

MONITORING OF RUSSIA'S ECONOMIC OUTLOOK:

TRENDS AND CHALLENGES OF SOCIO-ECONOMIC DEVELOPMENT

No. 1(167) March 2024

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Monitoring of Russia's Economic Outlook

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1. BALANCE OF PAYMENTS IN Q4 2023

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At the end of Q4 2023, the current account surplus declined by 74% compared to Q4 2022 on the back of a faster decline in the value of exports compared to also slightly reduced imports of goods. The financial account deficit was developed as a result of growth in foreign assets (including reserve assets) and reduction in foreign liabilities. In Q4 2023, growth of export proceeds sales contributed to the ruble appreciation. The ruble was also supported by tightening of monetary policy and suspension of foreign currency purchases by the Bank of Russia amid mirroring of regular operations of the Ministry of Finance of Russia.

According to preliminary estimates of the balance of payments published by the Bank of Russia, the current account balance in Q4 2023 was \$10.7 bn, which was less by 74% from the Q4 2022 current account balance of \$41.7 bn. Such dynamics clearly proves the maintaining trend, i.e. in all previous quarters the current account balance was lower than the same indicator of 2022, while for Q1–3 2023 it amounted to \$40 bn, which is about 5 times less than in Q1–3 2022 (\$196.3 bn).

Due to a less detailed balance of payments published by the Bank of Russia compared to the previous (until March 2022) periods, the structure of the current account can be described in terms of three main balances: trade in goods, trade in services, and the balance of primary and secondary incomes.

The balance of trade in goods amounted to \$28 bn in Q4 2023, which is 55% less (per absolute value by \$35 bn) than in 2022 (\$62.8 bn). The significant drop in the value of merchandise exports from \$144 bn in Q4 2022 to \$105 bn in Q4 2023 (down 27%) played a core role in this decline, despite a slight reduction in the goods' imports from \$81.2 bn in Q4 2022 to \$77 bn in Q4 2023 (down 5%).

Such dynamics of exports was due to the decline in prices for the basic goods of Russian exports (primarily oil, gas and petroleum products), which was observed along with the reduction in the physical volume of exports.

The downward trend in imports of goods and services is due to an incomplete recovery of imports in Q4 2023, although imports for 2023 as a whole rose from \$276.5 bn to \$304 bn (up 10%).

At the same time, growth in imports of goods was accompanied by a weakening of the national currency: according to the Bank of Russia, the drop in the index of the real ruble-dollar exchange rate in 2023 amounted to 19%, which is a significant weakening, meaning a relative appreciation of import supplies.¹

¹ On the impact of forex volatility on trade A.Y. Knobel. Estimates of Russia's import demand function // Applied econometrics. 2011. No.4 (24). P. 3–26; A. Knobel, A. Firanchuk. Russia in global exports in 2017 // Russian Economic Development. 2018. No.9. P. 17–21.

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The balance of trade in services in Q4 2023 amounted to -\$7.4 bn, which in absolute value 12% less than negative value of the trade in services for Q4 2022 (-\$8.4 bn). As with trade in goods, there is a decline in exports of services (mainly transportation) from \$12.3 bn in Q4 2022 to \$10.7 bn in Q4 2023 (down 13%) and a decline in imports of services (mainly travel) from \$20.7 bn in Q4 2022 to \$18 bn in Q4 2023 (down 13%).

The balance of primary and secondary incomes in Q4 2023 significantly reduced compared to the same period of 2022. In Q4 2023 it amounted to -\$10 bn, being 21% less in absolute value than a similar index in 2022 (-\$12.7 bn). However, both income receivable (a reduction in capital income receipts from abroad from \$14.2 bn in Q4 2022 to \$10 bn in Q4 2023) and income payable (a reduction in the transfer of income and repatriation of profits abroad, including due to restrictions on cross-border capital movements from \$26.9 bn in Q4 2022 to \$20 bn in Q4 2023) have significantly reduced.

In the near future, it can be expected that due to stabilization of conditions on capital flow restrictions, challenges related to repatriation of profits from Russia by foreign investors, restrictions from the EU and the US, primary and secondary income payable will remain at the current level, and in 2024 their balance will amount from -\$30 bn to -\$40 bn (in 2023 the balance of primary and secondary income amounted to -\$35bn).

