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TRENDS AND OUTLOOKS

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The review “Russian Economy. Trends and Outlooks” has been published by the Gaidar Institute since 1991. This is the 41th issue. This publication provides a detailed analysis of main trends in Russian economy, global trends in social and economic development. The paper contains 6 big sections that highlight different aspects of Russia's economic development, which allow to monitor all angles of ongoing events over a prolonged period: global economic and political challenges and national responses, economic growth and economic crisis; the monetary and budget spheres; financial markets and institutions; the real sector; social sphere; institutional changes. The paper employs a huge mass of statistical data that forms the basis of original computation and numerous charts confirming the conclusions.

By contrast to the previous publications the present issue includes also a short analysis of the first three months of 2020 from the perspective of the COVID-19 pandemic impact on the Russian economy development.

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4.6. Russia’s agricultural sector in 2019¹

4.6.1. Estimates of agricultural contribution to dynamics of national economy

Sustainable positive dynamics of agricultural production allowed agrarians, economists and politicians to talk about the industry not only as an instrument for ensuring food security, but also as a driver of economic growth. The inclusion of gross value added (GVA) data in the target indicators of the Government Program of Agriculture Development and Regulation of Markets for Agricultural Products, Raw Materials and Foodstuffs (hereinafter referred to as the Government Program) proved this thesis in practice.

At the same time, over recent years, growth of agricultural production is accompanied by reduction of agricultural share in the national economy (*Fig. 28*).

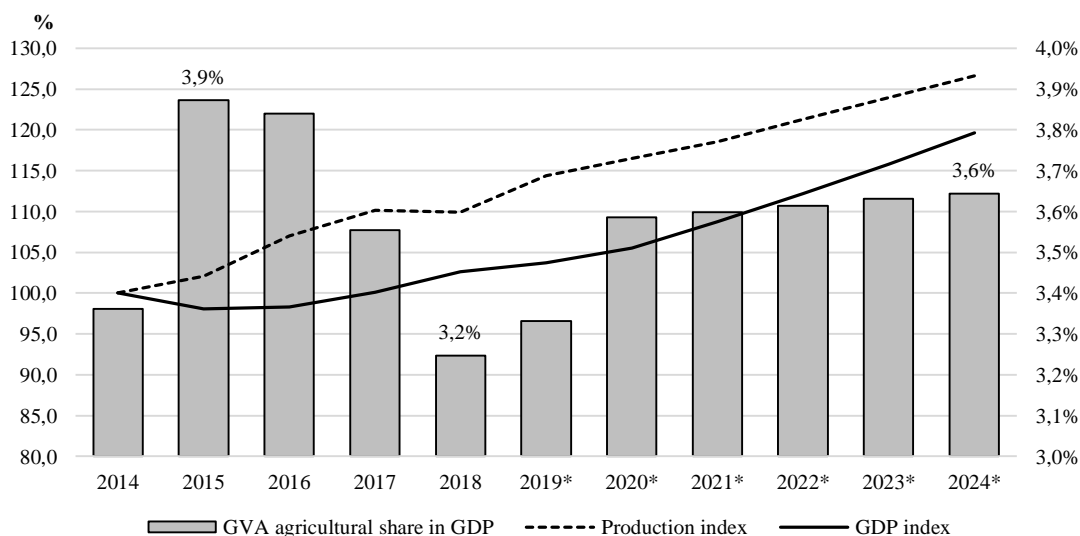


Fig. 28. Actual and forecast share of agriculture in the national economy of Russia²

¹ This section was written by *Gataulina E.A.*, Candidate of science (Economics), Leading Researcher, Sector of Agricultural Policy, IAES RANEP; *Ternovsky D.S.*, Doctor of science (Economics), Leading Researcher, Sector of Agricultural Policy, IAES RANEP; *Shagaida N.I.*, Doctor of science (Economics), Director, Sector of Agricultural Policy, IAES RANEP; *Shishkina E.A.*, Researcher, Sector of Agricultural Policy, IAES RANEP.

² Section A OKVED 2 “Agriculture, forestry, hunting, fisheries and fish farming”.

Source: 2014–2018 – Rosstat data, *2020–2024 – own calculations based on Government Program of Agriculture Development and baseline version of the Forecast of social and economic development of the Russian Federation up to 2024.

Despite the increase in gross agricultural output (the main element of gross output under section A of OKVED 2) by 14.3% in 2019 compared to 2014, which is greater than GDP growth, the industry share in the national economy in current prices reduced from 3.4% of GDP in 2014 to 3.3% in 2019, peaking to 3.9% in 2015. The main factor of its reduction were lower growth rates of prices for agricultural products compared to products representing other sectors of economy. The share of agriculture in GDP in prices of 2016 fluctuated slightly at the level of 3.6–3.8% in 2014–2019.

The growth rate of agricultural GVA (7.8% in 2019 compared to 2014 in constant prices) exceeded the GDP growth rate (4.0%), but was evidently lower than the growth rate of gross output (14.6%) due to a change of its structure, i.e. an increase in the share of intermediate consumption in gross output (50.1% in 2019 compared to 47.0% in 2014 in constant prices).

Shifts in the structure of gross output were determined mainly by changes in the production of agricultural products as such (about 80% of the total increase in the share of intermediate consumption in this industry) and not related to redistribution of production between agriculture and forestry, fish farming and fishing.

The increase in the share of intermediate consumption in gross agricultural output is generated by both technological changes in households and peasant (farm) households (the “Households” sector, about 2/3 of the total increase), and a shift of production to agricultural organizations (sector of Non-financial corporations”, about 1/3 of the total increase).

These processes stem from industrialization of agriculture, accompanied by growth of labor productivity, release of working hands and the flow of added value to other sectors (production of fertilizers, oil products, etc.), which reduces the growth of added value in agriculture.

