



MONITORING OF RUSSIA'S ECONOMIC OUTLOOK:

TRENDS AND CHALLENGES OF SOCIO-ECONOMIC DEVELOPMENT

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Monitoring of Russia's Economic Outlook

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TRENDS AND CHALLENGES OF SOCIO-ECONOMIC DEVELOPMENT

Attention is being increasingly focused on national projects as economic policy tools. Russia's Prime Minister Dmitry Medvedev met in May with the country's expert community to discuss techniques designed to achieve national goals. He pointed to the ongoing debate as to whether priorities are sorted out in the right way, however, he said that the position is that we need to achieve some results, get into full swing and then assess whether the developed (and approved, as he stressed) proportions of finance meet – or fail to meet – the goals of national projects and the national goals¹.


Our experts point to the need for ongoing monitoring of national projects, clarifying details and, as appropriate, making adjustments to specific lines of activities. In particular, a national project called “Ecology”, which comprises 11 federal programs, is acquiring particular importance due to primarily its high profile arising from municipal solid waste (MSW) management issues. The experts highlight factors that hamper full implementation of the reform: a MSW management reform has been postponed in 15 regions until 1 January 2020; the mechanism of collection, storage and transportation of valuable recyclable materials is poorly worked out; most of Russia's regions lack a local mandatory separate MSW accumulation and collection scheme. The issue of municipal solid waste management reform often leads to discontent and distrust with bodies of power, which, according to our experts, can somehow hamper the implementation of “Ecology” national project. A waste management reform has nonetheless been launched in 70 regions of Russia, and the elimination of accumulated environmental damage assets is underway as part of a FP called “Clean Country”.

The Q1'19 industrial production dynamics monitoring shows some growth in the Russian manufacturing sector. The sector was stagnant in late 2018; state-supported industries and industries that profited from a good global trend were on the rise. The 2019 growth in the manufacturing sector is not exactly in line with the previous year's dynamics as well as the downturn in the wholesale and retail trade and stagnating freight turnover and construction sectors. Experts from the Gaidar Institute note near-zero growth rates in the extracting sector due to an extension of the OPEC+ output cut agreement and an abnormally warm weather in Europe yearly in this year (which affects the natural gas production) and coal export cuts.

Data from Gaidar Institute's business surveys suggest that the Russian industry has adequate production capacities. More than 90% producers have enough production capacities to be able to meet their production needs (or even more than enough production capacities to meet the demand they expect). Geographically, Russian enterprises' equipment purchase plans for 2019 that were disclosed during a recent business survey suggest that domestic producers are becoming more and more key suppliers of equipment for the Russian industry.

1 URL: <http://government.ru/news/36625/> (In Russian).

However, West European producers rank on the top of their preferred equipment suppliers list. The overwhelming majority of Russian enterprises (85%) said the quality of imported equipment is higher than that of equipment manufactured by Russia and CIS countries. However, 84% enterprises commented that prices of imported equipment are higher than that of domestically manufactured equipment.

Imports of services increased 6.6% in 2018 and halted in Q4 2018 because, in our experts' view, of primarily the rouble exchange rate dynamics. Russian exports of services in 2018 increased 12.4%. That was a dynamic enough growth rate representing a recovery growth. According to our authors' estimates, there is a probability that upbeat dynamics will slow down considerably once reaching pre-crisis volumes. Only 4 out of 12 commodity groups have so far surpassed the 2013 level. Overall, the dynamics and the structure of Russian exports of services and goods is lagging behind European and global trends, particularly in terms of telecom and intellectual ownership exports. 

1. THE “ECOLOGY” NATIONAL PROJECT: MODEST STEPS TO IMPLEMENTATION

A.Avdonina

The first step to implementation of the “Ecology” national project lack purpose-oriented and system-based parameters. As seen from the implementation steps made late in 2018 and early in 2019, permanent monitoring and adjustment of the policy in respect of the key federal projects are required.

The “Ecology” national project whose passport was approved late in 2018 was developed within the frameworks of implementation of the May Decree of the President of the Russian Federation. At present, it includes 11 federal projects.

Federal projects (FP) which are meant to solve waste-related problems are of particular public interest, for example, the “Clean Country” federal project and the “Comprehensive System of Municipal Solid Waste Management” federal project. Late in 2018 and early in 2019, large-scale changes took place in this sector. The positive points include the following:

- The start of the waste treatment reforms in 70 regions of the Russian Federation;
- Inclusion of the index of “the quality of the environment” in the list of indicators meant for assessment of the efficiency of work of high-ranking officials of constituent entities of the Russian Federation¹;
- Continuation of the liquidation of sites of accumulated ecological damage within the framework of the “Clean Country” federal project;
- Continuation of the liquidation of unauthorized landfill sites;
- Organization of the monitoring by the Accounts Chamber of the Russian Federation of the indicators of the *Ecology* national project;
- Organization of the public monitoring and comprehensive audit of the waste treatment industry (the Public Chamber of the Russian Federation and the All-Russian People’s Front);
- Preservation of the right of self-realization of the expanded responsibility of manufacturers and importers in the sector of municipal solid waste (MSW), despite the initiative of the Ministry of Finance of the Russian Federation to transfer ecological dues to the Tax Code.

