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- R95 **Russian Economy in 2019. Trends and outlooks. (Issue 41)** / [V. Mau et al; scientific editing by Kudrin A.L., Doctor of sciences (economics), Radygin A.D., Doctor of sciences (economics), Sinehnikov-Murylev S.G., Doctor of sciences (economics)]; Gaidar Institute. – Moscow: Gaidar Institute Publishers, 2020. – 596 pp.: illust.

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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.

Reviewer: Faltsman V.K., Doctor of science (Economics), Professor, main researcher, Department of Institutional and Financial Markets Analysis, IAES RANEPА.

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4.1. The dynamics and pattern of economic growth in Russia in 2019¹

4.1.1. The dynamics of the Russian economy in 2019: domestic and external demand

Unlike the previous two years when the domestic market's weakness was made up for by growth in the foreign trade balance and net exports, in 2019 the development of the Russian economy took place amid a simultaneous decline of the growth rates of overall domestic demand and foreign trade.²

In 2019, GDP growth rates calculated as per the methods of the system of national accounts (SNA) amounted to 101.3 percent, a decrease of 1.2 percentage point as compared with the index value of the previous year. For the first time in the past decade, in 2019 the economic situation became complicated owing to a 2.1 percent decrease in exports' volumes as per the SNA methods in comparable prices relative to the previous year's index value.³ Consequently, in 2019 net exports' contribution to GDP as per SNA methods fell to 2.5 percent against 3.6 percent a year before⁴ (*Fig. 1*).

In the past three years, the positive dynamics of domestic demand was underpinned by the contribution of imports of goods and services into gross resources with a simultaneous revival of domestic manufacturing for the internal market. In 2019, growth in imports amounted to 2.2 percent and 2.5 percent as per the SNA methods in comparable prices and the balance of payments method, respectively (*Fig. 2*).

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² Izryadnova O. The Dynamics and Pattern of Economic Growth // Russian Economy in 2018. Trends and Prospects (Issue 40). Moscow. The Gaidar Institute's Publishing House. 2019. pp. 189–208.

³ By 0.3 percent in current prices and by 5.7 percent in volume terms as per the balance of payments methods.

⁴ To 7.7 percent against 10.0 percent a year before in current prices.

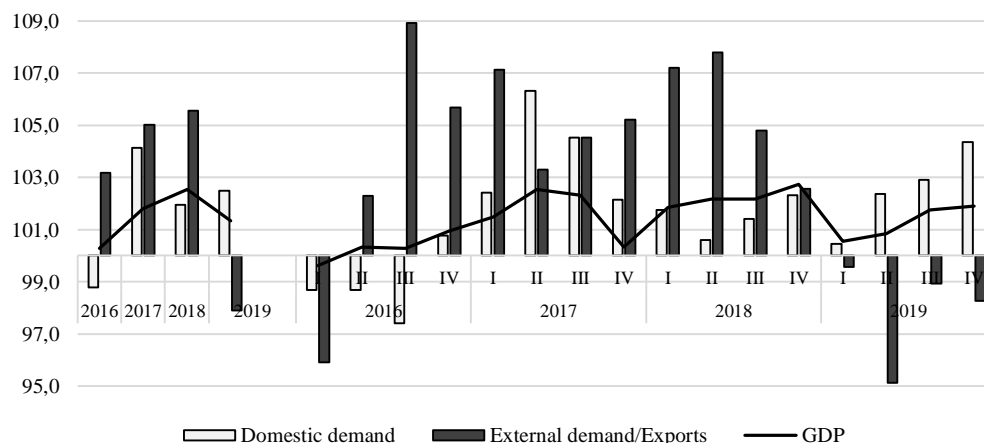


Fig. 1. GDP dynamics by the component of domestic and external demand in 2016–2019, % on the previous year

Source: own calculations based on the data of the Rosstat.

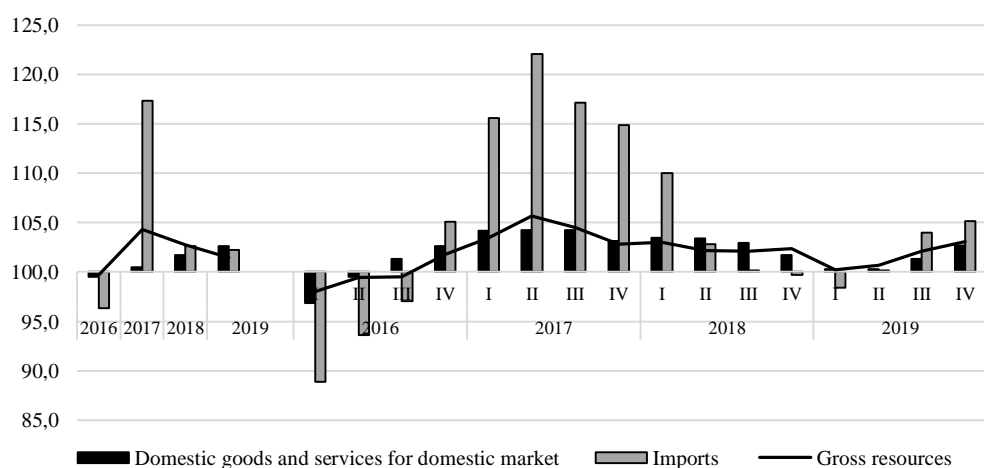


Fig. 2. The dynamics of domestic demand by the component in 2016–2019, % on the relevant period of the previous year

Source: own calculations based on the data of the Rosstat.

