

GAIDAR INSTITUTE FOR ECONOMIC POLICY

**RUSSIAN ECONOMY IN 2015
TRENDS AND OUTLOOKS
(ISSUE 37)**

**Gaidar Institute
Publishers
Moscow / 2016**

UDC 33(470+571)(066)"2015"
BBC 65.9(2Poc)

R95 **Russian Economy in 2015. Trends and Outlooks. (Issue 37) /**
[V. Mau at al; ed S. Sinelnikov-Mourylev (editor-in-chief), A. Radygin];
M.: Gaidar Institute Publishers, 2016. 440 pp. – ISBN 978-5-93255-459-3

The review provides a detailed analysis of main trends in Russia's economy in 2015. The paper contains 6 big sections that highlight single aspects of Russia's economic development: the socio-political context; the monetary and credit spheres; financial sphere; the real sector; social sphere; institutional challenges. The paper employs a huge mass of statistical data that forms the basis of original computation and numerous charts.

UDC 33(470+571)(066)"2015"
BBC 65.9(2Poc)

ISBN 978-5-93255-459-3

© Gaidar Institute, 2016

Production of the microstructure in Russia in 2015¹

4.1.1. Dynamics of the Russian economy in 2015: the effect of external and internal demand

The main factors behind development of the Russian economy in the past two years were as follows: shrinkage of external demand and depreciation of prices on Russia's main primary sector commodities which make up the basis of the export potential; weakening of domestic demand due to a drop in revenues of the economy and growth in costs; narrowing of the extent of imports which formed over one-third of domestic market resources; reduction of volumes of domestic and foreign capital investments.

Table 1

Dynamics of the main factors behind development of the economy in the 2009–2015 period, % of the previous period

	2009	2010	2011	2012	2013	2014	2015
GDP	92.2	104.5	104.3	103.5	101.3	100.7	96.3
Domestic demand, including:	85.3	108.3	108.8	105.5	100.5	101.3	89.7
Households' ultimate consumption	94.9	105.8	106.8	107.4	103.7	101.7	89.9
Capital investments	84.3	106.3	110.8	106.8	100.8	97.3	91.6
External demand	95.3	100.7	100.3	101.4	104.8	99.4	92.4
Average export prices	66.5	123.1	132.9	101.6	95.7	94.3	64.8
Average import prices	99.1	101.7	109.2	97.3	102.5	98.2	81.1
Consumer price index	108.8	108.8	106.1	106.6	106.8	109.1	112.9
Oil prices	63.4	128.7	139.3	101.0	97.2	90.9	52.9
Official rate (Rb/USD)	102.9	100.7	105.6	94.3	107.8	171.9	129.5

Source: The Rosstat.

In the 2009–2015 period, economic growth rates gradually fell, disparities in production and consumption consolidated, manufacturers' investment activities fell and imbalances between technological parameters of capital assets and investments in capital assets by the base type of economic activities increased. Development based on extensive utilization of the main factors reduced competitiveness of the Russian economy and dynamics of its development. Growth in investments in capital assets observed in H2 2012 failed to result in a higher return per unit of invested funds and labor. Expansion of domestic consumer demand prior to H2 2014 is related to growth in wages which exceeded a great deal the dynamics of labor efficiency.

Table 2

The main macroeconomic indicators of the socioeconomic development in the 2008–2015 period, % of the previous period

	2008	2009	2010	2011	2012	2013	2014	2015
GDP	105.2	92.2	104.5	104.3	103.5	101.3	100.7	96.3

¹ Author of this section: Izryadnova O. – Gaidar Institute for Economic Policy.

Industrial production index	100.6	90.7	107.3	105	103.4	100.4	101.7	96.6
Production of primary products	100.4	99.4	103.8	101.8	101	101.1	101.4	100.3
Manufacturing	100.5	84.8	110.6	108	105.1	100.5	102.1	94.6
Agricultural products	110.8	101.4	88.5	123.0	95.2	105.8	103.7	103.0
Business volume in building	112.8	86.8	105.0	105.1	102.5	100.1	97.7	93.0
Capital investments	109.5	86.5	106.3	110.8	106.8	100.8	97.3	91.6
Retail trade volume	113.7	94.9	106.5	107.1	106.3	103.9	102.5	90.0
Volume of paid services to households	104.3	97.5	101.5	103.0	103.7	102.0	101.3	97.9
Foreign trade turnover	132.5	63.7	132.7	130.6	103.5	100.2	93.2	66.6
Export	134.6	63.7	132.1	131.3	102.3	99.2	95.1	68.2
Import	130.7	64.1	131.1	128.4	105.3	102.3	92.2	63.0
Consumer price index as of year-end	113.3	108.8	108.8	106.1	106.6	106.8	109.1	112.9
Industrial producer price index as of year-end	93.0	113.9	116.7	112.0	105.1	103.4	106.1	110.7
Households' real disposable cash income	102.4	103.0	105.9	100.5	104.6	104.0	99.3	96.0
Real accrued wages	111.5	96.5	105.2	102.8	108.4	104.8	101.2	90.5
Real size of granted pensions	118.4	110.7	134.8	101.2	104.9	102.8	100.9	96.2
General unemployment level, %	6.2	8.2	7.3	6.5	5.5	5.5	5.2	5.6
Balanced financial result	62.9	116.6	144.1	114.2	110.8	82.7	90.9	148.6
Labor efficiency	104.8	95.9	103.2	103.8	103.0	101.9	100.8	96.8

Source: The Rossta.

On the basis of the 2015 results, GDP amounted to 96.3% on the 2014 index and decreased for the first time after the 2008–2009 crisis. As compared to the 2008–2009 crisis, in 2015 GDP reduction was less dramatic and determined by differences in the dynamics of individual components of the aggregate demand over the past five years.

The common factor behind the situation of 2009 and 2015 was a drop in domestic demand, while the difference of the 2015 situation consisted in prevalence of positive dynamics of external demand. Such correlation of rates of external and domestic demand in 2015 was registered only during the acute phase (Q3 1998 – Q2 1999) of the crisis.

If in the 2010 – Q1 2013 period domestic demand grew at an advanced rate as compared to GDP and external demand, from Q2 2013 the situation changed – the dominating factor behind stagnation of the Russian economy was a sudden slowdown of growth rates of domestic demand. It was in the above period a trend of slowdown of consumer demand started to emerge. From H2 2014, the situation became much more complicated due to formation of radically new political and economic factors. Changes in the global market situation with a simultaneous introduction of sanctions and countermeasures had a great effect on the main parameters of functioning of the economy. In Q3 2014 and Q4 2014, the ruble exchange rate started to depreciate and the rate of inflation sped up with reduction of external demand. In Q4 2014, domestic demand was formed under the effect, on one side, of a sudden surge in feverish consumer demand initiated by households' higher inflation expectations, while, on the other side, by shrinkage of investment demand due to appreciation of credit resources with dynamic growth in the key rate within a year from 5.5% (February 03, 2014) to 17% (December 16, 2014). That combination of factors determined the starting conditions of 2015.