The dynamics of gross added value produced in agriculture, indicates a failure in reaching target indicators of the Government Program both in 2018 (-5.9%) and in 2019 (-5.7%). In addition, we believe that the level of 3.55–3.65% of GDP planned for 2020–2024 (according to estimates of the basic version of the Forecast of socio-economic development of the Russian Federation for the period until 2024) might not be achievable taking into consideration that target growth rate of agricultural production in 2020–2024. (10.7% by 2019), lags behind the scenario of GDP growth (15.4%), and having in mind current structural tendencies (suggesting reduction in the share of added value in the gross agricultural output).

4.6.2. Dynamics of production, consumption, food export port substitution

In 2019, crop production increased in all major groups, excluding potatoes, compared to the previous year. Growth amounted to more than 2% even for vegetables, which are still largely produced at households.

Despite the fact that Russia is mainly proud of its success in grain production, its growth in 2019 was insignificant against the last pre-reform five-year period of 1986–1990, whereas growth was by far higher for other essential products. In other words, transformation of the structure of production and its adaptation to the market is going on: production of export crops or those crops improving the pattern of consumption is increasing (*Table 26*).

Table 26

Crop production, millions of tons

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Indicators	At the average for 1986–1990	2015	2016	2017	2018	2019*	2019 in % against 2018	2019 in % against average for 1986–1990
Grain	104.3	104.7	120.7	135.5	113.3	121.2	107.0	116.2
including wheat	43.5	61.8	73.3	86.0	72.1	74.5	103.3	171.3
Corn	3.3	13.1	15.3	13.2	11.4	14.3	125.4	433.3
Sugar beet	33.2	39.0	51.3	51.9	42.1	54.4	129.2	163.9
Sunflower	3.1	9.3	11.0	10.5	12.8	15.4	120.3	496.8
Soya	0.6	2.7	3.1	3.6	4.0	4.3**	107.5	716.7
Potatoes	35.9	25.4	22.5	21.7	22.4	22.1	98.7	61.6
Vegetables and gourds	11.2	13.2	13.2	13.6	13.7	14.1	102.9	125.9
Fruits and berries	3.3	2.7	3.1	2.7	3.3	No data	No data	No data

*Data as of March, 1, 2020.

**Data prior to adjustment. No adjusted data for 2019 available at the time of review.

Source: Rosstat statistical data “Gross output of agricultural crop by categories of households at all standards households”. URL: <https://gks.ru/storage/mediabank/val1-19.rar>; URL: https://www.gks.ru/storage/mediabank/val_1.xls.

The increase in livestock is negligible (*Table 27*). The reason for that is that domestic demand for meat and egg has been satisfied while meat and egg export not established and respectively insignificant. Besides, beef and pork to a lesser extent, is not competitive at world market price and, if the domestic market was open, then it is not competitive also there, although the growth in production and low consumer demand limits domestic prices, thereby increasing the competitiveness of these products.

Production of milk is actively supported by governmental subsidies, however, growth of production in agricultural organizations (AO) and peasant (farm) households (PFH) hardly compensates its decline at households. Only reduction of consumer purchasing power allows to allocate milk surplus for potential export. RF Ministry of Agriculture is working out programs for promotion of milk export to China. However, its price remains non-competitive at the international market and export is restricted. Egg has been competitive for a long period of time, however, its export is still insignificant, less 2% of production. However, it grows fast: if egg export amounted to almost 480 million eggs in 2012, in 2018 it was already 770 million.

Table 27

Livestock production

Indicators	average for 1986–1990	2015	2016	2017	2018	2019 (estimates)*	2019 against 2018, %
Meat and poultry, thousands of tons of live weight at slaughter	9671	95.9	9853	10319	10629	10826	101.8
Milk, millions of tons	54.2	29.9	29.8	30.2	30.6	31.1	101.6
Egg, billions	47.9	42.5	43.5	44.8	44.9	44.8	99.8

Source: Rosstat.

The revival of domestic food consumer demand could be observed since June 2017. However, only in October 2019, volume of foodstuffs retail purchases exceeded the rate of 2015, but still it was very far from rates of 2012, 2013 and 2014. Thus, in December 2019, according to Rosstat, consumers bought 8% less (in comparable prices) than in December 2012. The good news is that throughout 2019 foodstuffs purchases were stable at 92–94% compared to respective months of 2012 (*Fig. 29*). In 2018, rates of purchases at 92% decreased from October 2018 to the end of the year (to 90%).

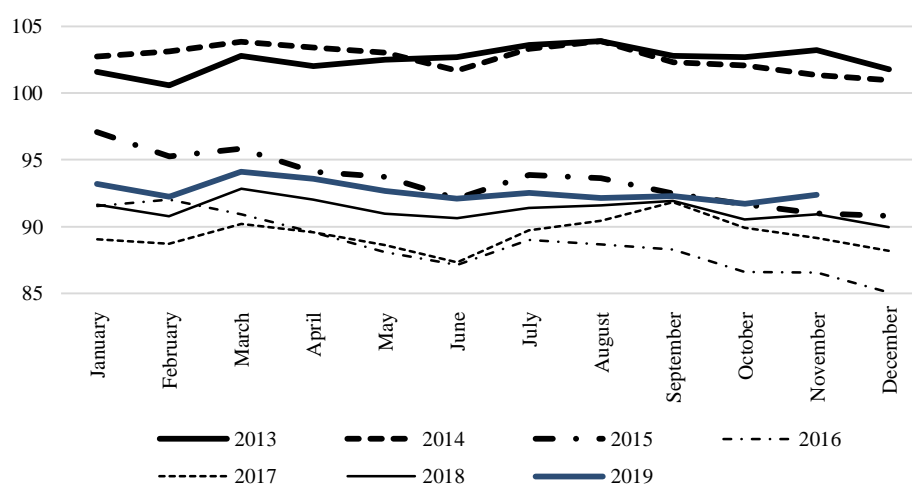


Fig. 29. Retail foodstuffs purchases, % against respective month of 2012

Source: calculations based on Rosstat data.