In 2019, the decline of the share of investment goods in imports to the average values seen during the grave investment crisis of 2014–2015 had a negative effect on the dynamics of building and investment activities and processes of technological modernization of capital assets. The growth rates of investments in capital assets amounted to 0.8 percent in 2019 with the annual average value of 4.5 percent in 2017–2018. Growth in the share of intermediate demand goods in imports to the values exceeding the indices of the past decade underpinned the dynamics of domestic output, particularly, in activities with a high share of assembling. All other factors being equal, the expansion of trade in intermediate goods is aimed at reduction of losses by means of upgrading technologies and effective management of production activities, sales, goods promotion and investment strategies, however, the domination of low value-added

goods in exports increases the national economy's dependence on imported high-tech goods (Table 1).

Table 1

The pattern of imports by the functional nature of utilization (as per the methods of the balance of payments), %

	Goods		
	consumer	investment	intermediate
2016	35.6	26.5	37.9
2017	33.6	27.5	38.9
2018	33.2	25.4	41.4
2019	33.8	24.4	41.8
I	34.7	22.9	42.4
II	32.0	24.3	43.7
III	33.4	23.9	42.7
IV	35.0	26.2	38.8

Source: The Rosstat.

The depreciation of the ruble's exchange rate failed to compensate the shortfall in incomes on the back of changes in the pattern of foreign economic parameters and had an ambiguous effect on the Russian economy. On one side, it reduced the effect of external factors on individual sectors of the Russian economy and facilitated import substitution and modernization of export-oriented industries, while, on the other side, led to growth in production costs as a result of appreciation of imports of intermediate and investment goods and reduction of consumer demand amid the high accumulated inflation rate and low dynamics of households' incomes. It is worthwhile to point out the specifics of formation of domestic consumer market resources. With existing dynamics of production in the consumers' sector of the economy amid appreciation of the national currency, inflation rate targeting, as well as modification of the pattern of prices and consumer demand, the share of import goods in retail trade commodity resources increased in 2019 (Table 2).

Table 2

The pattern of the retail trade's commodity resources (in actual prices), %

	Commodity resources of retail trade	Including commodities		Share of import food products in commodity resources of retail trade in food products
		Domestic goods	Import goods	
2016	100	62	38	23
2017	100	65	35	23
2018	100	64	36	24
2019	100	62	38	25
Q 1	100	63	37	25
Q 2	100	64	36	24
Q 3	100	61	39	24
Q 4	100	61	39	27

Source: The Rosstat.

Amid the depreciation of the exchange rate of the national currency, the effect of import substitution is generally concentrated in manufacturing which is driving out from the market high-priced import goods and leads in the short-term prospect to domestic output growth, but the pattern of demand on domestic and import goods is seriously influenced by consumers' preferences and the income effect.

In 2016–2018, the dynamics and pattern of domestic production were determined by a shift of priorities in favor of support of external demand, which situation defined the specifics of utilization of resources, while the year 2019 saw advanced growth in domestic manufacturing of goods and provision of services for the domestic market. In addition, changes in the pattern

of imports – the reduction of consumer goods supplies and growth in imports of industrial goods – underpinned the domestic market and gave an additional impetus to overcome the recession in domestic manufacturing and expanded the opportunities to diversify the economy (*Fig. 3*).

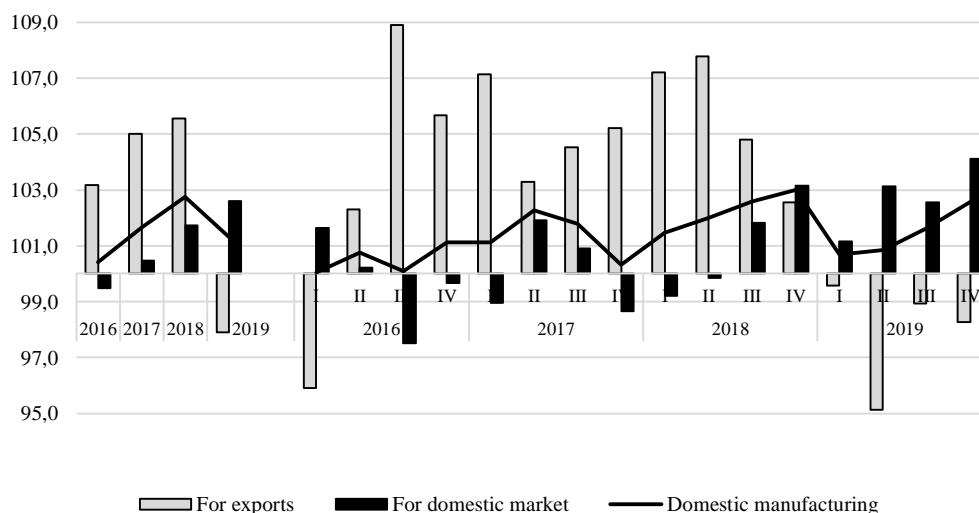


Fig. 3. The dynamics of domestic manufacturing of goods and provision of services by the line of utilization in 2016–2019, % on the relevant period of the previous year

Source: The Rosstat.