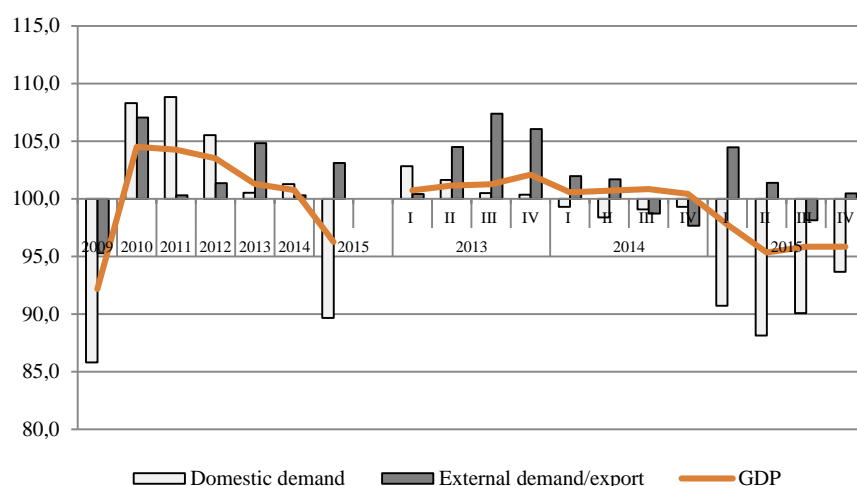


Fig. 1. GDP dynamics by components of domestic and external demand in the 2009–2015 period, % of the respective period of the previous year

Source: The Rosstat.

Table 3

**Contribution of net exports to GDP in the 2011–2015 period
(according to the SNA methods)**

	2011	2012	2013	2014	2015
Current prices, billion Rb					
GDP	59698.1	66926.9	71055.4	77893.1	80412.5
net export	4854.4	4537.9	3988.4	5167.8	6511.3
export	16865.2	18324.8	18909.3	21464.2	23606.5
import	12010.8	13786.9	14920.9	16296.4	17095.2
% of result					
GDP	100	100	100	100	100
net export	8.1	6.8	5.6	6.6	8.1
export	28.3	27.4	26.6	27.6	29.4
import	20.1	20.6	21.0	20.9	21.3
% of previous year in comparative prices					
GDP		103.5	101.3	100.7	96.3
net export		80.8	113.2	119.3	171.8
export		101.1	104.6	98.0	103.1
import		108.7	103.8	93.2	74.4

Source: The Rosstat.

In Q1 2015, for the first time after the 2009 crisis a 2.2% drop in GDP on the respective period of the previous year was registered. Changes in the situation and prices on the global market had an adverse effect on the demand on Russian export goods. Limitations related to sanctions determined reduction and structural shifts in imports. In 2015, the monetary volume of exports of goods fell by 31.8%, while that of imports, by 37.0% as compared to 2014. Reduction of the exports of goods was justified by worsening of the global market situation: average prices on Russian export goods fell by 35.2% as compared to 2014. A drop in prices was partially offset by growth of 5.2% (according to the methods of the balance of payments) and 3.1% (according to the methods of the system of national accounts (SNA)) in physical volumes of exports.

The dynamics of imports is affected greatly by depreciation of the ruble, reduction of the economy's and households' revenues and restrictive measures introduced in respect of individual

categories of goods. In 2015 a main factor behind a drop in import volumes of goods was reduction of 22.3% and 25.6% of physical volumes of import supplies according to the methods of the balance of payment and SNA methods, respectively, as compared to the previous year.

With the existing correlation between the rates and the pattern of the foreign trade turnover in 2015, Russia retained foreign trade surplus and its contribution to GDP dynamics grew to 8.1% against 6.6% in 2014.

Depreciation of the ruble exchange rate had an ambiguous effect on the Russian economy. On one side, it diminished the effect of external factors on individual sectors of the Russian economy, while on the other side it resulted in growth in production costs due to appreciation of imports of intermediate goods. Amid economic uncertainties, manufacturers' worsening expectations, inflation rate growth and limited options of replacement of lost external sources of funding, shrinkage of the domestic market consolidated.

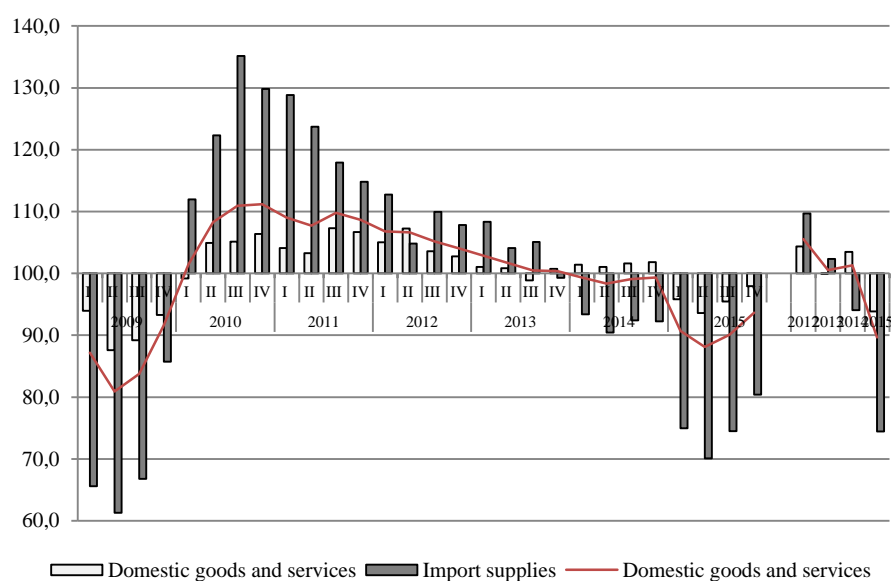


Fig. 2. GDP dynamics by components of domestic and external demand in the 2009–2015 period, % of the respective quarter of the previous year

Source: The Rosstat.

From the beginning of 2014, the dynamics of domestic demand was in the area of negative values, while in 2015 it was complicated by simultaneous drops in domestic production of goods and services and imports.