As for the trade balance, as well as the current account balance, one should expect a moderate reduction in 2024 (compared to 2023) due to the decline in prices for the basic goods of Russian exports and the continued recovery of imports.

As it has already been noted, since the balance of payments estimates is published by the Bank of Russia in aggregate form starting from Q1 2022, the financial account is represented by data on net external assets and liabilities of all sectors of the economy.

In Q4 2023, the financial account balance of the balance of payments, including reserve assets, amounted to \$9.2 bn, decreasing by 4.4 times compared to Q4 2022 (\$40.3 bn). The financial account balance, including reserve assets, in Q4 2023 was shaped under the impact of growing foreign assets of all sectors and the reduction in the volumes of foreign liabilities.

Growth of foreign assets (including reserve assets) in Q4 2023 amounted to \$6.2 bn, which is 2.1 times lower than in Q4 2022 (\$13.2 bn). On the whole, in 2023, growth in foreign assets was due to the accumulation of residents' funds on foreign accounts and deposits, growth in other investments in terms of accounts receivable, including those related to pending foreign trade settlements, as well as foreign direct investments.¹

In Q4 2023 liabilities of all sectors of the Russian economy to non-residents have reduced by \$3.0 bn, which is significantly lower than in Q4 2022 (-\$27.1 bn) due to a lower intensity of foreign capital outflow from Russia than a year earlier.

As of January 1, 2024, the external debt of the Russian Federation amounted to \$326.6 bn, having decreased by 15% compared with January 1, 2023. The external debt of public administration authorities reduced to the greatest extent (by 29% in Q1–4 2023 to \$32.7 bn).

The share of non-residents in the OFZ market continued to decline from 11.1% as of January 1, 2023 to 7.5% as of December 1, 2023 corresponding to July-

¹ Balance of payments of the Russian Federation, No. 4(17), Q4 2023, Information and Analytical Commentary of the Bank of Russia.

1. Balance of payments in Q4 2023


August 2012. Other sectors of the economy reduced their external liabilities by 18% to \$199.4 bn, which was mainly due to a decrease in their liabilities on attracted loans. The external debt of banks and the Central Bank of the Russian Federation remained virtually unchanged (\$94.4 bn as of January 1, 2024).

In Q4 2023, the international reserves of the Russian Federation increased by 5.2% and amounted to \$598.6 bn as of January 1, 2024. This is mainly due to the positive revaluation of monetary gold, the share of which in the structure of reserve assets in Q4 2023 grew from 24.7% to 26%.

The ruble depreciation, which lasted for four consecutive quarters (since Q4 2022), stopped in Q4 2023, and the ruble appreciated against the dollar by 7.9% to Rb89.7/USD.

The ruble appreciation was due to growth in net sales of foreign currency by major exporters from \$23.1 bn in Q3 2023 to \$41.2 bn in Q4 2023, including as a result of the adoption of measures on mandatory sale of export proceeds by some major Russian exporters, which increased the supply of currency and reduced pressure on the ruble.¹ The ruble was also strengthened by the sale of foreign currency by the Bank of Russia in Q4 2023 and its tightening of monetary policy (after five rounds of growth, the key rate reached 16% p.a. in December 2023), which result in growth in the attractiveness of domestic assets and their higher demand compared to foreign assets.

It should be noted that starting from 2024 the Bank of Russia resumed operations in the foreign exchange market using NWF funds: in H1 the regulator plans to buy or sell foreign currency, adjusting the volume of operations announced by the Ministry of Finance of Russia in the context of the budget rule by the amount of currency sales in the amount of Rb2.1 trillion (Rb1.4 trillion is the difference between the volume of currency purchases deferred from August 10 to December 31, 2023 in the context of the budget rule and the volume of expenditures of the NWF aimed to finance the budget deficit in 2023 outside the budget rule, and Rb0.7 trillion is the sale of foreign currency in the volume of net investment of the NWF funds). The planned currency sales in H1 2024 will support the ruble.