In growth models based on the expansion of domestic demand, the key issue is the implementation of the Russian business’s potential capacity to react to changes in the environment on the domestic and external markets. It is believed that growth based on high investment activities related to solution of modernization issues is more sustainable, however, in such a situation tougher requirements are set to modification of the pattern of utilization of gross resources.

In 2017–2018, the recovery of growth in ultimate consumption with advanced dynamics of investment demand upturn became a key factor which facilitated to overcome a three-year long recession of the domestic market. In 2019, the ratio of domestic demand factors changed: with a 1.3 percent GDP growth, the ultimate consumption and investments in capital assets increased by 2.5 percent and 0.8 percent on the previous year, respectively. It is to be noted that with the speed-up of domestic demand dynamics as compared with the previous year GDP growth rates saw a downturn trend, reacting more acutely to the level of investment activities. With growth of the domestic market of goods and services being important as a factor of sustainable economic growth, GDP growth rates are more influenced by the dynamics of investments and net exports (*Fig. 4*).

The efficiency of the development process based on external demand can be traced in the values of the indices of the quality and standard of living, as well as employment. Exports of goods and services facilitates growth in labor efficiency in a complex system of networking of various types of economic activities at the sectorial, cross-industry and cross-sectoral levels. Even with sufficient capacity, the domestic market is not able to materialize the overall effect of these economic processes without adequate promotion of activities on external markets.

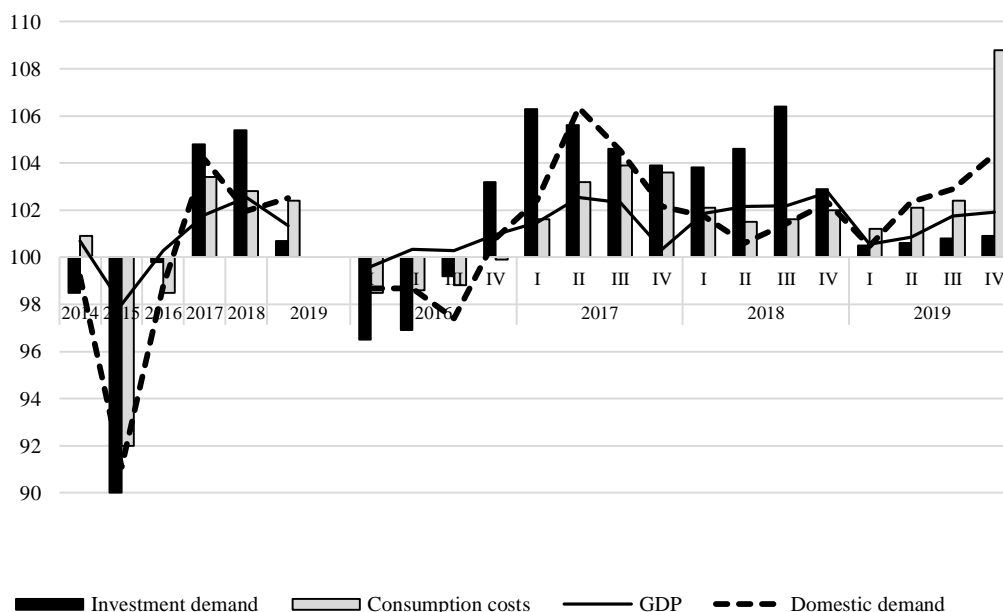


Fig. 4. The dynamics of domestic demand by the component in 2014–2019, % on the relevant period of the previous year

Source: The Rosstat

The correlation between the trade and industrial development can be considered in two aspects: the effect of exports/external demand and imports of intermediate and ultimate demand resources on growth in efficiency in terms of modification of the pattern of production; and the effect of revenues from the foreign trade on the specifics of formation of national saving and motivation of investments and labor remuneration. With the economy functioning amid households' shrinking incomes and budget constraints, the overall domestic demand decreased, so, the issue of mobilization of investment resources as a key prerequisite of support of diversification of exports and support of priority sectors of the economy became quite acute.

4.1.2. Utilization of GDP in 2016–2019: households' ultimate consumption

The specifics of the 2017–2019 period was the recovery of growth in ultimate consumption after two years of recession. In 2019, with a 1.3 percent GDP growth, ultimate consumption increased by 2.5 percent, including that of households and the public administration by 2.3 percent and 2.8 percent on the previous year, respectively. Unlike 2017–2018, in 2019 the dynamics of GDP was formed amid advanced growth rates of ultimate consumption as compared with investments in capital assets. It is noteworthy that in 2019 ultimate consumption was transformed on the back of increase in dynamics and the share of the public administration's expenditures on individual and collective services to 18.5 percent of GDP, as well as the share of social transfers in households' actual ultimate consumption. So, the slowdown of growth in households' consumption was partially offset by growth in the public administration's expenditures on implementation of national projects. As seen from the analysis of the pattern of GDP utilization as per the SNA-2008 methods in comparable prices the share of expenditures on households' ultimate consumption owing to the implementation of measures

aimed at underpinning social parameters of 2019 amounted to 54.5 percent (50.3 percent in current prices) and returned to the pre-crisis values (*Table 3*).