Poor growth in demand since 2017 impacted the dynamics of food imports according to the annual data shown on Fig. 30. In 2019, imports slightly increased while exports modestly decreased against 2018. However, even with these changes, it is clear that Russia is moving forward to become a net exporter of food despite the fact that from 2016, the share of imported foodstuffs in commodity resources of retail trade is not declining anymore, which was the case in 2013–2016 (Table 28).

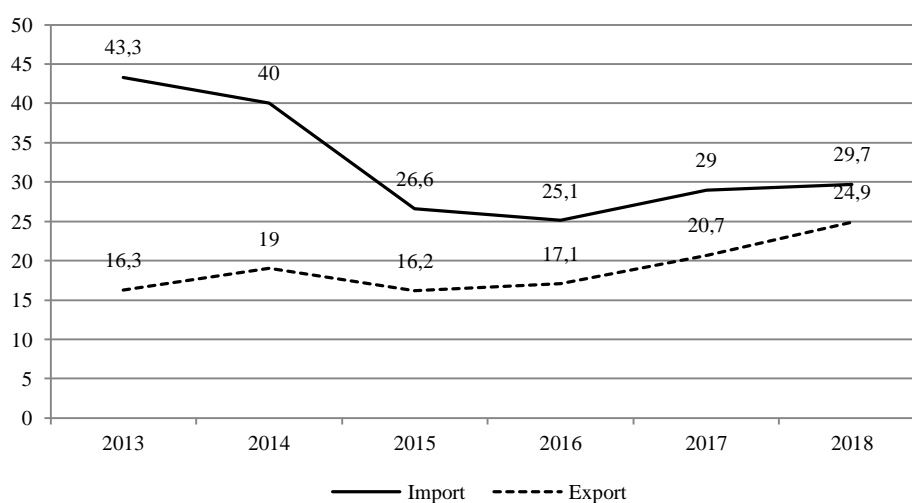


Fig. 30. Export and import of agricultural and food products (1–24 FEACN), billions of USD

Source: RF Federal Customs Service.

Table 28

Share of imported goods in food commodity resources, %

	QI	QII	QIII	QIV
2013	36	35	35	36

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2014	36	33	32	36
2015	29	26	27	30
2016	24	22	22	24
2017	23	21	22	25
2018	25	22	22	25
2019	25	24	24	*

* No data for QIV 2019 available at the time of this review.

Source: *EMISS*. URL: <https://www.fedstat.ru/indicator/37164>

4.6.3. Government support of agriculture

Government Program of Agriculture Development and Regulation of Markets for Agricultural Products, Raw Materials and Foodstuffs is a principal document, shaping agrarian policy, in particular, priorities, directions and supportive measures. In 2019, another, 15th edition of the Government Program came into force (changes introduced by Decree of the RF Government No. 98 of February 8, 2019). By this Decree, the Government Program has been officially extended until 2025, and the phrase related to the period of its validity was excluded from the title. Thus, the Government Program has finally lost the properties of the medium-term planning tool, which provides for the stability of goals, directions, structure, funding throughout the entire period of its implementation, acquiring, in fact, an unlimited duration (it is possible to endlessly extend the implementation period).

According to Article 10 of the Federal Law of December 29, 2006 №264-ФЗ (amended as on December 25, 2018) “On Development of Agriculture”, the National Report on the implementation and results of the Government program¹ envisages the review of its implementation only “for the previous year and only if it has been completed, thus, for the whole period of its implementation.” In other words, the Law suggested an annual review of the current situation with a full review of the selected strategy of agriculture development to be made every 5 years (initial validity period of the 1st Government Program). It is anticipated to introduce significant amendments into the Government Program, if required, specifically at the close of mid-term period based on results of the performed review. This was an example of achieving a combination of stability vital for business, and flexibility necessary to manage the industry.

At present, the Government Program has been extended to 2025 and, respectively, the review of agricultural policy for the period of 2013–2020 (valid until renewal), clearly reflected in the Government Program, will not be included in the National Report for 2020.

It remains unclear whether goals declared in the Government Program for this period have been achieved and priorities and support mechanisms correctly chosen. The review of the current situation, included for the time being in the annual National Reports, is certainly important, but only as a stage in assessing the achievement of medium-term goals. This aspect of review under National Annual Reports is not available now.

At present, the Government Program and the National Report reflect the actual state of affairs, meaning the current short-term mode of management, while 15 amendments of the Government Program over 7 years, including those that significantly changed its structure, directions and funding, serve as confirmation.

In addition, parameters of financial support for the Government Program and its projects for 2022–2025 are indicative in the Government Program Passport with notes that they will be “clarified after approval of the Federal Law on federal budget for the next financial year and

¹ Principal analytical document on implementation of goals, tasks, indicators of Government Program at fixed funding. Approved by RF Government, forwarded to RF Federal Assembly.

the planning period.”¹. There are no restrictions on the amount of funding adjustments, that is, they can be substantial.

Thus, for instance, according to the Government Program Passport “Comprehensive development of rural areas” (this direction was included in the Government Program of Agriculture Development and Regulation of Markets for Agricultural Products, Raw Materials and Foodstuffs and in 2019 was spun off into a separate Government Program with financing due to start on January 1, 2020), the funding is planned out of the federal budget in the amount of RUB 79.2 billion in 2020, RUB 160.6 billion in 2021, RUB 193.1 billion in 2022². However, according to Federal Law of December 2, 2019 № 380-FZ, it is planned to allocate only RUB 35.95 billion in 2020, RUB 34.4 billion in 2021 and RUB 34.98 billion in 2022, in other words, funding envisaged for 2022 is 5.5 times less compared to Government Program Passport.

This situation is far from normal, since such a reduction requires a radical review of all target indicators, and most likely, of the structure and goals of the Government Program already approved by RF Government Decree dated May 31, 2019 No. 696 (as amended on October 17, 2019).

