pensions, we will see that vigorous growth (by 10-20% per annum) was recorded

only until 2007, and then was replaced by stagnation, followed by a declining trend since 2014. Moreover, the prices of oil, oil products and gas, which are the backbone of Russia's budget revenues, remained consistently high until 2014 (during 2000–2002, when the growth dynamics were higher, those prices were under USD 30 per barrel, which means that despite the skyrocketing oil prices in 2004–2007, Russian citizens' incomes grew ever more slowly).

On the eve of these new elections, Putin has prepared surprisingly few 'gifts' for his fellow citizens. For instance, a partial tax amnesty has been announced, covering part of the tax debt of individual entrepreneurs (in terms of individual property taxes, which are traditionally low in Russia) and social security payments paid by individual entrepreneurs. According to Putin, this move would apply to 'some 42 million people, if my memory serves me correctly.' However, if we divide the total amount of this debt — i.e. 41 billion roubles — we will arrive at merely about a thousand roubles per person.

## **Rewarding motherhood**

The most generous gift has been offered to mothers: the 'maternity capital' programme is being prolonged (approximately 450 thousand roubles per person for those who gave birth or have adopted a second child or more). A monthly allowance of 10.5 thousand roubles until the baby reaches 18 months is being introduced for citizens whose household income does not exceed 1.5 times their regional subsistence level. This will cost about 50 billion roubles a year: About the same amount could be mobilised by the budget by simply forcing Gazprom to pay 50% of dividends under the IFRS. However, when talking about demographic successes, Putin forgot to say that the birth rate has been falling steadily since 2015, and since 2016 the mortality rate has consistently outnumbered the birth rate.

Instead, Putin did not hesitate to mention the unpleasant things that any Russian citizen might expect, for example, a further increase in the retirement age (which had already been increased by five years for public officials). In 2012, Putin claimed that he was strongly against such a solution. Now, however, he vaguely says that everything must be carefully weighed and discussed.

During his yearly press conference, Putin agreed with a journalist who was outraged that tax increases in Russia were being concealed by using invented labels for new taxes. For example, the [fuel excise tax](#) that affects the entire economy has risen year after year: in 2018 alone it will go up by more than 10%. At the same time, the 2015 moratorium on the growth of the tax burden expires in 2018 (and the moratorium has not been observed anyway because new 'non-tax' payments were introduced).

Contrary to stereotypes, the tax burden in Russia is already high: [47.4%](#), i.e. higher than in the USA and in most EU countries. A week later, at the congress of 'United Russia' (Yedinaya Rossiya), Putin's thinking was openly [taken further](#) by the Minister of Economy Maxim Oreshkin, who mentioned the need to 'shift the tax burden from investment activity to consumer activity'. The Russian government is also discussing a possible increase in VAT, coupled with a cancellation of preferential VAT rates and an increase in social contributions, as well as the introduction of a sales tax in addition to VAT. All this is logical: as I [wrote](#) previously, the planned budget deficit for three years alone amounts to 6.5 trillion roubles (including the new borrowings), which significantly exceeds the existing reserve funds. At the same time, the authorities are not going to cut spending (in terms of GDP, expenditures will somewhat decrease versus the 2017 figures, but this figure has actually risen in recent years).

Sometimes Putin speaks like an external commentator, not like the head of state. For example, he expressed a detached surprise that the annual increase in utility prices regulated by his government was 8.8% rather than 4%. As in the case of real income, he had promised exactly the opposite of what had happened: for example, he promised to increase the share of regional budgets, while 1% of the 20% of the tax on profits in 2017 was additionally transferred from regional budgets to the federal budget, and the proportion of fuel excise tax transferred to the federal budget was also increased.

The security and viability of doing business in Russia is perhaps as important as taxes, if not more so. Over the past year, the number of criminal cases against entrepreneurs rose by 40% (reaching 244 thousand), the number of pre-trial detentions rose by 67% and yet 80% of such cases are normally not even sent to court. These official [data](#) were provided by the Commissioner for Entrepreneurs' Rights, Boris Titov. When

commenting on this situation, Putin directly explained that he could not do anything: While some criminals in the police were being caught, new ones were emerging, and the only thing that Putin could think of and submit for discussion was the idea to step up the regional rotation of police officers. Amendments to the criminal law or a more humane approach are not an option for the current authorities.

The view of business as a target for extortions has been set by Putin himself. In 2017, the market was shocked by the [scandalous case](#) of Rosneft vs. AFK Sistema. At the end of the year, Putin graciously [authorised](#) an amicable agreement between the two companies under which Yevtushenkov's corporation owes 100 billion roubles (about USD 1.5 billion) to Rosneft, a state-controlled giant. Unlike in the Yukos case, Yevtushenkov was not involved in politics but, as the Russian comedian Krylov remarked, he was to blame for the fact that some people wanted to ensure their livelihood.

## Capital Outflows

Putin claims that investments in Russia have been on the rise. However, the outflow of capital has also intensified and the Russian economy resembles a leaky bucket; pouring more water in seems useless. In 2000-2007, when the economy grew by 5-8% annually, there was a serious influx of foreign investments and returning capital previously withdrawn from Russia. In 2007, the net inflow of capital reached USD 82 billion, and companies carried out IPOs worth USD 42 billion. Since 2009, however, Russia has seen a continuous net outflow of capital: in 2014-2016, the value of IPOs related to Russia did not exceed USD 1 billion annually. At the same time, the net outflow of capital has only intensified: from USD 15 billion in 2016 to USD 28 billion in January to November 2017, despite the rising oil prices and no geopolitical disasters in 2017. Therefore, any further possible growth in oil prices will not ensure any breakthroughs for the Russian economy, especially given that all extra budget revenues tend to be devoured by the defence industry.

Recently, the pro-government radio station 'Govorit Moskva' held a debate on the economic outcomes of the year: when the radio host asked the final question about people's personal financial prospects for the new year, 92% of listeners [answered](#) that they anticipated a deterioration of their own financial situation. This clearly suggests that the economy continues to be an extremely vulnerable topic even for the official propaganda, especially since Putin, in all his self-confidence, does not improve the lives of the majority of voters and is not even resolving to do so.

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