Among the factors, which slow down the full-scale implementation of the reform are the following:

- Postponement of the waste treatment reform in 15 regions to 1 January 2020;
- Insufficient development of the mechanism of collection, storage and transportation of valuable recoverable resources;
- Lack of the mandatory separate accumulation and collection of municipal solid waste in territorial schemes of most regions of the Russian Federation.

According to the government’s sociological surveys, every other resident of the Russian Federation is satisfied with collection and removal of waste. The

1 <http://www.kremlin.ru/acts/assignments/orders/59450>

largest share of such individuals is registered in the Privolzhsky Federal District and the Urals Federal District. At the same time, the start of the MSW treatment reform in numerous regions (the Arkhangelsk Region, the Tyumen Region and other) was accompanied by standoffs and protests.

The transfer of MSW from Moscow and the Moscow Region to regions where there is no waste-treatment infrastructure or own MSW landfill sites are nearly packed out (the Vladimir Region, the Yaroslavl Region and other) causes much concern. Such facts give rise to social tensions, protests and distrust in the authorities and virtually all the decisions taken in that sector. It eventually may result in a situation where the authorities' activities as regards waste management, building of infrastructure facilities and networking with investors may be blocked and, consequently, the implementation of the *Ecology* national project can be hindered.

Within the framework of the "Clean Air" federal project, a comprehensive plan of actions to reduce emissions of pollutants into the atmospheric air in large industrial centers was approved. In addition, the regulatory base for the establishment of the system of automated control over emissions and discharges of pollutants continued to be formed¹.

The legislatively approved reduction of the norms of the maximum admissible concentration of pollutants, particularly, methylmercaptan in the atmospheric air of urban and rural settlements is of serious concern. Such actions step up risks of artificial upgrading of the statistics with previous emission volumes in place.

As regards the "Preservation of Biological Variety and Development of Ecological Tourism" federal project and the "Preservation of Forests" federal project, the favorable changes for preservation of forests include the approval of the mechanism of establishment of projects of national forest heritage and allocation of funding to increase the frequency of aerial surveillance of forests (an increase of Rb 1.4bn). An increase in the number of forest rangers (by 1,000 persons) is undoubtedly an important decision, however, it is not enough to revive the institute of forest service; this objective requires more substantial HR boosting on a regular basis.

Unfortunately, for the purpose of biological variety monitoring the "Ecology" federal Project does not include any target indicators (the indicators of the number of types and their numerical strength, as well as the index of bio variety earlier advised by experts were not included in the final version of the passport). So, it is infeasible to estimate the condition of eco systems and individual effective breeding populations in view of development of the eco tourism.

As regards implementation of the "Introduction of the Best Available Technologies" federal project, it is necessary to develop and introduce the instruments of motivation of the switchover to such technologies, otherwise most indicators as regards all the lines of activities of the "Ecology" national project are highly unlikely to be achieved.

As regards the "Clean Water" federal project, the "Revitalizing of the Volga River" federal project, the "Preservation of the Lake of Baikal" federal project and the "Preservation of Unique Water Bodies" federal project, it is quite complicated to make estimates because of the lack of information. The infeasibility of assessment of the implementation of the "Infrastructure for Treatment of Wastes of Hazard Class I and Hazard Class II" federal project can be explained


¹ <http://docs.cntd.ru/document/553884118>

1. The “Ecology” National Project: Modest Steps to Implementation

by the fact that planned results are expected in the distant future (2023). As no official data for estimation of the fulfillment of target indicators of the “Ecology” federal project were published as of 1 May 2019, the analysis can only be based on indirect data and estimates by non-government organizations and the commercial sector.

Though the indicators of liquidation of unauthorized landfills can be formally achieved, the problem consists in emergence of new such sites because prevention thereof is feasible only in case of effective functioning of the waste management system as a whole.

There is concern that the indicator of the share of municipal solid waste sent to utilization in the overall volume of MSW will fail to be achieved because the system of mandatory separate accumulation and collection of waste has not been introduced.

Based on the results of 2019, it is feasible to achieve the indicators as regards the “Preservation of the Biological Variety and Development of Ecological Tourism” federal project, but that will not be the evidence of preservation of unique and endangered species and ecological systems as a whole. 

2. INDUSTRIAL PRODUCTION DYNAMICS IN Q1 2019: MANUFACTURING SECTOR ON THE RISE¹

A.Kaukin, E.Miller

Russia's manufacturing sector was stagnant in late 2018; both state-supported industries and industries that profited from a positive global trend were on the rise. Data for early 2019 show growth in most of the manufacturing industries. Barring some industries (e.g., food and chemical industries and metallurgy), this was not exactly in line with previous trends, the dynamics of fundamental factors, the downturn in the wholesale and retail trade and stagnating freight turnover and construction sectors.

The industrial production dynamics in 2018 was led by growth in the extractive sector driven by increased production of natural gas and coal, as well as overall stagnation in the manufacturing sector. However, some industries posted positive growth rates on the back of either positive global trends or government direct support².

Q1 2019 saw the Brent crude price increase substantially (by 25%) in the global market. The oil price rise was followed by appreciation of the Russian rouble, which could affect industries that are able to compete in the global market only at times when the rouble is relatively weak.