Table 3

The dynamics and pattern of expenditures on ultimate consumption

	2016	2017	2018	2019
% on previous year				
Gross domestic product	100.3	101.8	102.5	101.3
Expenditures on ultimate consumption of	98.5	103.4	102.8	102.4
households	97.4	103.7	103.3	102.3
public administration	101.4	102.5	101.3	102.8
% to total				
Gross domestic product	100	100	100	100
Expenditures on ultimate consumption of	71.7	71.1	67.2	69.2
households	52.8	52.5	49.2	50.3
public administration	18.5	18.2	17.6	18.5

Source: The Rosstat.

Households' ultimate consumption was affected considerably by moderate dynamics of changes in households' cash incomes. In the past four years, the formation of the pattern of households' cash incomes was influenced by advanced growth in labor remuneration as compared with social payments and other income sources. The dominating factor behind the formation and modification of the pattern of households' incomes was a growing gap in the dynamics of the actual amount of pensions and wages.

In 2019, households' real disposable income increased by 0.8 percent on the previous year with its dynamics formed amid weakening of the growth rates of wages to 102.9 percent (108.5 percent a year before). In 2019, the size of granted pensions increased by 1.5 percent, which failed to compensate the decrease in the level of pensioners' material security (*Fig. 5*).

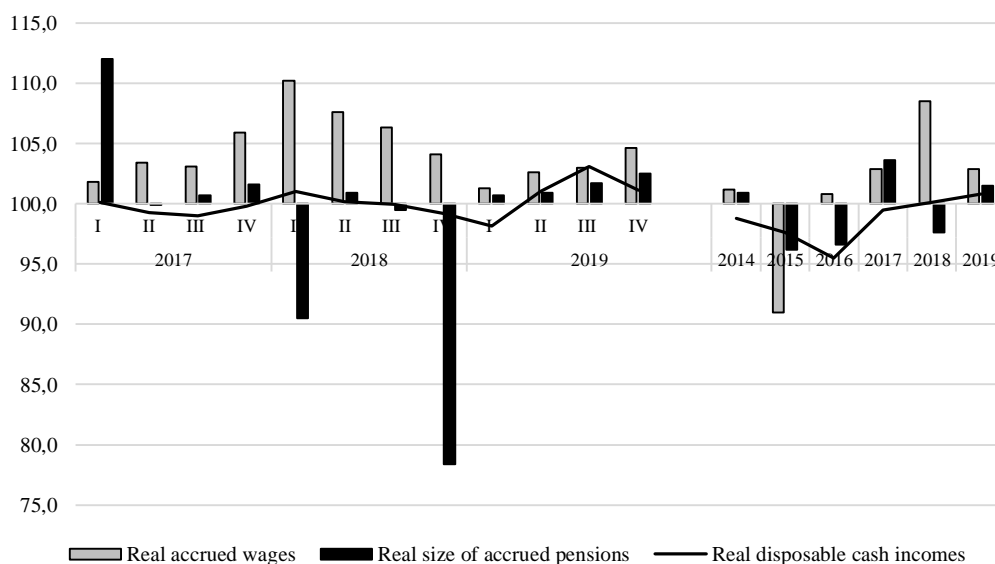


Fig. 5. Dynamics of households' real disposable incomes, average monthly wages and the real amount of granted pensions in 2014–2019, % on the previous year

Source: The Rosstat.

In the pattern of households' cash incomes in 2016–2019, the share of earned income increased as compared with other sources. With growth in nominal average monthly wages, in 2019 the share of labor remuneration in households' cash incomes increased to 58.1 percent, an increase of 5.8 percentage point on the value seen in 2015 when the minimum growth in nominal wages was registered in the past twenty years of observations. Despite the fact that the share of social payments in households' nominal cash incomes increased from 18.2 percent in 2014 to 19.1 percent in 2019, the real size of pensions decreased by 4.6 percent during that period. The situation became more complicated owing to the weakening of dynamics of households' entrepreneurial and investment activities and eventually resulted in a decrease in the contribution of these components into households' cash incomes to 10.7 percent against 11.8 percent in 2014 (*Table 4*).

Table 4

The pattern of households' cash incomes in 2014–2019, % to the total

	Total	Including					
	Cash incomes	Labor remuneration of hired workers	Including wages of workers employed by organizations	Social payments	Incomes from entrepreneurial activities	Incomes from property	Other cash incomes
2014	100	54.9		18.2	7.0	4.8	15.1
2015	100	52.8		18.2	6.5	5.1	17.4
2016	100	54.0		18.8	6.5	5.1	15.7
2017	100	54.5		19.4	6.3	4.3	14.6
2018	100	57.4	39.2	19.1	6.1	4.6	12.8
2019	100	58.1	40.2	19.0	6.1	4.4	12.4

Source: The Rosstat.

The dynamics and pattern of households' cash incomes were characterized by the growing social and economic differentiation and unevenness of distribution of households' incomes and wages. High differentiation and inequality in distribution of incomes and wages is interpreted as a factor restraining economic growth rates and social well-being. In 2019, Gini coefficient and R/P10% ratio remained at the level of the previous year and amounted to 0.413 and 15.6-fold, respectively. The number of the employed with entities with wages below the minimum subsistence level amounted to 3.1 percent of those employed in the economy or 5.2 percent of employees of various institutions. Amid the growing demographic pressure on the able-bodied population, the share of low-paid workers affected seriously the level of poverty. In 2019, the number of the population with incomes below the minimum subsistence level was equal to 19.2 million people (+0.8 million people on the index value seen in 2018) or 13.1 percent (+0.5 percent of the total number of the population). This situation could not, but affect households' consumption.