In 2015, a large-scale drop in imports determined structural changes in the domestic market: with reduction of consumer demand and depreciation of the ruble exchange rate the share of domestic goods in retail trade resources rose to 63% in Q3 2015 (59% a year before).

A large share of imports in the retail trade volume and the volume of intermediate consumption and capital investments made the balance of gross resources of the economy more dependent on changes in the foreign economic situation. In the pattern of imports, supplies of consumer and investment goods decreased more than those of intermediate consumption goods. It is to be noted that reduction of the share of consumer goods in the pattern of imports can be explained both by formation of import substitution as regards food products and a general drop

in households' demand with advanced growth in prices on import goods as compared to domestic ones.

Table 4

The pattern of retail trade commodity resources in actual prices, %

	Retail trade commodity resources	including	
		domestic production	import
2014			
Q 1	100	57	43
Q 2	100	59	41
Q 3	100	59	41
Q 4	100	56	44
Year	100	58	42
2015			
Q 1	100	59	41
Q 2	100	66	34
Q 3	100	63	37
Q 4	100	61	39
Year	100	62	38

Source: The Rosstat.

Table 5

**The pattern of imports by the functional mode of utilization
(according to the methods of the balance of payments), % of the result**

	Goods		
	consumer	investment	intermediate
2010	40.7	19.5	39.8
2011	36.6	21.4	42.0
2012	38.1	24.9	37.0
2013	37.6	24.3	38.0
2014	37.8	24.5	37.7
Q I	39.6	23.2	37.2
Q II	36.1	26.0	37.9
Q III	37.2	22.4	39.4
Q IV	38.4	25.5	36.1
2015	36.4	23.2	40.4
Q I	37.7	21.6	40.7
Q II	36.4	21.7	41.9
Q III	35.2	23.6	41.2
Q IV	36.4	23.2	40.4

Source: The Rosstat.

In 2015, the dynamics and pattern of imports of intermediate and investment goods were greatly affected by further slump in capital investments and shrinkage of demand on investment goods. Growth in the share of intermediate consumption goods reflected an insufficient level of localization of main production and components in the segment of production with a high share of industrial assembly.

A drop in capital investments resulted in a simultaneous decrease in demand on domestic and import capital goods and prompted development of negative trends on the domestic market. Further problems arose due to sanctions imposed on deliveries of individual types of technological equipment needed for implementation of investment plans of the primary sector and manufacturing industries, as well as infrastructure projects.

Slowdown of domestic production was justified both by low competitiveness of domestic goods and services as compared to import analogues and low efficiency of production in the segment of non-tradable goods and services as compared to export-oriented sectors of the economy. In 2015, a 6.2% decrease in the output of goods and services for domestic consumption intensified a slump in production as compared to the previous year.

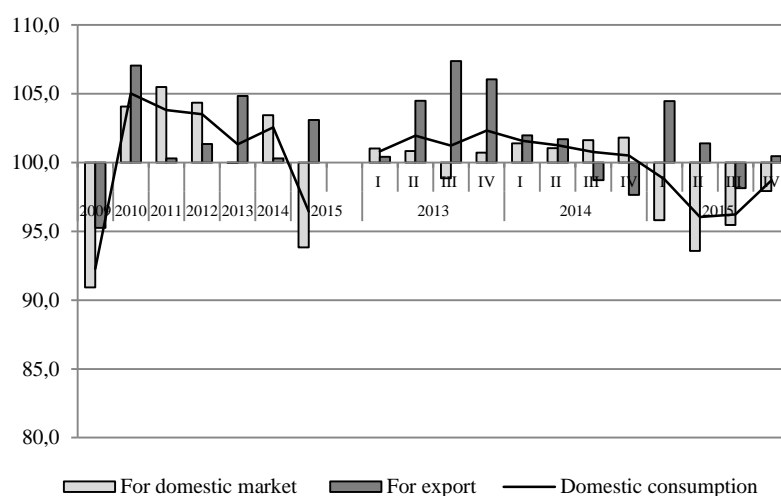


Fig. 3. Dynamics of domestic production of goods and services by components in the 2009–2015 period, % of the respective quarter of the previous year

Source: The Rosstat.

4.1.2. Utilization of GDP in the 2011–2015 period: consumer and Investment demand

The pattern of utilization of GDP was determined by a change in the ratios between ultimate consumption, gross savings and change in the net export contribution.

Table 6

The pattern of utilization of GDP in the 2011–2015 period, % of the result, in current prices*

	2011	2012	2013	2014	2015
Gross domestic product, including:	100.0	100.0	100.0	100.0	100
Expenditures on ultimate consumption	68.8	70.4	73.6	72.3	73.5
households	50.2	51.3	53.6	53.2	53.8
state government	18.2	18.7	19.7	18.8	19.3
Non-profit organizations rendering services to households	0.4	0.4	0.4	0.4	0.4
Gross savings	23.1	22.9	21.1	21.1	20.9
Gross accumulation of capital assets	20.0	20.2	20.2	21.4	22.0
Changes in inventories	3.1	2.7	0.9	-0.3	-1.1
Net export	8.1	6.8	5.6	6.6	8.1
Statistical discrepancies	0.0	-0.1	-0.4	-0.1	-2.5

* The data differs from the previous publications by the amount of change related to introduction of international methods of valuation of housing services, consumption of capital assets and reconciliation of the data on exports and imports with the data of the balance of payments.

Source: The Rosstat.

The specifics of 2015 consisted in a more dramatic drop in households' ultimate consumption as compared to the dynamics of capital investments. If in the 2010–2014 period the main factor which underpinned a positive trend of development of the Russian economy was households' consumption, in 2015 a drop in real income, a higher burden on households as regards repayment of debts on loans and growing inflationary expectations resulted in a 10.1% reduction of households' ultimate consumption as compared to the previous year.

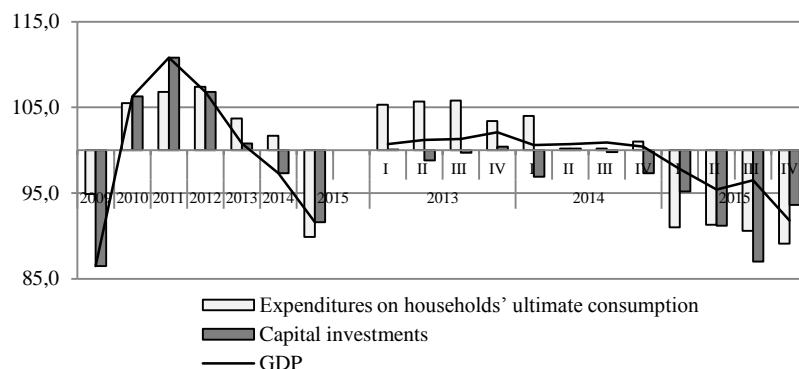


Fig. 4. The dynamics of households' ultimate consumption and investments in capital assets in the 2009–2015 period, % of the previous year

Source: The Rosstat.