In addition, some amendments to the customs and tax regulations that can influence supply and demand in the industrial sector are in effect since 1 January 2019. First, measures were started to complete a so-called fiscal manoeuvre in the oil and petrochemical industries that was followed by wholesale price freeze on petrol until 1 July 2019, which, as well as production cutbacks, threatens to deteriorate the quality of refined petroleum products of domestic refineries³. Second, excise duty rates, particularly on petrol, were raised, which can potentially boost costs of shipping and storage of goods in the economy as a whole. Third, the VAT rate was raised from 18% to 20%, which can affect final consumer demand (for foods, motor vehicles, real estate, construction materials) through price rise.

Specialists from the Gaidar Institute have performed decomposition and extracted the trend component of output series on the basis of Rosstat's updated statistics for production sector indices. The results for the industrial production index, the mineral extraction index and the manufacturing production index are presented in *Fig. 1–3*.

According to the calculation data, the industrial production index in Q1 2019 shows slow growth similar to that in early 2018. However, the sources of growth in early 2018 differ from those in early 2019: the 2019 growth was driven solely by positive dynamics in the manufacturing sector amid a stagnating extracting sector, while volumes of production and distribution of electric power, gas and water were on a slow slide in the first three month of 2019.

1 The authors wish to thank M. Turutseva and T. Gorshkova for help with statistical analysis.

2 Kaukin A., Miller E. Industrial output in Q1 2018 // Russian Economic Developments. 2018. No.5. P. 35–38.

3 Zhemkova A.M., Idrisov G.I., Kaukin A.S., Miller E.M. Petroleum Products Price Freeze – a Halt on Fiscal Manoeuvre? // Russian Economic Developments. 2019. No.1. P. 31–35.

2. Industrial production dynamics in Q1 2019: Manufacturing sector on the rise

Near-zero growth rates in the extracting sector in Q1 2019 could be due to an extension of the OPEC+ output cut agreement, coupled with an abnormally warm weather in Europe yearly in this year (which affects the natural gas production) and coal export cuts.

It is interesting to note that the calculation results for the output trend component in manufacturing industries (*Table 1*) show positive dynamics in Q1 2019, although the above listed factors did not contributed to that. Some industries, however, did see factors of growth. In the food industry, positive dynamics could possibly be due to residual effects of the ongoing import substitution, in metallurgy, it was due to due to production growth in (engineering, vehicle manufacturing) industries that consume iron and steel products and lifted sanctions from Rusal, in the chemical industry, it was due to continuing investment in the construction of new production capacities¹.

The manufacture of pulp, paper and paperboard and the manufacture of electrical, electronic and optical equipment continued to slow (*Table 1*). The woodworking and manufacture of articles of wood was also on a slow slide in Q1 2019, although the industry posted growth throughout 2018, and a few major production sites were put into operation in the forestry complex during that year². Additionally, new projects in the industry are scheduled for launching in 2019, so some growth can be expected by the end of year.

Therefore, the analysis of industries' trend component dynamics has shown that the manufacturing sector was the biggest contributor to the Q1'19 growth. However, this is not exactly in line – despite a series of industry-related factors' positive dynamics – with the appreciation of the Russian rouble, state subsidy cuts in some industries³ and changes in the taxation system.

In addition, the manufacturing sector growth was followed by downturn in the wholesale and retail trade, near-zero growth rates in the freight turnover and construction sectors. With the absence of fundamental factors for positive dynamics in the manufacturing sector as a whole, the statistically registered growth could be due to either distortions in Rosstat's data collection and processing (which can be eliminated through subsequent recalculation and adjustments to statistical data), or the so-called “wagging tail” problem arising while extracting the trend component in the time series' last points. Follow-up observations will facilitate adjustment to and interpretation of Russian industrial sectors' output dynamics.

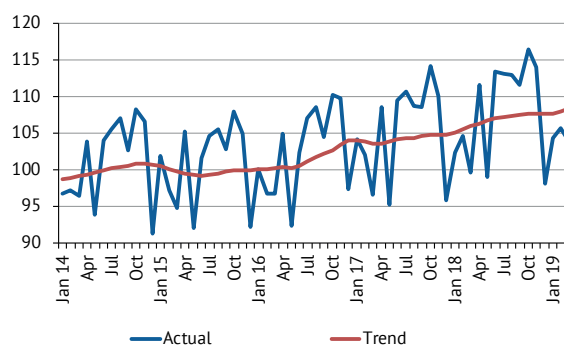
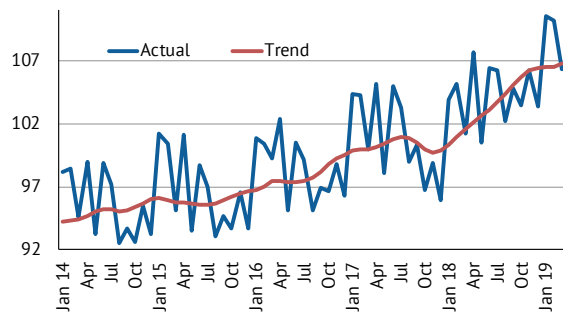


Fig. 1. Industrial production index dynamics, 2014–2019 (actual data and trend component), percent change relative to January 2016

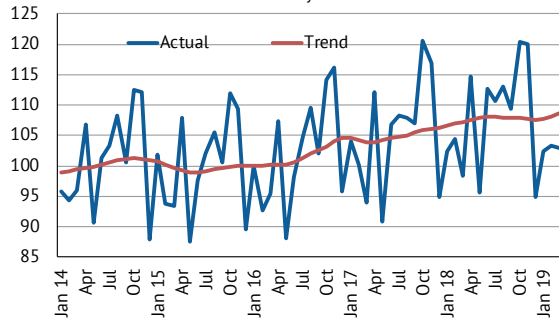
Sources: Rosstat, own calculations.