According to our estimates, if oil prices remain at \$65-70/bbl and considering the monetary policy pursued by the Bank of Russia as well as measures to stabilize the situation on the currency market, the ruble exchange rate in 2024 will average Rb90–100/USD. 

¹ From October 16, no less than 80% of export foreign currency proceeds must be credited by exporters to accounts in Russian banks within 60 days of receipt. The mandatory sale of export proceeds is at least 90% of the credited funds and at least 50% of each contract.

2. THE CENTRAL BANK OF RUSSIA HAS ANNOUNCED A LENGTHY PERIOD OF TIGHT MONETARY POLICY

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On February 16, the Central Bank of Russia left the key rate at the level of 16.0%, having specified that the achievement of the target inflation level would require a lengthy period of tight monetary measures. Based on the January results, the annual inflation (over the past 12 months) remained at the level of 7.4% with consumer prices appreciating by 0.86% in January, that is, 6.7% SAAR. So, in January the current inflation sped up as compared with December 2023, but was below the level of Q4 2023 (9.1% SAAR). The risks related with acceleration of the inflation rate are still a rapid expansion of domestic demand and growth in budget expenditures. According to our forecasts, the annual inflation will keep speeding up till the end of Q2 2024 and its peak level will be equal to 8.0%. Sustained moderation in annual inflation will start from the mid-2024 and the rate of inflation is expected to fall to 5.5%-6.0% late in 2024.

On February 16, 2024, at its regular meeting on the monetary policy the Board of Directors of the Central Bank of Russia took a decision to leave the key rate at the same level of 16.0% annually. This decision was expected by analysts.¹ It is almost likely that the current cycle of tightening of the monetary policy, which started on July 21, 2023 and lasted for five consecutive meetings of the Board of Directors of the Central Bank of Russia (including an extraordinary one held on August 15, 2023) is over. In the period from the mid-2023 till the end of the year, the key rate grew by 850 b.p. In its press-release, the Central Bank of Russia noted that a return of the inflation rate to the target and its further stabilization at the level of 4% would require a tough monetary environment in the economy for a lengthy period.² The Russian Central Bank reiterated its plans to tighten the monetary policy in the updated forecast by raising as compared with the October version of the forecast the average value of the key rate in 2024–2025 by 100 b.p. to 13.5–15.5% and 8.0–10.0%, respectively.³ Though the press-release did not give an explicit signal as regards the further direction of the monetary policy, Elvira Nabiullina, Chairman of the Central Bank of Russia declared at the press-conference that the signal should be interpreted as neutral and the Board of Directors saw space for reducing the key rate in H2 2024.⁴ Also, Elvira Nabiullina noted that the key rate's further trajectory would depend on the speed and nature of disinflation processes. The Central Bank of Russia still expects the annual inflation to slow down to 4–4.5% by the end of 2024.

Late in January, the Central Bank of Russia announced changes in the communication policy. From February 2024, based on the results of each meeting

1 URL: <https://www.interfax.ru/business/946375>

2 URL: <https://www.cbr.ru/press/keypr/>

3 URL: https://www.cbr.ru/Collection/Collection/File/48891/forecast_240216.pdf

4 URL: <https://www.cbr.ru/press/event/?id=18423>

2. The Central Bank has announces a period of tight monetary policy

the Central Bank of Russia will be publishing a summary of discussion on the key rate at the Board of Directors and based on results of the key rounds, a comment to the mid-term forecast.¹ Both publications will appear on the Central Bank of Russia's website on the 6th working day after the decision on the key rate. At the same time, they will stop publishing the report on the monetary policy.

In the updated forecast, the Bank of Russia raised its expectations regarding Russian GDP dynamics to 1.0–2.0% in 2024 on the back of upward revision of consumer spending projections and gross capital formation dynamics. With the forecast of gross fixed capital formation remaining unchanged, it is explicit that inventories dynamics were revised considerably: the regulator does not expect their negative contribution to gross capital formation based on results of 2024. The exports outlook was revised downward both in physical terms (by 1.5 p.p.) and in value terms (by \$28bn) in 2024. The Central Bank of Russia lays a near-zero momentum of the physical volume of exports of goods and services in the 2024 baseline scenario. By contrast, the imports outlook was revised 2.5 p.p. upward as compared with the October version. At the same time, despite the key rate's expected higher trajectory the Central Bank of Russia raised by 1.1 p.p. corporate lending growth rates projections (to 6–11%) in 2024 and this led to a substantial increase in the forecast of money supply growth rates. The forecast of retail lending, including mortgages, remained unchanged.

