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Determinants of Russian regions inflation rate deviation from average of the whole country

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ABSTRACT

In this paper we determine the factors that have a significant impact on the deviation of regional inflation from the average Russian inflation rate, using the methods of panel data analysis with fixed individual effects (77 regions during 2000-2016). The results show that a significant effect on regional inflation deviation from average Russian inflation between periods was provided by: 1) convergence of regional prices (if the price level in the region is lower than in the whole country, then the rate of inflation in the following periods will be higher, until prices equal), 2) growth rate of income (if wage growth rate in the region is higher than in the whole country, then the rate of inflation in the following periods will be higher), 3) changes of the structure of the regional economy (if the share of services in gross regional product will increase between periods compared with average Russian one's, then regional inflation rate will deviate in positive direction), 4) changes of the regional population age structure (if the share of old people in region will increase between periods compared with average Russian one's, then regional inflation rate will deviate in negative direction). The results can be applied for forecasting regional inflation deviation from the average Russian inflation in response to the measures of economic policy, as well as modeling the consequences of the single monetary policy of the Bank of Russia for regional economies.

KEYWORDS Regional Inflation; Russian Regions; Fixed Individual Effects Model

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