The overall funding of the Government Program for the Development of Agriculture and the Regulation of Agricultural Products, Raw Materials and Foodstuffs also undergoes significant changes depending on the wording and calculation methods (*Table 29, Fig. 31*).

Table 29

**Scheduled funding for implementation of Government Program
as in its different amended versions, RUB billion**

Sources of funding	2019	2018	2019
	Amended version ¹⁴ (Decree of RF Government №1443 of November 30, 2018)	Amended version 15 (Decree of RF Government of February 8, 2019 № 98)	
Federal budget	242.43	242.0	303.62
Consolidated budgets of RF subjects	42.77	45.0	21.33
Off- budget sources	11.98	878.7	468.79
Total	297.2	1165.6	793.74

Source: Decree of RF Government № 717 (as amended by Decrees of RF Government №1443 of November 30, 2018 and № 98 of February 8, 2019)

¹ Decree of RF Government of July 2012 № 717 (as amended on February 8, 2019).

² Decree of RF Government of May 31, 2019 № 696 (as amended on October 17, 2019).

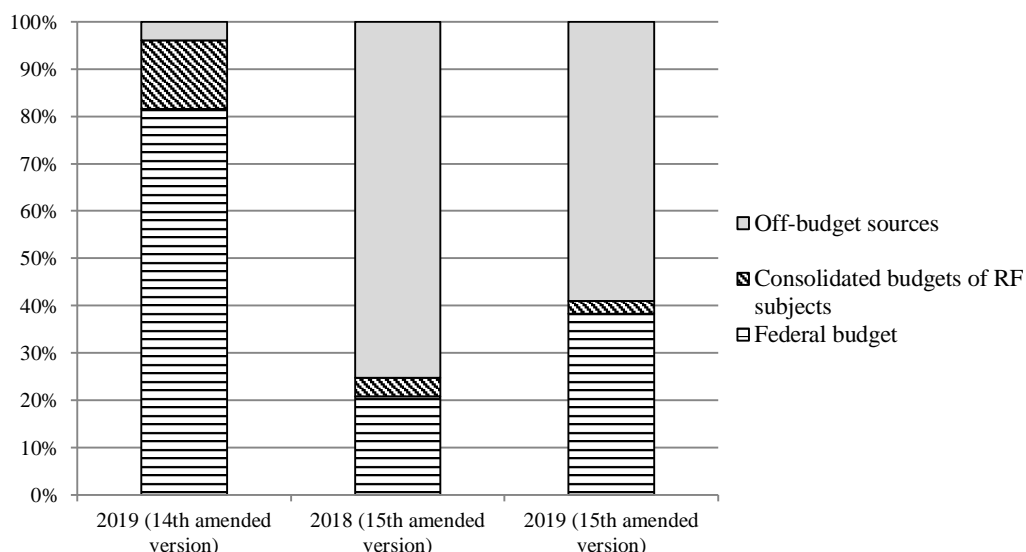


Fig. 31. Framework of scheduled level of funding for implementation of Government Program as in its different versions including off-budget sources

Source: Decree of RF Government № 717 (as amended by Decrees of RF Government №1443 of November 30, 2018 and № 98 of February 8, 2019)

Sharp increase of the off-budget funding sources in different versions of the Government Program could be explained by the fact that earlier (version 14) this particular article included only relevant data on the Federal Targeted Program (FTP) “Sustainable Development of Agricultural Lands” and “Development of Amelioration of Agricultural Lands in Russia.”

It should be noted that financing pattern of these Federal Targeted Programs (FTP) was reviewed in the National Reports for the respective year taking into account the off-budget sources. All business and individual investments subject to the provision of governmental support were included there after methodology has been changed in the 15th amended version.

As a result, total funding of the Government Program in 2018 should have amounted to a record RUB 1 trillion 166 billion according to the Government Program Passport (15th amended version), when the off-budget funds, i.e. own finances of agribusiness and rural residents, were the major source of agricultural funding as shown at *Fig. 31* and *Table 29*.

In 2018, they should have amounted to 75% of the total funding of the Government Program and 59% in 2019. The role of the federal budget was restricted to 21% in 2018 while regional budgets settled with only 4% of total planned funding.

It was to be expected that the focus in examining the implementation of the Government Program will accordingly switch in the 2018 National Report to the main source of funding, that is, the dynamics of the off-budget funds. The actual execution of planned off-budget revenues, as well as the reasons for their planned rapid reduction in 2019 compared to 2018 became evident (according to the Government Program Passport from RUB 879 billion to RUB 469 billion).

In other words, if we consider that one of the budgetary funding goals is to promote the flow of investments to agriculture, it appears that taking into account the scheduled increase of the budgetary funding allocated from treasuries at all levels by 13% in 2019 compared to 2018

(15th amended version of the Government Program), the decline in the off-budget funds, as the source of funding the development of this sector, has been officially planned by 1.9 times.

However, there are no answers to these questions in the National Report for the respective year, which is the principal official document monitoring the Government Program implementation in 2018. It examines the implementation of resourcing for the Government Program exclusively from the federal budget.

The role played by the off-budget funds as well as regional budgets in providing financing for the Government Program is not estimated in general, likewise in the context of projects, subprograms, and measures, with the exception of their traditional inclusion in the FTP review “Sustainable Development of Agricultural Lands” and “Development of Amelioration of the Agricultural Lands in Russia.” At the same time, the amount of the off-budget funds for these FTPs amounted to only RUB 13.4 billion in 2018, i.e. 1.5% of their total planned amount of funds.

There is no evaluation of what happened to 98.5% of planned off-budget funds in 2018. Alterations in the pattern of indicators, methodology of their calculation should be justified by practical need. Based on the content of the National Report for 2018, there was no need to change methodology.