The Central Bank of Russia's inflation outlook for the end of 2024 remains unchanged and is equal to 4.0–4.5%, despite the fact that according to the February macroeconomic survey of the Central Bank of Russia² the inflation rate expected by analysts amounts to 4.9% as of the end of 2024. The 2024 average inflation outlook is adjusted somewhat to 6.0%–6.5%, while analysts expect 6.9%. Thus, the expert community expects the inflation trajectory in 2024 to be on average 0.4 p.p. above the upper limit of the monetary authorities' projections.

Based on the results of January 2024, over the past 12 months the inflation rate was at the level of 7.4% (*Fig. 1*). From December 2023, a rise in food prices made again a large input (around 41%) in the annual inflation, while nonfood products and services accounted for 29%-30% of the annual increase in prices of the entire consumer basket in December-January (*Fig. 1*). In January, Rosstat published new weights of goods and services of the consumer basket in 2024³, having left its composition unchanged (566 items of goods and services). As compared with 2023, the consumer basket saw an increase in the weight of food products (0.49 p.p. to 38.12%) and services (0.61 p.p. to 27.85%) and a decrease of 1.1 p.p. in the weight of nonfood products (to 34.03%).

The level of consumer prices picked up by 0.86% MoM in January. Over 39% of appreciation of the consumer basket in January was substantiated by growth in prices for fruits and vegetables (+0.34 p.p.) (*Fig. 2*). The slowdown of price rises for services gave way to their active growth in January: prices increased both for regulated components (housing services' input in the January inflation was equal to 0.06 p.p.) and nonregulated ones (services, except for housing and utility services, added 0.16 p.p. in the January inflation).

Seasonally adjusted,⁴ the headline inflation was estimated at the level of 0.54% MoM in January or 6.7% SAAR, which is somewhat higher than the

1 URL: <https://www.cbr.ru/press/event/?id=18373>

2 URL: https://cbr.ru/statistics/ddkp/mo_br/

3 URL: https://rosstat.gov.ru/storage/mediabank/CPR_gr_tov_RF_2001-2024.xlsx

4 Seasonal adjustment of the inflation has been carried out by means of the R program with the use of a seasonal package.

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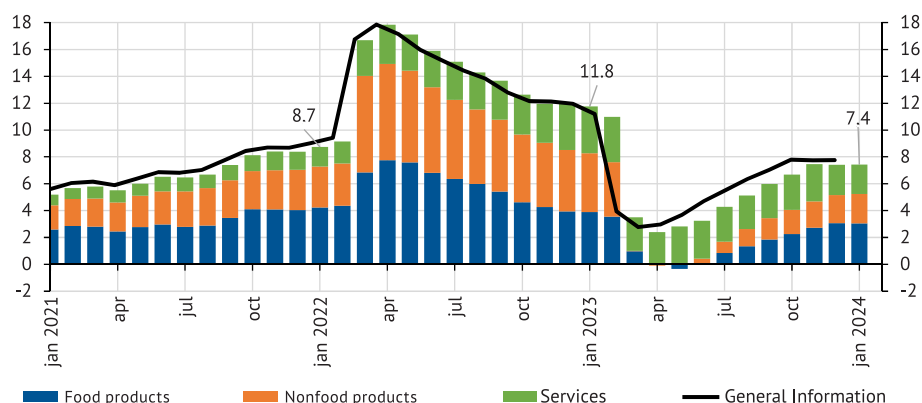


Fig. 1. The components' input in the annual inflation, p.p.

Source: Rosstat.