- 1 Dolzhenkov A., Mavrina L., Obukhova E. In a slow and sad motion // Expert Online. 25 March 2019. [<https://expert.ru/expert/2019/13/medlenno-i-pechalno/>]
- 2 Forestry Complex: The 2018 outturns and plans for 2019. Ministry of Industry and Trade's view // Proderevo. 17 April 2019. [<https://proderevo.net/analytics/main-analytics/lesopromyshlennyj-kompleks-itogi-2018-i-plany-na-2019-god-vzglyad-minpromtorga-rossii.html>]
- 3 The Russian government to reduce (2.6-fold) support for demand for motor vehicles and municipal transport in Russia in 2019 // TASS. 25 February 2019. [<https://tass.ru/ekonomika/6157449>]

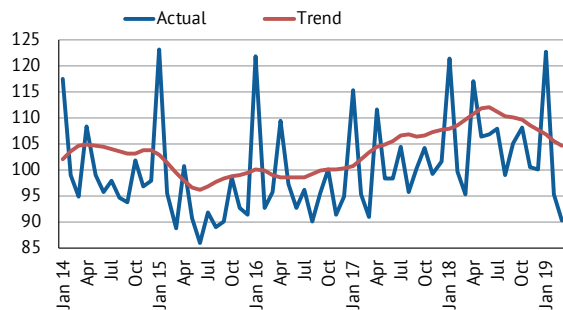
Manufacturing industry production index dynamics,
2014-2018, actual data and trend component, percent
change relative to March 2017



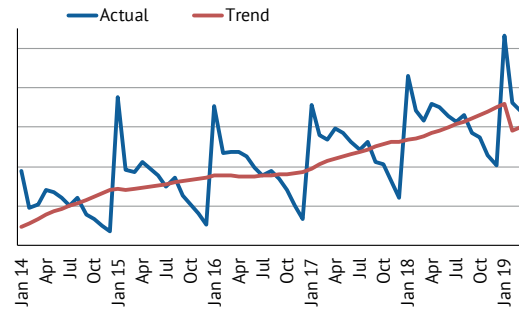
Manufacturing industry production dynamics, 2014-2018,
actual data and trend component, percent change relative
to January 2016



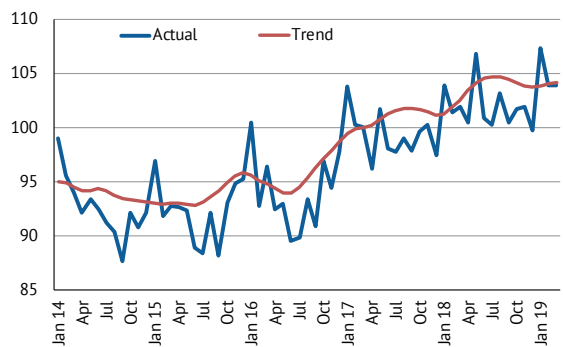
Wholesale trade physical volume turnover index
dynamics, 2014-2018, actual data and trend component,
percent change relative to November 2016



Retail trade physical volume turnover index dynamics,
2014-2018, actual data and trend component, percent
change relative to July 2014



Freight turnover dynamics, 2014-2018, actual data and
trend component, percent change relative to March 2017



Scope of works dynamics for "Construction" economic
activity, 2014-2018, actual data and trend component,
percent change relative to July 2014

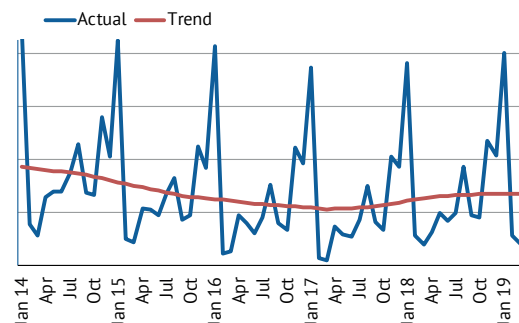


Fig. 2. Industrial production index dynamics by industry, 2014–2019, actual data and trend component.

Sources: Rosstat, own calculations.

2. Industrial production dynamics in Q1 2019: Manufacturing sector on the rise

Table 1

Output index change by industry, %

	As a % of industrial production index	March 2019 from March 2018	March 2019 relative to December 2018	Changes in recent months
Industrial production index		102.34	100.74	slow growth
Mineral extraction	34.54	105.10	100.28	stagnation
Manufacturing industry	54.91	101.34	100.93	slow growth
of which:				
Manufacture of food products including beverages and tobacco	16.34	107.18	102.00	growth
Manufacture of textiles and wearing apparel	1.14	109.55	102.79	growth
Manufacture of leather, articles of leather, and manufacture of footwear	0.27	97.58	104.06	growth
Woodworking and manufacture of articles of wood	2.02	109.95	98.94	slow decline
Manufacture of pulp, paper and paperboard;	3.35	82.03	93.22	downturn
Manufacture of coke, refined petroleum products	17.25	102.06	100.80	slow growth
Manufacture of chemicals and chemical products	7.56	112.84	105.46	growth
Manufacture of rubber and plastics products	2.14	102.98	102.67	growth
Manufacture of other non-metallic mineral products	4.02	108.58	106.89	growth
Metallurgy and manufacture of finished metal products	17.42	117.24	105.88	growth
Manufacture of machinery and equipment	6.97	98.71	100.83	slow growth
Manufacture of electrical, electronic and optical equipment	6.27	100.72	98.93	slow decline
Manufacture of means of transport and transport equipment	6.75	75.87	104.59	growth
Other industries	2.42	105.13	99.64	stagnation
Electricity, gas and water	13.51	98.39	99.52	stagnation
Wholesale trade		95.47	97.22	downturn
Retail trade		101.88	95.96	downturn
Freight turnover		101.64	100.47	stagnation
Construction		101.90	100.00	stagnation
Volumes of paid services for individuals		102.00	100.44	stagnation