The authorities consider even further funding out of the federal budget as the main driver for development of agricultural sector. As seen from *Table 29*, federal budget funding expects a significant growth (by 30%) (by 25% compared to the plan of 2018 according to the 15th amended version of the Government Program) with a two-fold planned reduction in the share of regional budgets.

Thus, growth of strain on federal budget has been planned for 2019. This can be partly explained by the fact that loan debts on loans granted on terms of interest rate reimbursement, financed, inter alia, from regional budgets, reduce, with an increase in loans received under new rules, i.e. at a reduced rate not exceeding 5%. Incomes lost by banks on these loans in the amount not exceeding the key rate, will be compensated only out of the federal budget.

In 2018, actual funding of the Government Program from the federal budget amounted to RUB 249.5 billion, i.e. the scheduled increase in funding for 2019 compared to the previous year, will amount 21.7% according to the latest 15th current version of the Government Program. Based on open sources, it was not possible to identify the relevant data on full funding of the Government Program from regional budgets in 2018.

Taking into consideration the “Information on local budget expenditures from the budget of RF subject with subsidies and other inter-budget transfers making up the source of financial support”¹ for 2018 and 2019, one can only identify the role of federal and regional budgets in financing subsidies and grants transferred directly to agricultural producers (*Table 30*).

Table 30

Subsidies and other intergovernmental transfers forwarded to agricultural producers, billions of Rubles

Year	Total	Including from		Size of funding including budget of RF subject, %
		Federal budget	Regional budget	
2018	170.58	140.53	30.05	17.62
2019	152.32	126.91	25.41	16.7
2019 against 2018, %	89.3	90.3	84.5	

¹URL: <http://mcx.ru/activity/state-support/funding/>.

Source: Information on local budget expenditures from the budget of RF subject with subsidies and other inter-budget transfers making up the source of financial support (final forms for 2018; 2019) URL: <http://mcx.ru/activity/state-support/funding/>.

Thus, in 2018, only 56% of the actual funds allocated from the federal budget were meant for subsidies and other payments forwarded straightforward to agricultural producers. The remaining funds were channeled to maintain the administrative staff of the RF Ministry of Agriculture, subordinate institutions, compensations to banks that granted preferential lending to agricultural producers, manufacturers of agricultural machinery selling it at a discount, and other budget recipients.

Consequently, *Tables 29–30* show that a significant reduction in subsidies and other direct payments to agricultural producers was scheduled in 2019 compared to 2018, despite the plan to increase federal funds intended for implementation of the Government Program on the whole, to RUB 303.6 billion. Another reason for that is the growth of preferential loans suggesting transfer of compensation to credit institutions rather than to agricultural producers.

As also seen from *Tables 29–30*, actual regional funding of the Government Program measures for 2019 exceeded the planned level of regional funding by RUB 4.1 billion according to the Government Program Passport (15th amended version).

Table 31 shows actual funding of the Government Program directions in 2018¹ and funding for 2019 in accordance with the Federal Law of November 29, 2018 № 459-ΦZ “On Federal budget for 2019 and for the planning period of 2020 and 202.” Funding was subjected to alterations throughout 2019, and cash execution will be known after completion of the accounting period.

Table 31

Funding of the Government Program of Agriculture Development and Regulation of Markets for Agricultural Products, Raw Materials and Foodstuffs in 2018 (cash execution including funding from reserve fund of the RF Government) and 2019 (planned cash allocation from federal budget), billions of Rubles

Program directions of the Government Program	2018, actual		2019, plan		2019 against 2018, %
	Billions of rubles	% of total	Billions of rubles	% of total	
1	2	3	4	5	6
Government Program, total	249.504	100.0	303.62	100.0	121.7
<i>Direction Development of AIC Sectors</i>	172.57	69.17	228.92	75.40	132.7
Federal Project Establishment of Support System for Farmers and Development of Agricultural Cooperation	-	0.00	7.7	2.43	
Federal Project Export of AIC products	1.431	0.57	38.81	12.78	2712.1

Cont'd

1	2	3	4	5	6
Departmental Project Technological Modernization of the AIC	14.00	5.61	8.00	2.63	57.1
<i>Measure Promotion of farming equipment renovation</i>	10.00	4.01	8.00	2.63	80.0
Departmental Project Development of AIC Sectors Ensuring Accelerated Import Substitution of Main Types of Agricultural Products, Raw Materials and Foodstuffs	64.095	25.69	59.93	19.74	93.5
<i>Measure Non-targeted Support of Agricultural Producers in Their Crop Production</i>	16.305	6.53	11.34	3.74	69.5
<i>Measure Increasing Productivity in Dairy Farming</i>	7.962	3.19	7.96	2.62	100.0
<i>Measure Aid in Achieving Regional Program Development Targets in AIC (“Single Subsidy”)</i>	39.827	15.96	40.62	13.38	102.0

¹ Within 2019.

Departmental Project Promotion of Investment Activity in Agroindustrial Complex	93.045	37.29	114.81	37.81	123.4
Measure Support of Investment Lending to AIC- subsidies to compensate for interest payment on investment loans issued to AIC	46.868	18.78	41.57	13.69	88.7
Measure Support of Preferential Lending to AIC Organizations	32.648	13.09	73.14	24.09	224.0
Measure Compensation for direct costs incurred for construction and modernization of AIC facilities	13.529	5.42	0.10	0.03	0.7
Direction Ensuring Development of AIC Sectors¹	7693	30.83	74.70	24.60	97.1
Measure Management of Government Program Implementation by Executive Administration	18.271	7.32	1.17	0.39	6.4
All-Russia Production Center Implementation of veterinarian and phytosanitary surveillance	12.231	4.90	12.46	4.10	101.9
Subprogram Ensuring General Conditions for Functioning of AIC Sectors	17.211	6.90	29.90	9.85	173.7
Subprogram Development of Amelioration of Agricultural Lands in Russia	11.225	4.50	13.28	4.37	118.3
Subprogram Scientific and Technological Backing for Development of Sectors of AIC	0.616	0.25	0.48	0.16	77.9
Subprogram Sustainable Development of Agricultural Lands	17.046	6.83	17.42	5.74	102.2

Source: Federal Law of November 29, 2018 № 459-FZ “On Federal budget for 2019 and planning period of 2020 and 2021”; information of RF Ministry of Agriculture.