Amid growing rate of inflation and economic uncertainties, changes took place in the consumer behavior model: the share of savings in households' incomes rose to 14.1%, including that in deposits and securities amounting to 6.5% (6.9% and 0.8%, respectively, in 2014). In 2015, households' interest in buying foreign currency amid dramatic depreciation of the ruble weakened a great deal and shifted to the area of organized forms of saving at credit institutions which raised interest rates on deposits from the end of 2014.

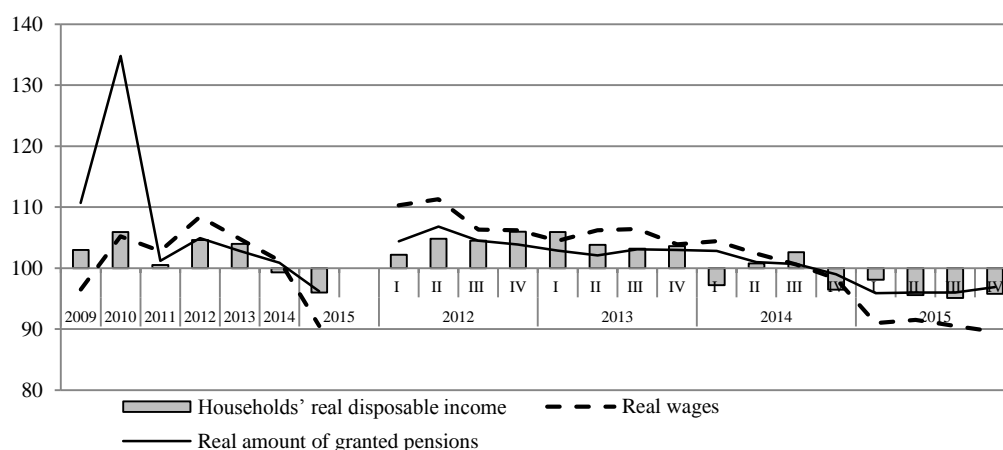


Fig. 5. Dynamics of households' real income in the 2009–2015 period, % of the respective period of the previous year*

* the quarterly data on households' revenues in the 2014–2015 period are preliminary and need be specified.

Source: The Rosstat.

With the existing GDP dynamics and utilization of the main factors of production, by 2014 the potential of further growth in labor remuneration costs was exhausted and in 2015 the dynamics of the main indices of households' standard of living was characterized by a gradual slowdown. In 2015, households' real disposable incomes fell by 4.0%, including monthly average accrued wages (9.5%) and the average amount of granted pensions (3.8%). As labor remuneration has a dominating effect on the level of households' incomes (66.0% of households' incomes), a trend of further reduction of real wages – the trend emerged late in 2015 –

is becoming a major factor which determines social parameters of households' standard of living in 2016. The situation is further complicated by the fact that in 2015 households' revenues from property and entrepreneurial activities fell, too.

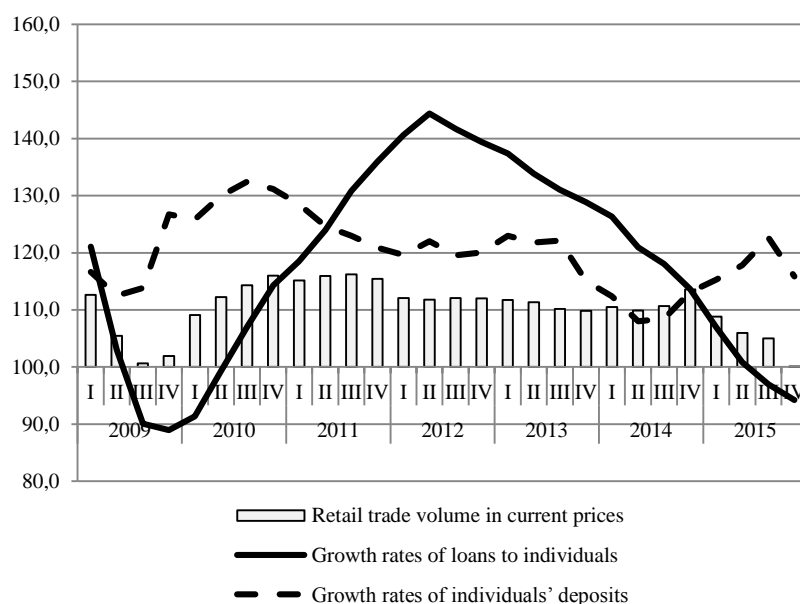


Fig. 6. Dynamics of loans to households and households' deposits in the 2009–2015 period, % of the respective period of the previous year

Source: The Rosstat.

In 2015, the retail trade volume and the volume of paid services fell by 10.0% and 2.1%, respectively, as compared to the previous year. Such a dramatic drop in the retail trade volume was neither observed in the 1999 crisis, nor in the 2009 crisis. In 2015, the share of households' expenditures on purchasing of goods fell by 3.1 p.p. as compared to 2014 and amounted to 54.5% of households' incomes.

Reduction of consumer demand was accompanied by shrinkage both of markets of food and non-food products. In 2015, the market of food products amounted to 90.8%, while that of non-food products, to 89.3% on the 2014 indices. Negative developments on the food market were registered from June 2014, while those on the non-food market, from the beginning of 2015. If before October 2014 the retail trade volume was underpinned by positive dynamics of households' revenues, in November 2014 – December 2015 the situation changed due to a sudden slowdown of growth in households' nominal income and high rates of inflation. In 2015, the consumer inflation index amounted to 112.9%, including 114.0%, 113.7% and 10.2% as regards food products, non-food products and services, respectively.

In 2015, in GDP dynamics by components of ultimate consumption the share of gross savings in GDP fell to 26.5% with the index of 31.2% in 2011. In 2015, gross accumulation amounted to 20.9% with the pattern changed. A drop in economic growth rates resulted in reduction of inventories. The share of gross accumulation of capital assets rose as compared to the previous year, however, the unit weight of capital investments in GDP remained at the average level throughout the 2013-2014 period and amounted to 18%.