Households' consumption was formed amid the slowdown of the growth rates of the rate of inflation to 103.0 percent from 104.3 percent in 2018. In 2019, consumer behavior was determined by the slowdown of price dynamics in Q2–Q4 after their speed-up in the beginning of the year. The inflation rate was slowing down at a rather rapid rate with the following price index changes in 2019: food products – 2.6 percent (-1.9 percentage point on 2018), non-food products – 3.0 percent (-1.1 percentage point) and services – 3.8 percent (-0.1 percentage point). On the food market, the price dynamics was influenced by the expansion of the supply of agricultural products, while on the non-food market the appreciation of the ruble weakened growth in prices of import goods and set more moderate dynamics as compared with 2018 (*Fig. 6*).

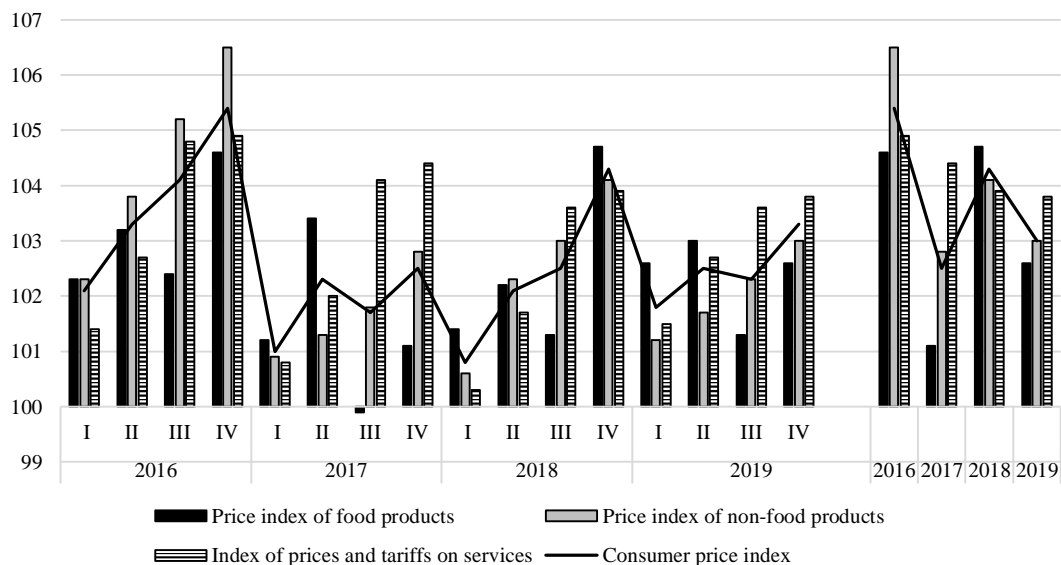


Fig. 6. The dynamics of consumer prices by the market segment in 2016–2019, % on December of the previous year

Source: The Rosstat.

With rather weak dynamics of growth in real disposable incomes, in 2019 the growth rates of the retail trade turnover slowed down to 1.6 percent (-1.2 percentage point as compared with 2018), while those of the food market and non-food market, to 1.4 percent (-0.7 percentage point) and 1.8 percent (-1.7 percentage point), respectively (*Fig. 7*).

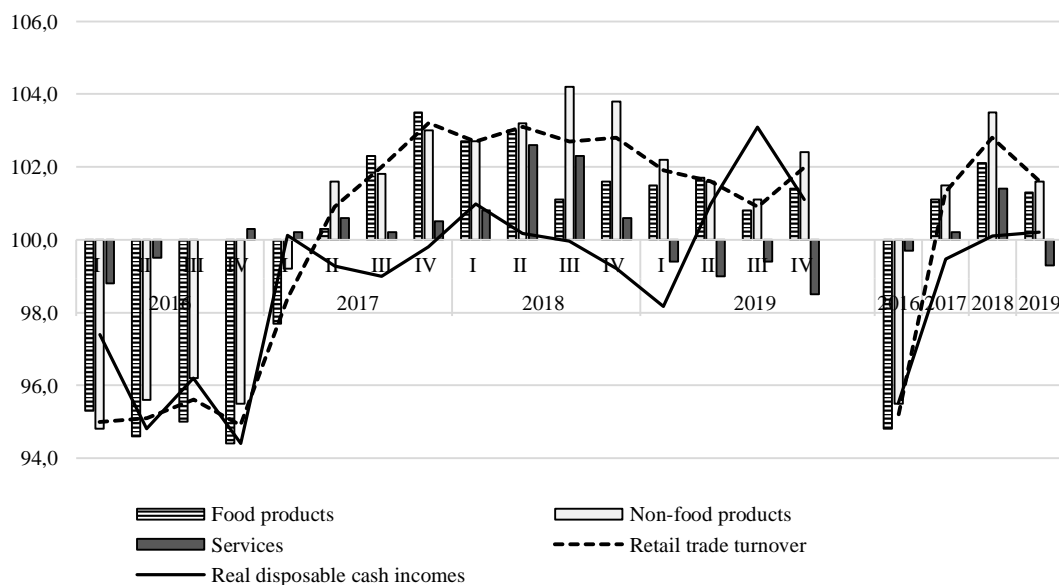


Fig. 7. The dynamics of the consumer market in 2016–2019, % on the previous year

Source: The Rosstat.