As seen from *Table 31*, fundamental changes took place in the pattern and funding of the Government Program. The direction “Development of AIC sectors” intensified mainly due to a sharp increase in funding of the Federal project “Export of AIC products” from inconsiderable for this direction RUB 1.4 billion up to RUB 38.8 billion. A closer look, however, shows that growth happened mainly due to measures of capitalization increase of RF Agricultural Bank included in the project in the amount of RUB 15 billion, preferential lending to agricultural producers and processing industries in the amount of RUB 17.7 billion as well as amelioration measures worth RUB 2.04 billion (*Table 32*).

Long since 2006, Government has been regularly recapitalizing the RF Agricultural Bank as part of the priority National Project "Development of the AIC". In the past, recapitalization of the RF Agricultural Bank was included in the direction of support “Improving financial stability of small businesses in rural areas” and stimulated by the necessity to develop a regional banking branch network to cooperate with small AIC businesses. This segment was not very attractive to banks, and, moreover, branches of other banks were not present in every rural area, therefore, the assistance of the Government seemed justified.

Table 32

Details of export support measures reflected in the Government Program of Agriculture Development and Regulation of Markets for Agricultural Products, Raw Materials and Foodstuffs in 2018 (actual) and 2019 (funding planned from federal budget), billions of Rubles

Measures	Indicators	
	Billions of Rubles	%
2019		
Federal project “Export of AIC products”	38.81	12.78
Implementation of Amelioration of Agricultural Lands	2.04	0.67

¹ No such subprogram in 2018. The table shows a summary of articles included in the 2019 subprogram for comparison purposes. In 2018, the direction included eventual measures not indicated in the table describing measure for support of information resources and monitoring of agricultural land – a total of RUB 332 thousand.

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Measures	Indicators	
	Billions of Rubles	%
Government Support aimed at Promotion of AIC Production	0.05	0.02
Government Support aimed to reduce costs of transportation of Agricultural and Food Products	1.28	0.42
Capital contribution to Russian Agricultural Bank shareholding company	15.00	4.94
Compensation of lost incomes to Russian credit institutions on loans issued at reduced rate to agricultural producers, organizations and individual entrepreneurs involved in production, initial and (or) further (industrial) processing of agricultural products and sale at discounted rate ¹	17.73	5.84
Implementation of National project “International cooperation and export”	2.71	0.89
2018		
Priority project “Export of AIC products”	1.43	0.57
Measure “Establishment of a system promoting and supporting export of Russian AIC Production to International Markets	0.846	0.34
Measure “Assistance to Rosselkhoz nadzor aimed at greater access of Russian AIC production to international markets”	0.481	0.19
Measure “Establishing and running the Analysis Center for export of AIC production and studies of potential international target markets”	0.1	0.04

Source: Federal Law of November 29, 2018 № 459-FZ “On federal budget for 2019 and planning period of 2020 2021”; RF Ministry of Agriculture.

Nowadays, “Pochta-Bank” rapidly occupies this niche. Although the capital contribution to RF Agricultural Bank accounts for almost 40% of the total allocated funding under Federal Export Support Project (Table 32), no special connection between RF Agricultural Bank and achievement of target indicators related to this project was found based on open documents. There is no reference to RF Agricultural Bank either in the current version of the Government Program, or in the Passport of the Federal Project “Export of AIC Production” (approved by minutes of the National project “International Cooperation and Export” committee meeting of December 14, 2018 No. 5), or in the Passport of the National Project “International Cooperation and Export.”

Furthermore, the RF Agricultural Bank is not an exclusive authorized bank providing preferential lending to agricultural producers who have concluded agreements on competitiveness improvement (i.e. potential exporters). Nine more banks apart from those selected by tender, are included in the list of too-big-to-fail credit institutions granting preferential lending. However, no recapitalization was envisaged for them.

The other two most significant export support measures involve mechanisms that are already present in the Government Program: “Support of preferential lending to AIC agricultural organizations” and the subprogram “Development of Amelioration of Agricultural Lands in Russia”. The difference is that governmental support related to these measures is linked with certain criteria of the project “Export of AIC Production”, aimed ultimately at export growth.

In the mean time, it is prohibited to receive funds profiting both from the program “Support of preferential lending” and SEC (SEC – agricultural consumer cooperatives). According to analysts, it deters potential borrowers, as many of them have already taken preferential credits and now scared to borrow SEC loans, though double financing is prohibited only with regard to the same facilities, but not the same borrowers. Although, the amount of RUB 17.73 billion was originally envisaged for preferential SEC lending by Federal Law “On Federal budget for 2019 and Planning Period of 2020 and 2021”, the total amount of subsidies made up a total of RUB 2.02 billion largely intended for development of processing, (RUB 1.9 billion) according to the Preferential Loan Plan for 2019 dated September 13, 2019. Thus, the demand for preferential SEC loans was greatly overestimated when originally planned.

¹ Those concluded agreement on improvement of competitiveness (SEC)

According to the WTO Agreement on Agriculture, “*export subsidies refers to subsidies contingent upon export performance.*”¹ Having joined the WTO, Russia took the responsibility against such subsidies. At the same time, the “exported amount of AIC products (in physical terms) based on new commodity stock, obtained at agricultural lands, ameliorated lands put into use, and mobilized agricultural lands, in the year following the one when the subsidy was granted”, was approved as indicator to assess the effectiveness of subsidies for ameliorated agricultural lands under the project “Export of AIC products.”²

Even without this indicator, the very appropriation and allocation of preferential lending, amelioration subsidies and reduction of transportation costs in relation of the project “Export of Agricultural Products” clearly signals their link with export development, in other words, it exposes the country to risks of litigation against WTO and EAEU partners.