Sources: Rosstat, own calculations. 

3. RUSSIAN INDUSTRY: PRODUCTION CAPACITY ASSESSMENT

S.Tsukhlo

The Russian industry has enough production capacity, according to data for 2018–2019. More than 90% of producers have enough – or, in some cases, even more than enough – production capacity to meet the demand they expect. Not more than 10% of industrial enterprises are now faced with a production capacity deficit.

The Russian industry has a minor capacity deficit that has been registered since 2009. The capacity deficit during the two pre-crisis (2007–2008) years was at its highest through the period of our surveys (1993–2019), which stood at 18%, according to average annual data. Those years also saw the smallest number ever of enterprises, or 14%, with more than enough production capacity.

As a result, the balance between ‘more-than-enough’ answers less ‘less-than-enough’ answers came to be negative during the two pre-crisis years. The Russian industry once in many years of surveys acknowledged it was faced with capacity deficit. Even then, however, the vast majority of survey enterprises (67%) reported they had enough production capacity to be able to meet rising demand.

However, there was a period in the history of modern Russian industry when the majority of survey enterprises reported they had more than enough production capacity. In 1996–1998, enterprises with average annual capacity being assessed as “more than enough on the back of the expected changes in demand” varied within a range of 53–57%, hitting an all-time high. Only 4–5% of survey enterprises (the absolute minimum) reported at that time they were short of production capacity.

Relatively stable production capacity self-assessments after the 2008–2009 crisis stemmed from a combination of steady capacity utilization and less optimistic projections for demand, output and employment.

Capacity utilization reached 68% in 2012 after the recovery from the 2009 crisis-led downturn, which remained almost unchanged varying within a range of 66–68% in the period between 2013 and 2018.

Industry’s propensity for growth (the average share of demand, output and employment projections) after the recovery from the 2008–2009 crisis failed to catch up with the level registered in 2000–2008, when it varied within 28–32%, plummeting to 16% during the 2009 crisis. 2011 saw the highest post-crisis value of 26%. With the onset of 2012–2016 stagnation, industry’s propensity for growth lost initially 4 percent point and then dropped 3 percent point. As a result, only 18% of survey enterprises in 2016 expected demand, output and employment to rise. After attempts were made in 2017 to recover from the stagnation, the propensity for growth reached 21%, but declined again in 2018 to 19%. Industry’s propensity for stagnation in 2018 hit an all-time high (1996–2018), with 67% of survey enterprises expecting no changes in their key performance figures.

In this context, enterprises’ modest investment in their own production in recent years is thought to be adequate enough in the industry. In 2018, the

3. Russian industry: Production capacity assessment

percent of survey enterprises that thought the same rose to 74%, hitting a new record high level in the period of monitoring.

Geographically, survey enterprises' equipment purchase plans for 2019 show that the enterprises continue switching from buying West European machinery and have started switching from buying Russia-made machinery to buying machinery made in CIS countries, China and India. Nowadays, domestic producers are becoming more and more key suppliers of equipment for the Russian industry, while West European countries have moved down to 2nd place as China and India have moved up to 3rd place.


However, in terms of survey enterprises' investment preferences, the list of preferred producers for machinery and equipment looks different.

West European equipment continue to hold a firm 1st place although their position is now weakening (due to western sanctions and Russia's import substitution efforts). Today, 60% of survey enterprises (vs. 78% in 2011) would like to buy West European equipment.

Last year, Russia-made equipment lost 4 points in the list of preferred equipment of Russian buyers and continued to hold 2nd place. The position of US- and Japan-made machinery remained unchanged last year, with 28% of survey enterprises preferring to buy them. Producers from China and India consolidated their position in 4th place, with 14% of survey enterprises preferring to buy their products this year.

In 2018, we asked for the first time about the value for money concerning machinery and equipment made in Russia, in CIS countries and in the far abroad.

The overwhelming majority of survey enterprises (85%) said the quality of imported equipment is superior to equipment made in Russia and in CIS countries. However, 84% of survey enterprises commented that prices of imported equipment are higher than those of domestically manufactured equipment.

Concerning the value for money, only 19% of survey enterprises said they definitely prefer Russia-made equipment to imported equipment or the other way around. More than 80% of survey enterprises said they face a hard choice between the price and the quality when they buy equipment. 