With low dynamics of households' cash incomes in the pattern of households' cash expenditures, the share of consumer spendings increased from 77.5 percent in 2016 to 81.2 percent in 2019 with a decrease in the share of savings from 8.7 percent to 4.3 percent, respectively (Table 5).

Table 5

The pattern of households' cash incomes in 2016–2019, %

	Consumer spendings	Mandatory payments, various contributions and other expenditures	Increase in households' savings	Including	
				Savings on bank deposits	Expenditures on purchasing of real property
2016	77.5	13.8	8.7	4.2	2.1
2017	79.1	14.2	6.8	4.1	2.0
2018	80.7	15.1	4.2	3.1	2.4
2019	81.2	15.4	4.3	3.1	2.5

Source: The Rosstat.

A change of the trend in households' expenditures with growth in the share of expenditures on purchasing of goods was accompanied by growth in demand on consumer loans. Households' saving behavior was influenced by cuts in interest rates on mortgage loans with the expansion of supply of housing of a wide price range on the housing market. This situation determined some growth in the share of expenditures on purchasing of real property and growth in households' debt load with a decline of the share of savings in incomes, which factor under certain conditions might create problems with fulfillment by households of their obligations to banks (Fig. 8).

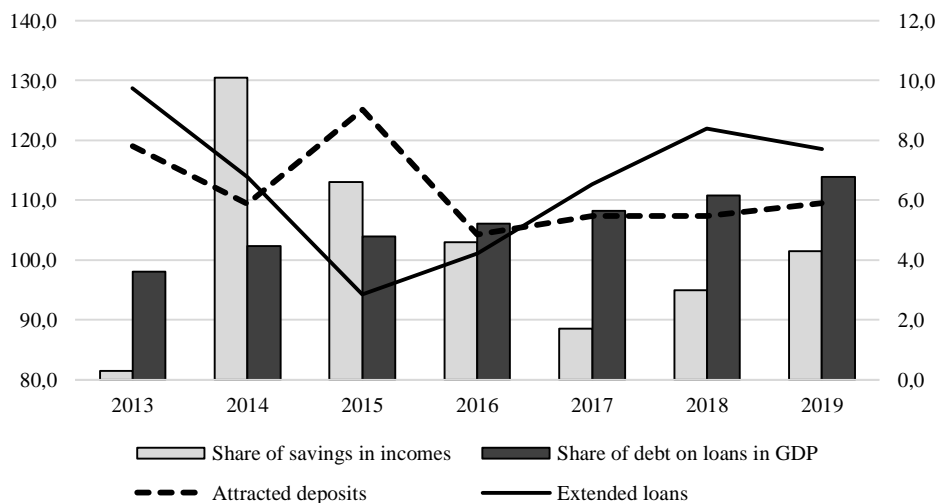


Fig. 8. The share of savings in households' incomes (%) and dynamics of deposits and loans to households in 2013–2019 (% on the previous year)

Source: The Rosstat.

4.1.3. The formation of GDP by income source: wages and labor efficiency

The modification of the pattern of formation of GDP in terms of incomes was determined by means of the mechanisms of redistribution of resources in favor of the business, backbone types of economic activities and enterprises; interest rates and the terms of borrowing and saving with a decrease in investment activities and total factor productivity; dynamics of prices

and tariffs, inflation targeting and gradual depreciation of the ruble. The external macroeconomic factors were the dynamics of prices of energy commodities and revenues from exports, as well as the rate of capital outflow. In 2019, the share of gross profit in GDP rose to 41.9 percent against the index value of 42.5 percent in 2018. If the pattern of production costs modified on the back of regulation of labor remuneration and employment, changes in financial performance of economic activities were seriously affected by changes in the level and pattern of prices.

In 2017–2019, the level of profitability of production and dynamics of the balanced financial result were primarily determined by manufacturers' pricing policy. If in 2018 manufacturers' reaction to the trend of recovery of domestic demand was the speed-up of growth rates of prices both in industry and building, in 2019 the situation changed: the decline of producers' prices in extractive industries brought about the adjustment of prices in manufacturing (*Table 6*).

Table 6

Price and tariff indices in 2016–2019, % (December on December of the previous year)

	2016	2017	2018	2019
Consumer price index	105.4	102.5	104.3	103.0
Producer price index, including:	107.4	108.4	111.7	95.7
mining	108.5	123.9	120.7	90.8
manufacturing	107.6	104.2	110.3	96.6
Agricultural producer price index	101.8	92.2	112.9	95.5
Overall index of building material prices	103.2	103.1	107.3	106.0
Index of cargo transportation tariffs	105.6	109.0	100.9	101.5

Source: The Rosstat.

Changes in the level of prices determined the specifics of dynamics of financial performance of economic activities and profitability ratios. In 2019, profitability of production was at the level of 11.4 percent and fell by 0.9 percentage point on the relevant period of 2018. High differentiation of the level of profitability by the type of economic activities was determined by the pattern of domestic prices, the ruble's exchange rate and redistribution of factors of production between various types of economic activities and the domestic and external demand (*Table 7*).