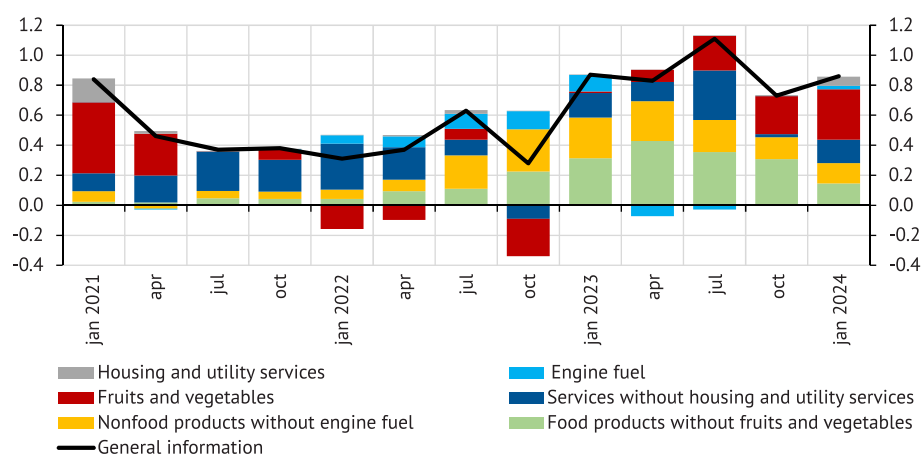


Fig. 2. Individual components' input in monthly inflation, p.p.

Source: Rosstat, own calculations.

December level of 5.9% SAAR (Fig.3), but lower than the average Q4 2023 level of 9.1% SAAR (Fig. 4). Among the components of seasonally adjusted inflation, in January as compared to December growth rates of prices for services sped up again (up to 8.3% SAAR), inflation picked up in the group of nonfood products (up to 4.5% SAAR) and the current rise in prices for food products slowed somewhat (to 7.4% SAAR) (Fig. 3).

Though the current growth rates of prices slowed down late in 2023 and early in 2024 from the peak levels of September-November 2023, it is early to speak about a sustainable disinflation process. Appreciation of the Russian ruble was one of the factors behind the slowdown of the current inflation in December 2023 – January 2024: the exchange rate of the Russian ruble appreciated by 6.8% against the currencies of Russia's main trade partners in November 2023 – January 2024 (Fig. 4). However, further strengthening of the Russian ruble will be determined largely by the trade balance which outlook the Russian Central Bank revised considerably downward. Another factor of inflation slowdown was the tight monetary policy in H2 2023 substantiated by a rise in the key rate and reflected in the slowdown of consumer and market-based mortgage lending. High interest rates will keep producing a disinflation effect during the current and next year. However, the existing positive output gap, a low level of unemployment and high growth rates of real wages supported by substantial budget

2. The Central Bank has announces a period of tight monetary policy

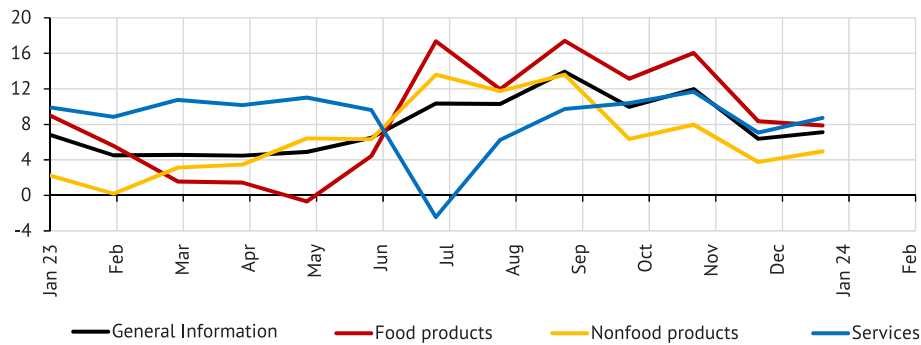


Fig. 3. Dynamics of the headline inflation and its main components, % SAAR

Source: Rosstat, own calculations.