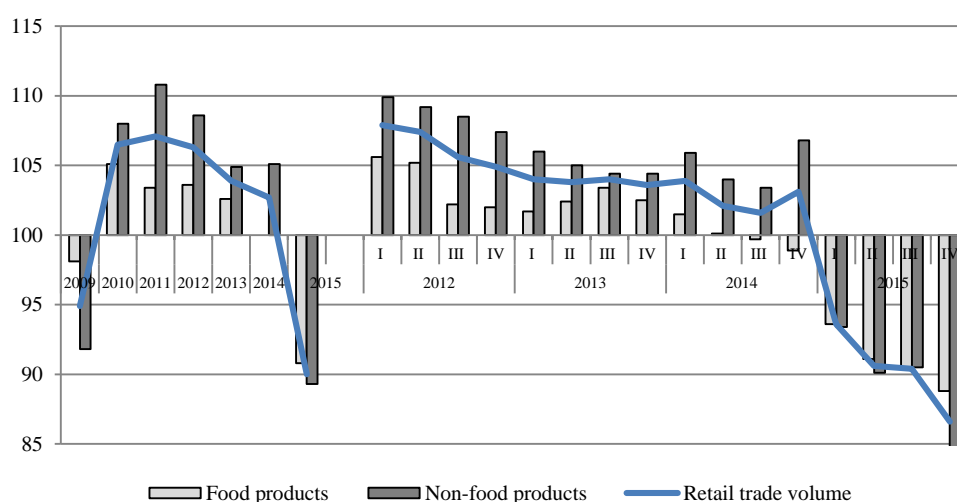


Fig. 7. The dynamics of the retail trade volume in the 2009–2015 period, % of the respective month of the previous year

Sourcer: The Rosstat.

The specifics of the Russian investment model consists in substantial volumes of savings whose major portion is not transformed into capital investments. A low level of transformation of gross national savings and gross accumulation into capital investments is a deep-rooted phenomenon of the Russian economy over quite a long period of time.

Table 7

**The main indicators of the economy's investment potential
in the 2011–2015 period, % of GDP**

	2011	2012	2013	2014	2015
Gross savings	31.9	29.6	26.4	27.7	26.5
Gross accumulation of capital assets	20.0	20.2	20.2	21.4	22.0
Individuals' deposits as of year-end	19.9	21.3	23.9	23.8	27.1
Resources of Federal Fund as of year-end	1.3	1.2	2.7	3.7	4.5
Resources of National Welfare Fund as of year-end	4.5	4.2	3.8	3.7	6.5
Capital investments	18.5	18.8	18.7	17.8	18.1

Source: The Rosstat.

From Q3 2014, a slump in investment activities intensified due to a higher cost of credit resources, limitation of companies' access to borrowing on global financial markets and high geopolitical risks. In 2015, capital investments fell by 8.4% as compared to the index of the previous year.

The analysis of the pattern of utilization of GDP and capital account illustrates asymmetry in formation of domestic saving resources and utilization thereof for investment purposes. The Russian investment model is characterized by substantial volumes of savings whose major portion the economy fails to transform into capital investments.

4.1.3. The GDP pattern by sources of income

The development of the Russian economy is characterized by diminishing development potential which fact is underpinned by high loading of production capacities, lack of large-scale investments and a low level of unemployment. In addition to the above, long-term growth in

production costs related to the tariff policy of infrastructure monopolies and advanced growth in wages as compared to labor efficiency make the situation even more complicated.

In the pattern of production costs, there is still high unit weight of material costs at the expense both of primary products and a fuel and energy component. Low efficiency of utilization of inputs is a major factor behind low efficiency of production and competitiveness of domestic goods on the domestic and foreign markets. Amid a drop in economic growth rates, in the 2014-2015 period the pricing policy was adjusted and determined the specifics of dynamics of financial performance of economic activities and efficiency indices. In 2015, production profitability grew by 2.5 p.p. as compared to 2014.

Table 8

**Profitability of sold goods, products, jobs and services
by the type of economic activities
in the 2010–2015 period, %**

	2010	2011	2012	2013	2014	2015
Total in the economy	10,0	9,6	8,6	7,0	7,3	9,3
Agriculture, hunting and forestry	9,1	9,1	10,7	5,2	17,4	21,3
Fishery and fish-farming	19,6	18,2	16,2	16,5	28,6	59,4
Mining	31,9	31,4	28,0	22,1	19,2	26,8
Manufacturing	14,8	13,2	10,7	8,8	9,9	12,4
Production and distribution of electricity, gas and water	7,1	6,4	3,9	4,4	3,7	5,5
Building	4,5	4,3	5,0	8,3	3,4	5,4
Wholesale and retail trade	8,3	8,9	6,7	6,5	6,1	7,1
Hotels and restaurants	6,2	5,9	5,9	6,0	4,4	5,8
Transport and communications	13,5	11,4	11,1	9,7	8,4	10,6
Communications	27,7	21,9	23,7	23,6	20,8	21,4
Financial activities	0,6	-0,3	0,8	0,5	1,5	0,5
Real-estate operations, leasing and provision of services	9,3	9,2	10,6	10,4	10,7	9,7
Public administration and military security; social insurance	12,8	6,8	8,3	7,8	10,3	11,7
Education	6,6	4,1	2,5	11,8	2,3	6,2
Healthcare and provision of social services	5,6	1,7	6,6	4,8	6,2	7,6

Source: The Rosstat.

Table 9

**Indices of prices and tariffs in the 2010-2015 period,
December on December**

	2010	2011	2012	2013	2014	2015
Consumer price index	108.8	106.1	106.6	106.5	111.4	112.9
Industrial producer price index	116.7	112.0	105.1	103.7	105.9	110.7
Mining	117.1	126.3	109.3	107.0	98.4	109.8
Production of fuel and energy primary products	116.1	128.1	110.5	107.7	97.0	109.8
Production of primary products, except for fuel and energy	130.9	112.4	98.9	101.0	109.9	110.0
Manufacturing	116.9	108.3	103.2	101.6	108.5	112.2
Production and distribution of electricity, gas and water	113.8	105.1	107.0	108.1	104.5	109.3
Agricultural producer price index	123.6	94.9	110.8	102.7	114.1	108.5
Construction product composite price index	109.1	108.0	106.9	104.9	107.2	110.3
Cargo carriage tariff index	133.1	107.7	107.5	108.0	100.9	111.5

Source: The Rosstat.

In the 2010–2013 period, weakening of the dynamics of producers' prices and tariffs was justified by the objective to maintain demand on the domestic market. In 2014, the trend which prevailed for four years changed and producers' prices in industry and building started to grow dynamically. In 2015, prices in manufacturing industries rose by 12.2% and 21.7% as compared to 2014 and 2013, respectively. In 2015, in mining a 9.8% growth in prices made up for their drop in the previous year, while growth in prices amounted to 8.1% as compared to 2013.