Table 7

Profitability of sold goods, products, jobs and services by the type of economic activity in 2017–2019, %

	2017	2018	2019
Total in economy	7.5	12.3	11.4
Agriculture, hunting and forestry	17.3	20.2	18.6
Mining	24.6	33.6	29.6
Manufacturing	10.9	12.8	12.1
Power-, gas-, steam-supply, air conditioning	8.3	8.8	9.2
Building	3.8	6.1	7.0
Retail and wholesale trade	4.1	7.3	6.4
Hotels and public catering	7.0	7.1	5.9
Transportation and storage	3.4	8.8	8.7
Information and communications	12.0	14.6	16.0
Finance and insurance	0.8	11.2	11.8
Real-estate operations	18.5	15.9	13.7
Public administration and military security; social security	-1.5	2.4	2.4
Education	2.7	4.2	6.7
Health care and social services	7.0	10.4	9.8

Source: The Rosstat.

The indices and dynamics of the nominal pay react more acutely to changes in macroeconomic conditions. A change in the share of labor remuneration in GDP is normally acyclic: it increases in the period of recession and shrinks during recovery. In 2019, the share of labor remuneration in GDP amounted to 46.9 percent and fell by 1.3 percentage point relative to 2016 when the trend towards stabilization of economic growth rates emerged (*Table 8*).

Table 8

The pattern of GDP by the income source in 2016–2019, % to the total

	2016	2017	2018	2019
GDP, including:	100	100	100	100
Labor remuneration of hired workers	48.2	47.8	46.1	46.9
Economy's gross profit and gross mixed income	40.8	41.3	42.5	41.9
Net taxes on manufacturing and imports	11.0	10.9	11.4	11.2

Source: The Rosstat.

In the Russian economy, changes in economic conditions affect primarily indices of the dynamics of nominal and real wages and slightly the level of employment. In 2019, the number of workforce amounted to 75.4 million people of which 71.9 million people were employed in the economy and 3.5 million people (4.6 percent) were classified as the unemployed (as per the ILO's methods). The level of the rate of unemployment fell all-time low. The level of the rate of unemployment was restrained by the shortage of labor supply justified by demographic factors. With the overall trend of reduction of the share of the able-bodies population in the total number of the population, the dynamics of the number of the workforce and those employed in the economy saw a weak decrease in 2019.

Employers' need in workers declared at state employment services remains approximately at the level of the previous year; tension coefficient per 100 declared vacancies amounted to 52.6 persons (-1.1 persons relative to 2018) late in 2019.

The reaction of the labor market to the changes in the situation remains rather weak because adaptation takes place not by means of release of the workforce, but through adaptation mechanisms of regulation of the work time, administrative measures and the practice of informal labor relations. The macroeconomic instability on the labor market leads to the development of processes of informal employment amounting to 20.5 percent of the total workforce.

Comparison of the dynamics of nominal wages and real wages, labor efficiency and overall labor costs reveals that the values of these indices in 2010–2019 were much below than in the previous decade. In conditions of macroeconomic turbulence, mechanisms of labor remuneration regulation did not lead to adequate growth in labor efficiency. It is to be noted that growth of social claims and the policy of underpinning the standard of living increased the gap between the dynamics of labor efficiency and real wages and reduced the efficiency of the economy and contribution of the total factor productivity. Advanced growth in real wages relative to labor productivity highlighted a lack of automated short-term correlation with indicators of labor market efficiency (*Table 9*).

As seen from the dynamics of labor efficiency in 2017–2019, with a change in the level of prices and the cost of borrowing in industry growth in labor efficiency in mining permitted to underpin positive dynamics of output and facilitated growth in the role of this type of activity in forming the gross value added. In manufacturing, growth in workers' labor efficiency with an increase in the average earned rate facilitated a decrease in labor intensity and offset the reduction of the average annual number of the employed on the back of restructuring of production.

Table 9

Labor market indicators in 2016–2019, % on the previous year

	2016	2017	2018	2019
Gross domestic product	100.3	101.8	102.3	101.3
Overall labor costs	99.8	99.6	99.9	99.8
Index of labor efficiency	100.2	101.9	102.3	101.3
Real accrued wages of workers of entities	100.8	102.9	108.5	102.5
Nominal accrued wages	107.9	106.7	111.6	108.5
Number of employed	101.1	99.7	100.3	99.2
Number of unemployed	99.5	93.5	92.2	94.7

Source: The Rosstat

In the investment and building sectors and the trade-related and sales sectors, the retention of jobs became a factor keeping in check social risks on the labor market with a high share of those engaged in these types of activities in the pattern of the economy taken into account, however, labor efficiency dynamics slowed down (*Table 10*).