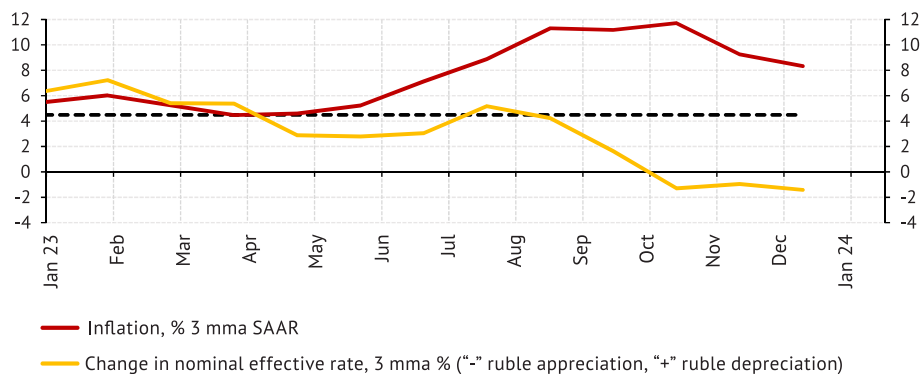


Fig. 4. The inflation rate and dynamics of the exchange rate of the ruble against the US dollar, MoM, %

Source: Rosstat, The Central Bank of Russia.

expenditures can slow down considerably the disinflation process and lead to the inflation rate at the level of 6–7% or higher till the end of the current year.

So, the real-time data on the administration of the Federal Budget in the first half of February point to substantial growth in expenditures as compared with January and last February.¹ Rosstat's estimate of the weekly inflation from February 6 till February 12 is also the evidence of accelerated growth rates of prices early in February,² while its accumulated value by February 12 is estimated at 0.32%, with growth in prices based on the results of the entire February 2023 being equal to 0.46%. By estimates of the RF Ministry of Economic Development, the annual inflation picked up to 7.6% by February 12.³

According to our forecasts, in February 2024 prices will increase by 0.6–0.7% MoM, which is in line with the annual inflation of 7.6–7.7%. During Q1 and Q2 the annual inflation will keep speeding up mainly owing to the base effect; its peak level will be equal to around 8%. At the same time, the quarterly seasonally adjusted inflation will keep slowing down on the back of the cooling of consumer and investment demand and subsequent gradual closing of the positive output gap and eventually decrease to 4.0–4.5% SAAR in H2 2024. This will result in the slowdown of the annual inflation which is projected at the level of 5.5–6.0% as of the end of the year. ▀

1 URL: <https://www.vedomosti.ru/economics/articles/2024/02/19/1020945-rashodi-byudzhet-a-v-fevrale-rezko-uskorilis>

2 URL: https://rosstat.gov.ru/storage/mediabank/20_14-02-2024.html

3 URL: https://economy.gov.ru/material/file/a3acbacf4f794881072f2d6f0caf1216/o_tekushchey_cenovoy_situacii_14_fevralya_2024_goda.pdf

3. INDUSTRIAL PRODUCTION DYNAMIC IN Q4 2023

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In Q4 2023, the trend component of the industrial production index kept growing, which was primarily ensured the industries related to the production for the state defense order (production of motor vehicles, fabricated metal products, electrical equipment) and industries where import substitution processes are underway (production of equipment, machine building, production of durable goods for households).

To provide accurate interpretation of trends in individual industries we decompose their output into calendar, seasonal, non-recurrent and trend components¹. The interpretation of the latter is of particular interest. Experts of the Gaidar Institute have singled out the trend components from all of manufacturing industries indices for 2003–2023² based on statistics released by Rosstat.

The resulting series for the industrial production index on the whole are presented in Fig. 1. Shown in Fig. 2 is the result for aggregate indices of the extractive and manufacturing sectors and production and distribution of electricity, gas and water. The results for the decomposition of other series are presented in Table 1.

The trend component of industrial production in Q4 2023 showed growth, a positive contribution to the dynamics was made by the extractive and manufacturing sectors. There were about zero growth rates in the sector of production and distribution of electricity, gas and water.