Building reacted to changes in investments by a 18.2% growth in prices in 2015 as compared to 2013. It is to be noted that growth rates of wages and salaries were more moderate than before. Advanced growth in manufacturers' prices, depreciation of the ruble and a relative decrease in labor remuneration costs had a positive effect on financial performance. In 2015, the share of the economy's gross profit amounted to 43.6% of GDP and exceeded by 2.5 p.p. the 2014 index.

Table 10

**The pattern of formation of GDP by sources of income in the 2011–2015 period,
% of the result, in current prices**

	2011	2012	2013	2014	2015
Gross domestic product, including:	100	100	100	100	100
Labor remuneration of hired workers, including concealed remuneration and mixed incomes	43.9	44.2	46.1	44.8	45.4
Net incomes on production and import	14.6	14.7	14.2	14.1	11.0
Gross profit of economy and gross mixed incomes	41.5	41.1	39.7	41.1	43.6

Source: The Rosstat

With reduction in absolute terms of net taxes on production and imports from Rb 11.0 trillion in 2014 to Rb 8.8 trillion in 2015, the share of labor remuneration in GDP amounted to 45.5%. It is to be noted that with taking into account the trend – which prevailed from 2012 – of reduction of growth rates of production and labor efficiency and dynamic growth in nominal wages and salaries, in particular, in the public sector in the 2012–2013 period as compared to 2014, serious limitations on further growth in labor remuneration costs were formed. In the 2014–2015 period, further growth in labor remuneration costs was greatly limited by changes in the situation on commodity markets, appreciation of price and higher production costs.¹

4.1.4. Dynamics and the pattern of production by the type of economic activities

Slowdown of quarterly dynamics of economic development during the past three years was accompanied by weakening of growth rates of industrial production, retail trade volume and building and investment activities. In 2015, for the first time after the 2008–2009 crisis a drop in the index of the physical volume of output by the baseline type of economic activities was registered as compared to the previous year with consolidation of the output downward trend by quarters. If in 2014 instability of indices of investment activities was partially made up for by positive dynamics of retail trade volumes and outputs of manufacturing and agricultural, in 2015 the situation became more complicated due to a simultaneous drop in consumer and investment demand with a slump in industrial production getting worse. In 2015, the industrial production index amounted to 96.6%, while the volume of jobs in building and the retail trade volume, to 93.0% and 90.0%, respectively, as compared to the previous year. An output drop in the real sector of the economy resulted in shrinkage of demand on infrastructure services. In 2015, only a 3.0% growth in output of agricultural products as compared to 2014 had a positive effect on the economic dynamics.

¹ For more information on the effect of structural factors, see Section 4.2.

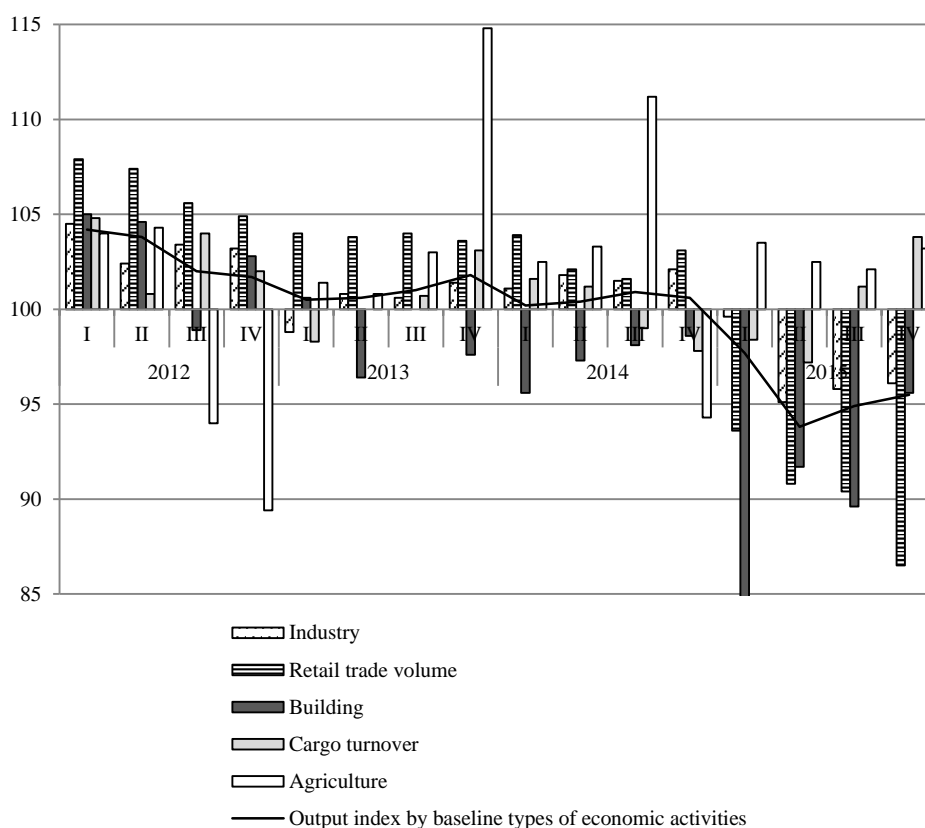


Fig. 8. Dynamics of baseline types of economic activities in the 2012-2015 period, % of the respective quarter of the previous year

Source: The Rosstat.

The specifics of 2015 consisted in a simultaneous drop both in trading and non-trading sectors of the economy (in the trading and non-trading sectors of the economy output amounted to 98.0% and 96.3%, respectively, as compared to 2014).

In 2015, for the first time after 2009 a drop in production of gross added value in the non-trading sector of the economy was registered as compared to the previous year. A drop in growth rates of added value in the non-trading sector of the economy was registered by all the aggregated types of activities under review. Due to a greater slump in building and investment activities, revenues from real-estate operations decreased dramatically. With a speed-up of negative quarterly dynamics taken into account, in 2015 reduction of the rates of wholesale and retail trade became more substantial. The above situation is related to a sudden shrinkage of households' demand on services due to a decrease in households' incomes and constriction of building and investment activities and related types of financial services.