4. THE FOREIGN TRADE TURNOVER OF SERVICES IN 2018: GROWTH IN EXPORTS

A.Knobel, A.Firanchuk

In 2018, Russian exports of services increased by 12.4%. This dynamic growth is of a recovery nature. However, it may slow down after it has attained the pre-crisis volumes seen in 2013. In 2018, imports of services rose by 6.6%, having stopped growing in Q4 because of the dynamics of the rouble's exchange rate.

In 2018, the Russian foreign trade volume of services increased by 8.9% to \$159.5bn (\$146.5bn in 2017), that is, half as high as the growth rates of the foreign trade volume of goods (+17.7%). As a result, the share of services in Russia's foreign trade fell to 18.8% (-1.2 p.p.).

As in case of the goods turnover¹, in 2018 growth in exports of services (12.4%) surpassed the growth rates of imports (6.6%). On the back of it, the deficit of the net balance of the turnover of services decreased to \$29.9bn (\$31.2bn a year before).

In the geographic pattern of the foreign trade turnover of services, the share of the CIS decreased due to the reduction of the share of Ukraine for the fourth year in a row. The share of the EU shrank, too. Turkey and China increased the most the volume of services with Russia.

Dynamics of Exports and Imports of Services

Exports of services have demonstrated positive dynamics since H2 2016. High quarterly growth (year on year) of 8%–18% was observed within the past two years. The volume of exports amounted to \$64.76bn, that is, 92% of the pre-crisis level (\$70.12bn in 2013) (Fig. 1).

The dynamics of imports of services have been positive since Q1 2017, except for Q4 2018 when this indicator saw a decrease of 0.8% as compared with Q4 2017. This can be explained by the reduction of the imports of travelling services (Russians' trips abroad) probably because of depreciation of the rouble's exchange rate. Generally, at year-end imports of services amounted to \$94.70bn (Fig. 2) (+6.6% on the level of 2016), that is, 25% lower than the level of 2013 when this indicator was equal to \$128.4bn.

The mid-term dynamics of the services turnover are similar to those of the goods

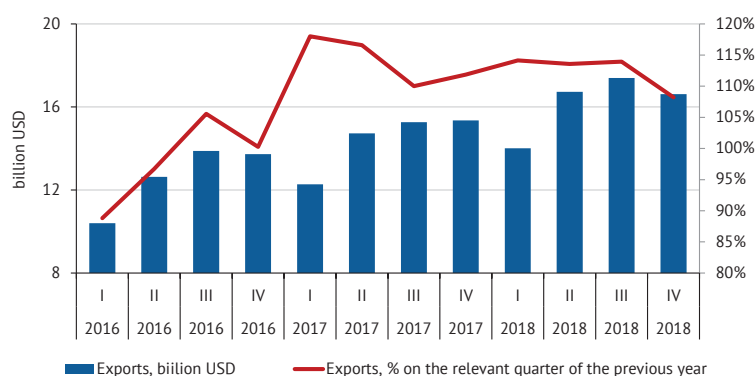


Fig. 1. Dynamics of Russian exports of services in 2016–2018

Source: own calculations based on the data of the Central Bank of the Russian Federation.

¹ See: Knobel A., Firanchuk A. Russia's Foreign Trade in 2018: Growth in Non-Oil and Gas Exports // Russia's Economic Developments. 2019. No.4. P. 11–19.

4. The Foreign Trade Turnover of Services in 2018: Growth in Exports

turnover, particularly, as regards imports (Fig. 3). In 2016, all the four components of the foreign trade fell to their minimum values, a decrease of 25–46% as compared with the pre-crisis level seen in 2013, and after that they started growing in 2017–2018.

In 2018, growth in imports of services (+6.6%) and goods (+5.0%) slowed down. As seen from the quarterly dynamics, growth stopped late in 2018. Slowdown can be related both with the exhaustion of the recovery growth potential and moderate depreciation of the rouble's exchange rate.

The dynamics of exports of services and goods do not point to any slowdown, while their volumes in money terms are approaching the pre-crisis values (92% and 85%, respectively). However, the dynamics of exports of goods are related primarily with the pricing situation on the global fuel markets. It is noteworthy that prices of energy commodities have an effect on the average cost of transportation services. But even if they are not taken into account, in 2018 growth in exports of other services will remain at the level of 12%.

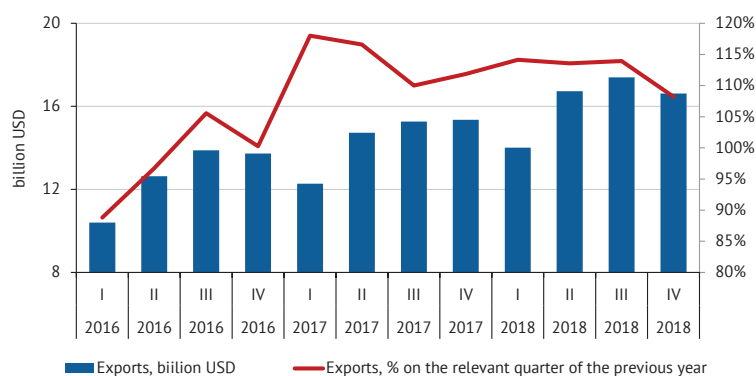


Fig. 2. Dynamics of Russian imports of services in 2016–2018

Source: own calculations based on the data of the Central Bank of the Russian Federation.