Positive dynamic of the trend component of the production index in mining, despite the restrictions imposed on oil and gas exports from Russia, was ensured by the following factors³:

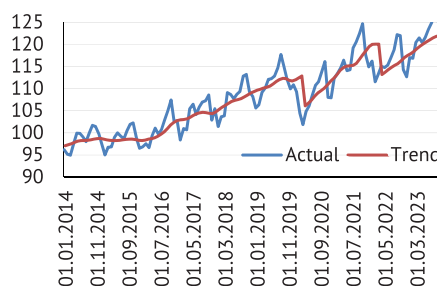


Fig. 1. Industrial production index dynamic in 2014–2023 actual data and trend component), % to the 2016 average annual value

Sources: Rosstat, own calculations

- 1 “Trend component” is a well-established term in the literature; however, it is noteworthy that this component is not a “trend” in a strict sense and is used in econometrics for analyzing time series: in this particular case, it is the remainder after the time series have been cleared from calendar, seasonal and non-recurrent components. It is incorrect to use the “trend component” for forecasting time series: for most industrial production indices it is time-varying in levels (and time-invariant in differences), but can be used for interpreting short-term dynamics and for comparison with events that have taken place.
- 2 The trend component was determined using Demetra package with the X12-ARIMA procedure.
- 3 The share of services in the extractive industry production index is around 8%, the share of oil and gas production is 70%, but in addition to the share, the growth rate is also important, which can significantly affect the overall dynamic of the indicator. See, for example: Rosstat explained industrial growth amid falling oil and gas production Росстат объяснил промышленный рост на фоне падения добычи нефти и газа // RBC. 15.08.2023. URL: <https://www.rbc.ru/economics/15/08/2019/5d5578eb9a7947bb20aa2e1e>

3. Industrial production dynamic in Q4 2023

- coal mining due to growing demand from the steel, chemical and power industries in China and India¹;
- increase in the volume of services rendered in the field of mineral resources extraction due to the increase in oil drilling (in the first 11 months of 2023, the volume of development drilling in the Russian Federation amounted to 28.1 thousand kilometers, the number of turned into production wells 7.93 thousand units, the number of completed wells 8.54 thousand units, the results have already exceeded the final figures for the whole 2022²) and by increasing the volume of geological exploration (193 new fields were put on the balance sheet in 2023, which is 23 more than in 2022³).

The growth trend of the manufacturing industry by the end of 2023 was maintained and was ensured by the industries intended for the needs of the military-industrial complex (metallurgical production and manufacture of finished metal products; manufacture of electrical equipment, electrical and optical equipment; manufacture of vehicles and equipment) and industries oriented to the domestic final demand and substitution of imported products (medicine, furniture, food industry).

In all other sectors of the economy⁴ in Q4 2023, the growth of the trend component was also maintained. The exceptions are freight transportation and agriculture. The reasons for the near-zero growth rates here, as well as in Q3 2023, are low capacity of railroads in the eastern direction and record crops yields in 2022

Possible risks to the unsustainability of industrial growth in the near term include the following:

- high rates of oil drilling at static production rates due to extended OPEC+ deal indicate either a need to maintain output in response to depletion of existing fields or long-term plans to bring new large production projects on stream, which could provide the industry with additional volumes, increasing the impact on the global oil market. The main challenge for drilling new wells is that the industry is heavily dependent on imports (exploration software, offshore seismic, GIS technology and

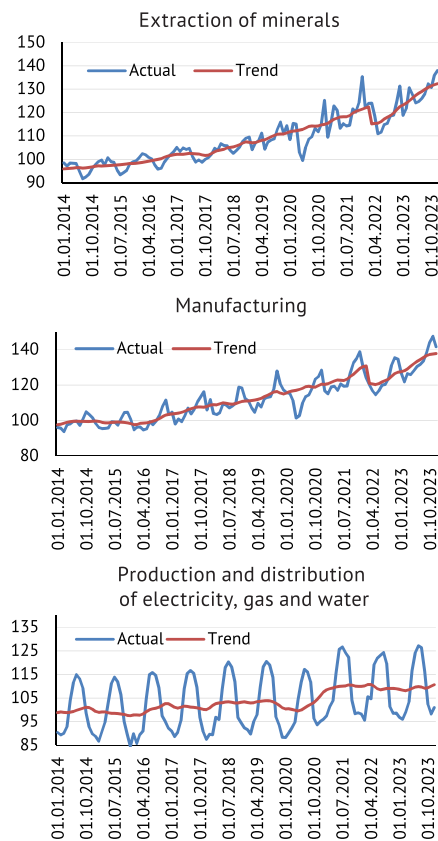


Fig. 2. Production indices dynamic across sectors, 2014–2023 (actual data and trend component), % to the 2016 annual average value

Sources: Rosstat, own calculations.