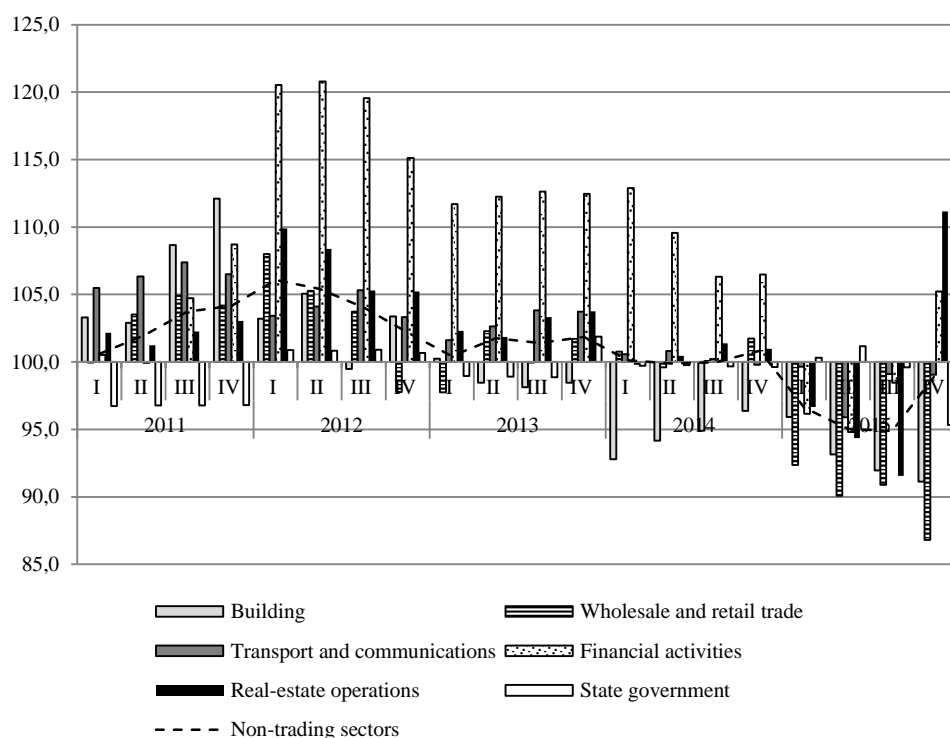


Fig. 9. Dynamics of gross added value in the non-trading sector of the economy in 2011-2015 period, % of the respective quarter of the previous year

Source: The Rosstat.

In 2015, the crisis in the Russian industry was characterized by a more dramatic slump in manufacturing amid relatively weak positive dynamics of production of fuel and energy primary products. Evidence of crisis phenomena by the type of economic activities points to a lack of domestic business restructuring processes aimed at formation of new competitive markets of domestic products. Having achieved the pre-crisis level, from H2 2012 the Russian economy demonstrated evidence of slowdown of growth. In that situation, domestic restrictions related to the fact that the economic pattern did not undergo substantial changes, while the potential of factors contributing to growth happened to be virtually exhausted had a particularly strong effect. From Q2 2013, a drop in output volumes was registered in manufacturing. In 2015, the industrial production index amounted to 96.4% against the index of 2014. In 2015, structural specifics of industrial dynamics as compared to 2014 were determined by sluggish growth in mining 100.3%) with a slump in manufacturing getting more dramatic (94.5%).

In 2015, year-on-year positive dynamics was registered only in the chemical industry (106.3%), production of charred coal and petrochemicals (100.3%) and the food industry (102.0%).

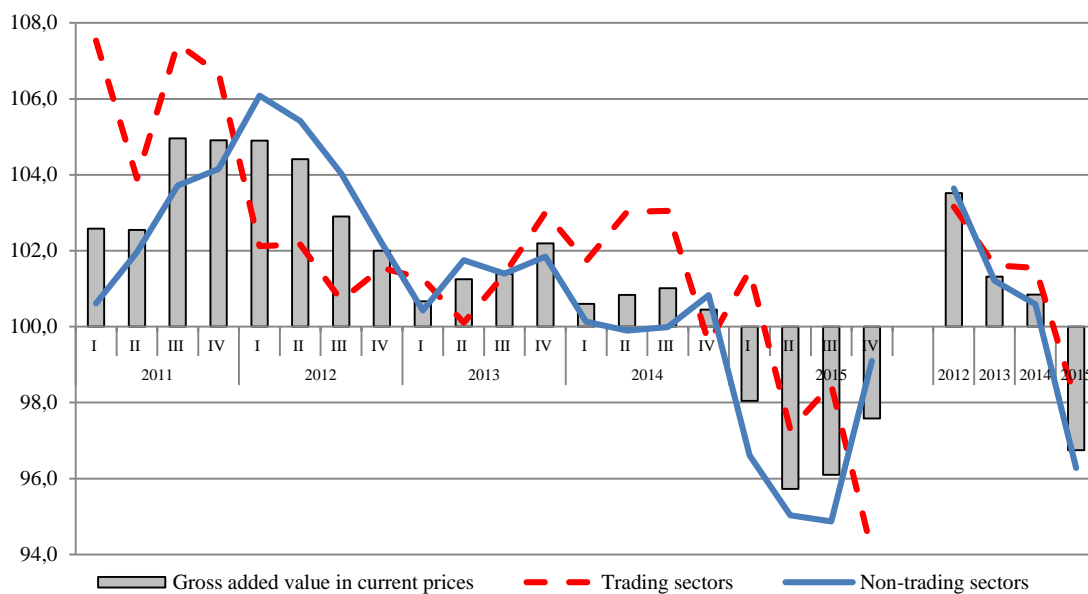


Fig. 10. Dynamics of GDP as regards the trading and non-trading sectors of the economy in the 2011–2015 period, % of the respective quarter of the previous year

Source: The Rosstat.