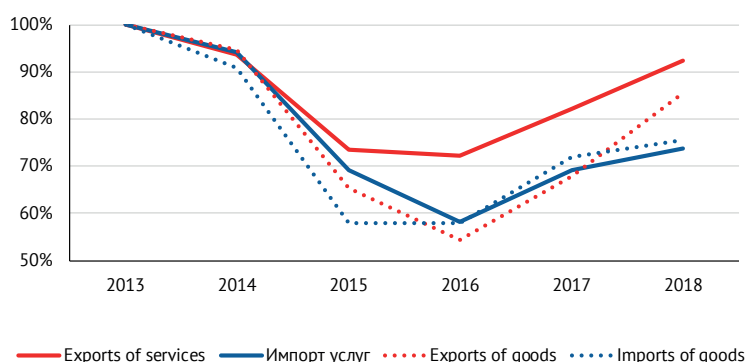


Fig. 3. Dynamics of the main components of Russian foreign trade in 2014–2018, % on 2013

Source: own calculations based on the data of the Central Bank of the Russian Federation.

The pattern of exports and imports of services

In 2018, dynamics of exports of five large sectors of services (with a share of over 5% of the overall exports of services) retained positive values as a year before.¹ There was growth in exports of transportation services (12%), “other business services” (1%), “travelling services” (28%), telecommunication services (13%) and building services (17%) (Table 1). Among the twelve main services, “technical maintenance and repair services” were the only ones where exports decreased (-11%) in 2018, while in 2017 they had positive dynamics (+17%).

Dynamics of imports in six large sectors of services (with a share of over 5% of the overall imports of services) were positive, too (growth of 2–10%). Among large sectors of services, imports of travelling services (Russians' trips abroad) and building services increased the most (10%) (Table 1). Imports in the three sectors of services with the aggregate share of 3.2% decreased in 2016. In 2018, among twelve sectors of services the imports of “financial services” and “state goods and services” were lower than in 2016.

1 See: Knobel A., Firanchuk A. Russia's Foreign Trade in 2018: Growth in Non-Oil and Gas Exports // Russia's Economic Developments. 2019. No.4. P. 11–19.

Table 1

The pattern of Russian foreign trade in services in the expanded classification

Services	Exports of services				Imports of services			
	2017, billion USD	2018, billion USD	Change in 2018 on 2017, %	The share of service in the exports of services in 2018, %	2017, billion USD	2018, billion USD	Change in 2018 on 2017, %	The share of service in the imports of services in 2018, %
Services related to processing of goods owned by other parties	1.53	1.64	7	2.5	0.16	0.15	-7	0.2
Technical maintenance and repair services	1.80	1.60	-11	2.5	1.78	2.01	13	2.1
Transportation services	19.86	22.14	12	34.2	14.49	15.30	6	16.2
Travelling services	8.94	11.49	28	17.7	31.06	34.27	10	36.2
Building	4.81	5.61	17	8.7	4.39	4.81	10	5.1
Insurance and nongovernment pension fund services	0.33	0.47	44	0.7	1.21	1.00	-17	1.1
Financial services	1.13	1.48	31	2.3	2.24	1.83	-18	1.9
Fee for the use of intellectual property	0.73	0.88	20	1.4	5.98	6.29	5	6.6
Telecommunication, computer and information services	4.65	5.26	13	8.1	5.38	5.49	2	5.8
Other business services	12.47	12.58	1	19.4	19.32	20.41	6	21.6
Recreation and culture services to individuals	0.49	0.59	19	0.9	1.43	1.83	27	1.9
State goods and services which are not related to other categories	0.88	1.02	16	1.6	1.42	1.32	-8	1.4
Total	57.63	64.76	12.4	100.00	88.86	94.70	6.6	100.00

Source: own calculations based on the data of the Central Bank of the Russian Federation.

The Geographic Pattern of the Services Turnover

The geographic pattern of Russia's foreign trade in services with main partners is presented in Table 2.

The share of the European Union in the services turnover with Russia fell to 42.0% (-1.84 p.p.), which is almost as much as its share in the goods turnover (42.7%). The EU is still Russia's largest trade partner. It is noteworthy that traditionally the share of the European Union in the imports of services (45.7% in 2018) was higher than in exports (36.5%).

The share of APEC countries rose to 15.0% (+0.66 p.p.). However, it is half as high as the share of APEC countries in the goods turnover (31%), which situation can be explained by an inconsiderable turnover of services with China (3.7% of the overall volume of services) as compared to the goods turnover (15.7% of Russia's overall goods turnover). In the past few years, the US share in the services turnover is relatively stable. South Korea has been increasing at an advanced rate the volumes of services with Russia; its share grew 1.5-fold in 2013–2018 (from 0.75% to 1.1%).

In the past few years, the decrease in the share of the CIS countries in the services turnover was caused by a dramatic reduction of economic ties with Ukraine. In the period from 2013, the share of the latter in the services turnover decreased by 66.7% to 1.15%, while the volume of the services turnover, by nearly 75% (from \$6.9bn to \$1.8bn). In 2018, the exports and imports of services with Ukraine increased by 3% and 2%, respectively, and largely repeated the dynamics of the goods turnover with that country of the past few years.

The services turnover with APEC countries increased in the range of 6.4% (Kirgizia) to 14.8% (Armenia).