The mechanism aimed to improve the access to loans remained the main tool of the federal budget support in 2019, i.e. funding of the departmental project “Promotion of investment Activities in AIC” increased by 23%, reaching RUB 114.8 billion or 37% of the total governmental funding. Moreover, taking into account a similar mechanism for supporting preferential SEC lending and recapitalization of the RF Agricultural Bank, it reached RUB 147 billion vs 48.6% respectively.

Herewith, the amount of only RUB 13.75 billion subsidies (not counting SEC) was spent for new loans in 2019 according to the List of Borrowers who benefited from positive decision of the RF Ministry of Agriculture taken in the period of January 23 – November 25, 2019, to include them in the Borrowers’ Register. Fixed capital assets compensate previously taken loans. However, funding of a measure promoting investment but not entailing long-term government obligations, i.e. compensation for the direct costs incurred for construction and modernization of AIC facilities in 2019, has been virtually halted.

Since 2019, this form of compensation cannot be used for implementation of the most demanded goals: construction and modernization of greenhouse facilities. It became possible, nevertheless, to receive it for establishment and (or) modernization of flax mills, hemp processing enterprises, breeding and seed-growing centers in crop production, poultry farming (Decree of the Government of the Russian Federation of November 24, 2018 No. 1413).

It is planned to reduce subsidies to agricultural machinery manufacturers selling it to agricultural producers at discounted rate by 20% from RUB 10 to 8 billion, which can also be negatively assessed, given the high wear and tear of machinery in the agricultural industry and the relevance of this measure. According to the official website of the RF Ministry of Agriculture, the entire limit of subsidies was entirely approved as of October 3, 2019.³

Federal funding of the main measure of the relevant support for crop production, that is, the untargeted support, decreased from RUB 16.3 (relevant for 2018) to RUB 11.3 billion (plan for 2019). In 2018, the initially allocated limits of federal funding grew from RUB 11.3 to 16.3 billion proving high demand in subsidy. Funding of this measure from regional budgets amounted to RUB 4.5 billion in 2018; respective planned limits for 2019 equal RUB 3.6 billion.

In 2019, a new restriction was added to the Regulations of subsidies’ allocation aimed at untargeted support (Annex №7 to Government Program), namely, to obtain the subsidy, it is required to use seeds of agricultural crops, varieties or hybrids included in the Government

¹ Article 1 Part I WTO Agreement on Agriculture.

² Annex №10 of the Government Program of Agriculture Development and Regulation of Markets for Agricultural Products, Raw Materials and Foodstuffs for 2013–2020 " (as amended of February 8, 2019).

³ URL: <http://mcx.ru/activity/state-support/measures/machinery-subsidy/summarnyy-obem-subsidiy/>.

Register of State-permitted cultivars approved for specific regions, and also provided that the varietal and sowing qualities of such seeds comply with GOST R52325-2005. Agricultural producers negatively assess this restriction. Thus, regional AKKORs argue that *"the majority of small and medium-sized agricultural enterprises do not have documents confirming the use of these varieties, and, therefore, cannot rely on hectare subsidies"*¹.

Since 2019, calculation of untargeted support in terms of subsidies per hectare of cropped land under cereals, grain legumes and fodder crops (hereinafter referred to as untargeted support in crop production) is linked with the indicator of agricultural insurance. It is planned that part of the subsidy (15% of the total amount of untargeted support in crop production), calculated with due regard to intensity of crop area insurance for each region, will "give priority to agricultural producers for the insured cultivated area."² Accordingly, if the region refuses agricultural insurance, the total limit of subsidies will be reduced by 15%. Previously, regions demonstrating the highest positive financial and economic results of agricultural producers in crop production, taking into account the soil fertility indicator of the RF subject, were not eligible to receive the hectare untargeted support.

As from 2019, they are eligible to receive a part of subsidy allocated according to the intensity of crop lands' insurance. RF Ministry of Agriculture approves list of these regions on an annual basis. In 2019, these regions were as follows: Belgorod, Voronezh, Kursk, Lipetsk, Tambov and Rostov, Krasnodar and Stavropol.

Subsidies earmarked for boosting productivity in dairy farming remained as in the previous year, meaning actual reduction of support in view of inflation. The increase of funding of an important measure "Aid in Achieving Regional Program Development Targets in AIC" ("Single Subsidy") is also lower than envisaged inflation. In 2019, allocation of a separate limit is planned for planting vineyards as well as for government backed agricultural insurance within the frame of this subsidy.

In 2019, Federal project "Establishment of a support system for farmers and development of rural cooperation" was launched. The purpose of the project, designed for 2019–2024, is to "ensure, at least, 126 000 new people involved in small and medium-sized agricultural enterprises by 2024, setting up and developing small and medium-sized AIC enterprises including peasant (farm) households (PFHs) and agricultural consumer cooperatives (SECs)."³ The following measures are: "Agrostartap" grants awarded on a competitive basis for setting up and developing PFH; reimbursement of partial costs to agricultural consumer cooperatives according to respective directions and subject to conditions regulated by Decree of the RF Government No. 476 of April 20, 2019; reimbursement of up to 70% of costs associated with the implementation of current activities to the centers of competence in the field of agricultural cooperation and support of farmers.⁴

Planned funding of the project amounted to RUB 7.37 billion from the federal budget in 2019. Planned transfers to agricultural producers (SECs, PFHs) paid from federal budget

¹URL: <https://agrobook.ru/blog/user/aleksandra-koreneva/fermery-70-hozyaystv-ne-smogut-poluchit-v-etom-godu-pogektarnuyu>.