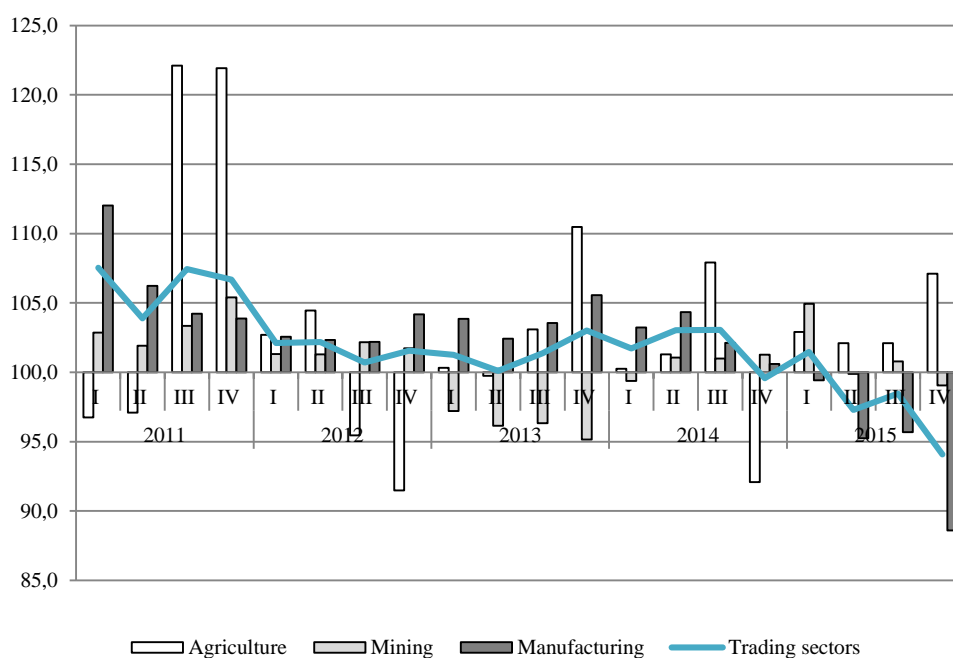


Fig. 11. Dynamics of gross added value in the trading sector of the economy in the 2011–2015 period, % of the respective quarter of the previous year

Source: The Rosstat.

**Indices of production by the main type of manufacturing in the 2010–2015 period,
% of the previous year**

	2010	2011	2012	2013	2014	2015
Manufacturing	110.6	108.0	105.1	100.5	102.1	94.6
Production of food products, including beverages and tobacco	103.2	103.9	104.1	100.6	102.5	102
Textile and sewing industry	108.8	100.8	100.7	104.3	97.5	88.3
Production of leather, leather articles and footwear	119.9	105.7	98.1	95.6	97.2	88.6
Woodworking and production of wood articles	113.4	110.2	96.2	108.0	94.7	96.6
Pulp and paper production, publishing and printing	103.1	106.5	105.8	94.8	100.4	93.7
Production of charred coal and petrochemicals	106.0	103.8	103.1	102.3	105.7	100.3
Chemical industry	110.6	109.5	104.1	105.4	100.1	106.3
Production of rubber and plastic articles	124.4	111.4	112.8	105.9	107.5	96.3
Production of other non-metal mineral products	114.5	107.4	110.7	98.0	101.8	92.2
Metallurgy and production of finished metal articles	112.4	107.0	104.8	100.0	100.6	93.5
Production of machines and equipment	115.2	111.1	102.7	96.6	92.2	88.9
Production of electric, electronic and optical equipment	118.9	111.9	106.4	99.0	99.5	92.1
Production of transportation means and equipment	127.2	117.2	110.3	102.2	108.5	91.5
Other industries	120.6	105.3	102.6	95.4	102.7	94.0

Source: The Rosstat.

In the current year, changes in the pattern of demand had a favorable effect on the dynamics of chemical production. Amid depreciation of the ruble, reduction of volumes of appreciated imports permitted chemical enterprises to expand on the one side the niche for domestic goods on the domestic market, while on the other side to build up export volumes in physical terms. The factor of import substitution influenced the most the dynamics of production of pharmaceuticals and household chemicals whose output in 2015 increased by 8.9% and 6.6%, respectively, as compared to the previous year. It is to be noted that in the mid-term prospect, pharmaceutical production has a growth potential thanks both to state support and higher investment attractiveness for Russian and foreign investors. In the past three years, over 10 new pharmaceutical plants have been put into operation with a simultaneous modernization of the existing capacities and acquiring by Russian producers of new competences and knowledge. Despite a complicated macroeconomic situation, cooperation with international companies is expanding: in St. Petersburg the Bayer Company signed a contract with the Polisan Company on production of three preparations in Russia; the Novartis Company is building a plant; in the Kaluga Region AstraZeneca, a Swedish-British pharmaceutical company opened up a local production (commercial output starts in Q1 2016), while Novo Nordisk, a Danish company built an insulin-producing, cartridge-filling and packing plant; in the Kirov Region an agreement was concluded with the Merck Company on localization of production at the Nanolek plant (euro 10m worth of investments).

In October 2015, a 4.1% growth in production of the main chemical agents as compared to the previous year was justified, in particular, by attainment by new petrochemical plants – which were put in operation in previous years – of projected capacities: two large polypropylene-producing plants – Poliom (the Omsk Region) and Tobolsk-Polimer (the Tyumen Region) - and RusVinil, a polyvinylchloride-producing plant (the Nizhny Novgorod Region).

As regards sectors of chemical production, it is to be noted that gradual recovery of varnish-and-paint production and artificial fiber production is observed. In 2015, unstable output dynamics of the above productions can be explained both by reduction of the domestic demand and lack of development alternatives with products being non-competitive on foreign markets even at lower prices.

In 2015, producer price index in the chemical industry amounted to 118.1% on the beginning of the year and exceeded producers' prices in manufacturing (111.2%). As a result, in January-

November 2015 the balanced financial result in the chemical industry rose 15.5 times over. In that situation, in January-November a 9.5% growth in nominal wages in the chemical industry (8.1% in manufacturing) was a factor behind retention of personnel in that industry.

The problem of the Russian economy consists in a lack of a well-coordinated system of comprehensive measures aimed at modifying general business conditions; instead a target support of individual industries is practiced. If in the beginning the production of intermediate demand goods with a high share of export-oriented production reacted to appreciation of prices due to depreciation of the ruble by renewal of output growth, from April 2015 a drop in output in that segment of manufacturing was registered. An additional factor behind a further slump in the segment of intermediate demand goods was reduction of demand on domestic components and materials by industries of the investment complex. Reduction of output of domestic intermediate demand goods resulted in structural changes in the import: in 2015 the unit weight of intermediate goods in the total volume of imports rose as compared to the previous year.

A decrease in production and imports of capital goods was justified by low investment demand. In 2015, in engineering the index of domestic production of machines and equipment amounted 88.9%, the index of production of electric, electronic and optical equipment, to 92.1% and that of production of transportation means, to 91.5%. In 2015, the index of production of building materials amounted to 92.2%, while in metallurgy, to 93.5% as compared to 2014.

A decrease in output volumes in metallurgy was the result of shrinkage of metal consumers' demand, particularly, on high value-added products both on domestic and foreign markets, as well as a drop in global prices virtually on all ferrous and non-ferrous metals. However, it is to be noted that domestic metallurgy as a highly competitive industry has a great potential of growth. Large projects which liquidated shortages of individual types of products and contributed to import substitution have been completed.

In 2015, a year-on-year index of production of petrochemicals amounted to 100.4%. A 2.7% decrease in oil refining volumes as compared to the previous year was determined by structural changes in exports in favor of growth in physical volumes of crude oil exports.