4. The Foreign Trade Turnover of Services in 2018: Growth in Exports

Table 2

The geographic pattern of Russia's foreign trade turnover of services in 2013–2018 across the main trade partner-countries

Region/country	Share in Russia's services turnover, %						Change: 2018 on 2017, p.p.
	2013	2014	2015	2016	2017	2018	
EU	42.66	44.67	43.11	44.79	43.81	41.97	-1.84
APEC, including:	12.15	12.44	12.90	14.71	14.26	14.92	0.66
China	1.85	1.90	2.36	3.18	3.25	3.67	0.42
US	5.50	5.51	5.49	5.93	5.22	5.23	0.02
Japan	0.70	0.68	0.76	0.78	0.59	0.63	0.04
Republic of Korea	0.75	0.81	0.91	1.02	1.01	1.11	0.10
Vietnam	0.44	0.55	0.62	0.83	0.96	0.81	-0.15
Thailand	1.51	1.37	0.92	1.04	1.28	1.37	0.09
CIS	10.88	9.73	10.12	9.56	9.40	9.29	-0.11
EEU including:	4.04	4.24	5.32	5.25	5.37	5.38	0.02
Armenia	0.35	0.34	0.42	0.45	0.45	0.47	0.02
Belarus	1.78	1.99	2.09	2.32	2.49	2.50	0.01
Kazakhstan	1.61	1.59	2.36	2.05	2.01	2.00	-0.01
Kirgizia	0.30	0.32	0.45	0.43	0.42	0.41	-0.01
Ukraine	3.46	2.38	2.02	1.64	1.22	1.15	-0.07
<i>Services which are not distributed by individual CIS</i>	1.08	0.93	0.84	0.79	0.97	0.85	-0.12
Other countries and regions, including:	34.32	33.16	33.87	30.94	32.53	33.82	1.29
Norway	0.55	0.61	0.56	0.52	0.51	0.48	-0.03
Switzerland	4.19	3.56	4.06	4.60	4.70	4.73	0.03
Turkey	7.78	6.79	6.41	2.64	4.12	5.04	0.92
Egypt	1.32	1.95	2.34	0.04	0.07	0.20	0.12
UAE	1.45	1.21	1.26	1.36	1.84	1.92	0.08
Panama	1.04	1.13	1.10	1.18	1.19	1.19	0.00

Source: own calculations based on the data of the Central Bank of the Russian Federation.

The Prospects of Growth in Exports of Services

In 2018, exports of all the types of services surpassed the level of 2016. On one side, this factor is evidence of a quick and substantial recovery of the export volumes after the crisis. The long-term reduction of exports of goods and services did not materialize. On the other side, with sudden recovery growth dynamics a question arises whether such a rapid growth in exports of services (and goods) will continue after the pre-crisis level (seen in 2013) has been achieved. Among twelve commodity groups, only four groups have surpassed the level of 2013: “telecommunication, computer and information services” (by 26%), “fee for the use of intellectual property” (19%), “transportation services” (7%) and “state goods and services which are not related to other categories” (1%). Note that growth of the last two types of services was below the five-year US Dollar inflation rate.

So, it can be stated that only exports of the first two types of services surpassed the level of 2013. Note that the exports of telecommunication services and intellectual property on the part of the EU (except for the services turnover inside the EU) – the world's largest supplier of services – increased within the same period by 38% and 49%, respectively, while the overall exports of the

EU's services, by 12% in 2018 as compared with the level of 2013^{1,2}. It can be concluded that the dynamics of Russian exports lag much behind the European and global trends.

To achieve the target indicator of \$100bn worth of exports of services in 2024 (in compliance with the Executive Order of 7 May 2018 of the President of the Russian Federation), the average annual growth should be equal to 7.5% in the next six years. This value is lower than Russia's export growth rates in 2017 (14%) and 2018 (12%). However, as was stated above, it is recovery growth and even as regards those positions where exports of services have considerably surpassed the level of 2013 it is impossible to speak about a substantial consolidation by Russia of its positions as compared with other suppliers of services.

The patterns of Russia's and the EU's exports of services are still very different³. In the EU, it is well-balanced.

Transportation services have retained the dominating role in the pattern of Russian exports (34%), which value is twice as high as the relevant share in the EU's exports of services (18% in 2017). The exports of transportation services have actually exhausted the potential of recovery growth. In addition, dynamics of this sector of services largely depend on the volumes of the goods turnover and prices of fuel.

The share of travelling services in the Russian exports of services (15%) corresponds to the similar indicator in the pattern of the EU's exports (15% in 2017). Growth in this sector of services is the largest one, but maintaining of such growth rates seems quite unlikely in future. The leap was related to the FIFA World Cup held in 2018 and relevant easing of Russia's visa regime.

The shares of the most high-tech sectors of services in Russian exports – “telecommunication, computer and information services” (8.1%) and “fee for the use of intellectual property” (1.4%) – lag much behind the relevant EU's indicators (14 % and 7.7%, respectively). 

1 Source: based on the data of the volume of the EU's foreign trade turnover of services – Eurostat

2 The data of the Eurostat are given in euro; for the sake of comparison with the data of the Central Bank of the Russian Federation they were converted in the US Dollars at the average annual rate of \$1.33 and \$1.18 for one euro in 2013 and 2018, respectively.

3 The comparison of the composition of the exports of services in 2017 was discussed in: Knobel A., Firanchuk A. The Foreign Trade Turnover of Service in 2017 // Russia's Economic Developments. 2018. No.6. P. 15–20.

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