² Decree of RF Government of July 14, 2012 № 717 (amended as of February 8, 2019).

³ Ibid.

⁴ Decree of RF Government of April 20, 2019 № 476.

equaled to RUB 5.35 billion against RUB 294.3 million from regional budgets¹, thus, level of co-funding to agricultural producers from regional budgets was very low, 5.2% in regard of this project.

PFHs and agricultural consumer cooperatives (SECs) are also eligible for support within “Single Subsidy”. PFHs can receive it mainly under support measures for new farmers; development of family cattle farms; SECs can get grants for development of material/technical logistics. In 2018, PFHs received the amount of RUB 10.86 billion under these directions including RUB 8.45 billion from the federal budget, SECs received RUB 4.02 billion including RUB 2.65 billion from the federal budget with a total of RUB 14.88 billion from treasuries at all levels. In 2019, the amount of RUB 14.45 billion was envisaged from treasuries at all levels, including the federal budget, i.e RUB 10.28 billion. Thus, we can assume that while maintaining the level of PFHs and SECs support under directions of “Single Subsidy” in 2019, it is planned to increase support to PFHs and SECs by RUB 5.35 billion through the federal project. Cash execution will be adjusted upon assessment of the year results.

Thus, in 2019, there was an increased focus shown by authorities towards support for exports, small business forms, followed by shaping these directions into federal projects and increase in funding. The tendency to predominant support of agriculture through access to preferential loans maintained, the transition from direct subsidies granted to agricultural producers to subsidizing organizations providing resources for agriculture on favorable terms, is still in progress (banks, Rosagroleasing, manufacturers of machinery, Russian Railways, OJSC, insurance companies, etc.)

As from 2020, it is planned to significantly change the regulations of subsidies’ allocation and distribution aimed at support of certain branches of crop production, livestock breeding and agricultural insurance, introducing compensating and promoting parts of subsidies. The changes relate to untargeted support and subsidies aimed at increase of productivity in dairy farming and directions of single subsidy.

4.6.4. New challenges of 2020

The year 2020 began with two cataclysms, which inevitably affected the food market in Russia: the spread of coronavirus pandemic in Russia and a sharp Ruble devaluation in February-March.

Potential restriction on free movement in the city under quarantine, risks of shutting down production facilities and shops due to workers' illnesses, as well as psychological fears amid restrictions of cargo traffic, caused speculative demand for cheap and long-stored products.

Moreover, Russia is a real net exporter of these products, including cereals, flour, salt, pasta. The following recommendations could be suggested to the Government in order to reduce speculative demand:

- conducting an information campaign aimed at raising awareness of agricultural producers, food producers, retailers, market analysts that the country has stocks of these products, resources sufficient to meet current demand, explaining reasons for empty shelves in supermarkets;
- nullification of import duties on foodstuffs;

¹ Information on local budget expenditures from the budget of RF subject with subsidies and other inter-budget transfers making up the source of financial support (final forms for 2018); form as of November 28, 2019) URL: <http://mcx.ru/activity/state-support/funding/>.

- waiving of food embargo, introduced in 2014. Imports will be insignificant due to Ruble devaluation;
- waiving of trade control, which can regulate demand at short-term by raising food prices in order to reduce speculations.

These recommendations were largely discussed by the Government in March 2020.

After another Ruble devaluation in 2020, domestic prices for almost all agricultural products fell below global level. A risk of their export emerged to the detriment of domestic market. The Government began to consider ways of its protection.

In this context, one should bear in mind that up to date, numerous studies exist, estimating consequences related to protection of domestic market in the post-Soviet territory. They prove that restrictions strongly disrupt operations of grain markets and counteract the mobilization of production and export potentials of countries introducing them. They are always discriminatory against farmers, while benefits to consumers are not evident. This is also true with regard to other products.

The best solution to ensure economic and physical access to foodstuffs when Ruble devalues, would be to support people, so that they can buy food that is of no shortage at the global market at higher prices, rather than introduce restrictions for producers, i.e. ban on exports, introduction of export quotas or export duties. Taking into account that support of consumers' purchasing power announced by the Presidents of the Russian Federation, will be limited in Russia, the Government considers ways to limit export of products as a measure stabilizing prices at the domestic market.

A ban should not be imposed as a measure to regulate the market of export-oriented products, since the volume of domestic production can satisfy all domestic needs. Quota introduction is a corrupt measure that redistributes the benefits of high export prices in favor of traders who own export terminals.

Use of export duties could be effective when they are refunded or redistributed in favor of food producers, who experience export restrictions. To do this, we need a mechanism for consolidation of export duties on agricultural goods and raw materials, as well as a mechanism for refund of duties retained in favor of producers whose products were under export restriction duties.

In this context, introduction of export duties should be well determined and enshrined in the Federal Law. According to Article 8 of the Federal Law "On the Principles of State Regulation of Trade in the Russian Federation", the RF Government can approve prices limits for socially important goods if the increase in retail prices for certain types of socially important food essentials equals 30% and over within 30 calendar days in a row nationwide. Regulation can be introduced for a period of 90 days.

It would be logical to assume that regulation of raw materials markets required for food essential can be introduced after regulation of retail prices will have come into force.

Restriction of retail prices was not the case in Russia yet, while export restrictions have been introduced more than once.

Restriction of grain prices gives benefits to producers of livestock products, which can be exported even in the absence of food surpluses determined according to their quantity by recommended consumption standards. In this situation, it is impractical to introduce restrictions that discriminate manufacturers of one product and bring advantages to others.

It would be appropriate to reduce VAT on food, taking into consideration shrinkage of the population purchasing power.

Most suppliers of agricultural products intended for processing do not pay VAT, however, VAT is included in the price of food sales. This is resulted either in losses incurred by participants of the following sectors of food supply chain, which will be then passed on to consumers, while their income drop, or in discrimination of agricultural producers when their products have to be sold at reduced price to processing companies or exporters.