1 Zainulin E., Kozlov D. Metallurgical coal is piling up nicely // Kommersant. 21.12.2023. URL: <https://www.kommersant.ru/doc/6412972>

2 Russia's Oil Drilling Boom Proves Moscow's Resilience to Western Sanctions // Bloomberg. 10.01.2024. URL: <https://www.bloomberg.com/news/articles/2024-01-10/russia-s-oil-drilling-boom-proves-moscow-s-resilience-to-western-sanctions>

3 Exploration in Russia in 2023: summarizing results and making plans// Journal *Extracting Industry*. 10.01.2024. URL: <https://dprom.online/mtindustry/gyeologorazvyedka-v-rosseeee-v-2023-godu/>

4 In trade due to the sale of non-food products, including the import of goods by new partners. In construction due to rehabilitation of infrastructure and housing construction, in other paid services to households due to public catering.

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Table 1

Output index change across economic sectors, %

Name of sector	Share of industrial production index	December 2023 / December 2022	December 2023 / September 2023	Change over past months
Industrial production index		104.3	100.6	Slow growth
Extraction of minerals	34.54	108.0	101.2	Growth
Manufacturing, including:	54.91	108.3	100.9	Growth
Production of food products, including beverages and tobacco	16.34	110.8	102.4	Growth
Textile and garment industry	1.14	111.4	103.4	Growth
Manufacturing of leather, articles thereof and footwear	0.27	113.3	101.5	Growth
Wood processing and woodware manufacturing	2.02	110.0	99.1	Growth
Pulp-and-paper industry	3.35	85.5	98.3	Recession
Production of charred coal and petrochemicals	17.25	99.4	100.0	Stagnation
Chemical industry	7.56	116.1	103.0	Growth
Manufacturing of rubber and plastic articles	2.14	108.2	98.3	Growth
Manufacturing of other nonmetallic mineral products	4.02	105.3	97.2	Growth
Metallurgy and manufacturing of ready-made fabricated metal products	17.42	126.3	103.6	Growth
Manufacturing of machinery and equipment	6.97	107.3	98.5	Growth
Manufacturing of electrical, electronic and optical equipment	6.27	120.9	101.7	Growth
Manufacturing of transport vehicles and equipment	6.75	144.7	104.7	Growth
Other industries	2.42	108.1	96.0	Growth
Electricity, gas and water supply	13.51	101.5	101.3	Stagnation
Wholesale trade		119.0	103.1	Growth
Retail trade		109.9	100.8	Growth
Cargo turnover		100.0	99.5	Stagnation
Construction		105.8	101.1	Growth
Agriculture		71.5	71.9	Stagnation
Volumes of paid services to households		104.7	101.0	Slow growth

Sources: Rosstat, own calculations.

general infrastructure equipment for remote locations), which may pose a challenge to its future growth;

- the shortage of labor force as a result of population decline according to Rosstat data (demographic hole of the 1990s, increased mortality during the coronavirus pandemic, relocation and partial mobilization, decreased inflow of migrants) limits opportunities for increasing output in the economy (especially by manufacturing, agriculture, water supply and transportation) to meet the growing demand, forces to reduce requirements for personnel competencies ((with a view for the future to improve the qualifications of hired workers through training programs, etc.), which, as a consequence, reduces productivity and labor quality in the short term, since the process of professional retraining is a long one;
- high inflation driven by competition for employees in industrial sectors in terms of wages. At the same time, the growth of wages occurs in the industries that are related to the needs of the defense industry, but the price growth affects the entire population;
- its secondary sanctions may force Russia's trading partners to resort to self-restrictions. Strengthened control over compliance with the sanctions in the financial sphere may restrict the use of the dollar and euro in foreign trade settlements. All this will affect the growth of trade costs (including restrictions evasion). ▀