Table 10

Dynamics of labor efficiency by the type of economic activities, % on the previous year

	2016	2017	2018	2019*
Total in economy	100.2	101.9	102.3	101.4
Agriculture	102.6	105.3	99.8	99.3
Mining	100.3	101.6	101.8	103.1
Manufacturing	102.4	100.7	101.5	101.8
Power-, gas- and steam-supply; air conditioning	101.1	100.1	101.9	100.6
Water-supply; water disposal, waste collection and utilization	100.1	96.7	102.7	103.1
Building	102.3	97.6	102.8	99.7
Wholesale and retail trade	96.4	101.7	102.5	101.5
Transportation and storage	100.8	100.0	100.5	102.6
Hotel business and public catering	94.1	103.5	102.5	103.7
Information and communications	93.7	99.0	100.2	104.3
Real-estate operations	99.6	100.4	95.9	102.3
Professional, scientific and technical activities	94.7	108.4	102.7	101.1
Administrative activities and related additional services	103.9	98.6	101.3	95.4

* preliminary estimate.

Source: The Rosstat.

The most well-paid types of economic activities – mining, production of petrochemicals, pipeline and air transportation and financial activities – retained the leading positions, but the excess of nominal wages over the nationwide average indicator decreased somewhat. Advanced growth in nominal wages in industry was still a factor of retention of human resources. The lowest wages – 67 percent of the nationwide average – still prevailed in the agrarian sector. The shrinkage of investment and internal consumer demand slowed down growth in wages in building and trade with restructuring of employment in these types of business activities.

4.2. The output dynamics by the type of economic activities

In 2017–2019, recovery of positive dynamics of the Russian economy was determined by the fact that recession was overcome virtually in all baseline types of economic activities. The highest growth rates were observed in mining and agriculture; weak growth in households' incomes relative to the previous year determined the slowdown of growth rates of the retail trade turnover; weakening of the growth rates of the manufacturing segment of the economy led to the slowdown of the wholesale trade's volumes and transport, while in the investment activity – the volumes of jobs in building.

As per the results of the first three quarters of 2019, growth in industrial production was facilitated by positive dynamics both of the mining sector and the manufacturing sector. At the end of the year, it returned to near-zero growth rates, while recession was observed in power, gas and water production. An increase in output of a number of manufacturing industries was mainly justified by a favorable market environment and state support, however, this trend cannot survive in the long-term prospect because of a lack of structural prerequisites for growth and decline of domestic demand.

For the sake of correct interpretation of the continued existence of negative trends or overcoming thereof in individual industries, it is necessary to carry out decomposing of their output into the following components: calendar, seasonal, irregular and trend; interpretation of the latter is of a substantial interest. The Rosstat publishes the data with exclusion of the seasonal and calendar factors only in respect of the 2017–2019 period and only for the industrial production index as a whole and its most significant components¹, so, experts of the Gaidar Institute cleared a number of indices of all industrial sectors in 2000–2019 of seasonal and calendar components and separated the trend component² on the basis of the latest statistical data published by the Rosstat as regards output indices of the industrial sector of the economy.

The findings of the processing of a series for the industrial production index as a whole are presented in *Fig. 9*. Presented in *Fig. 10* are the findings for the aggregated indices of the mining sector, as well as production and distribution of power, gas and water.

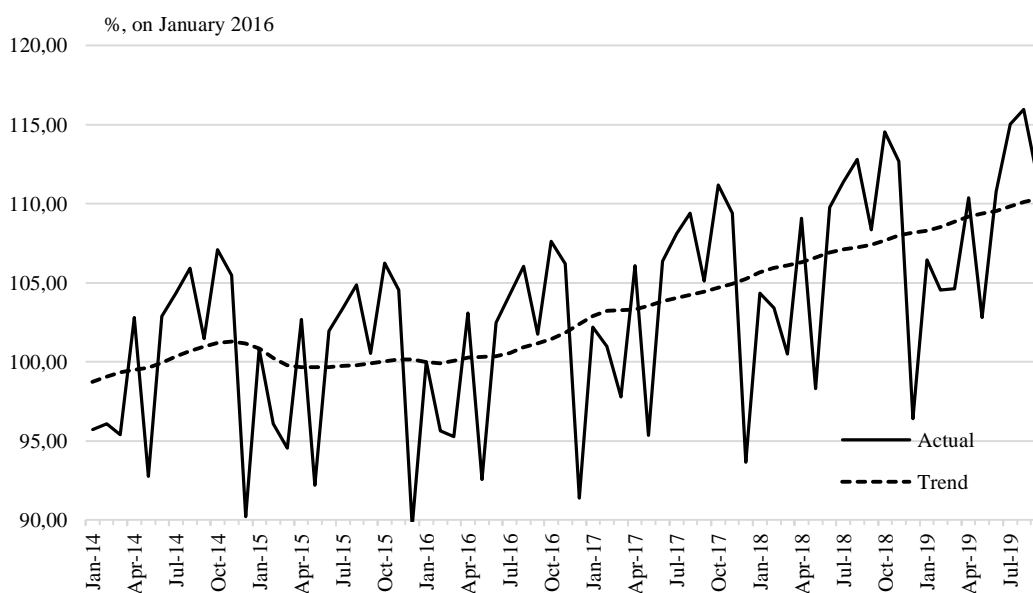


Fig. 9. The dynamics of the industrial production index, 2014–2019 (the actual data and trade component), % on January 2016

¹ Mining; manufacturing; power-, gas- and steam-supply; air conditioning; water-supply, water removal, waste collection and utilization and pollution cleaning.

² Detection of the trend component was carried out by means of the Demetra package with utilization of the X12-ARIMA procedure.

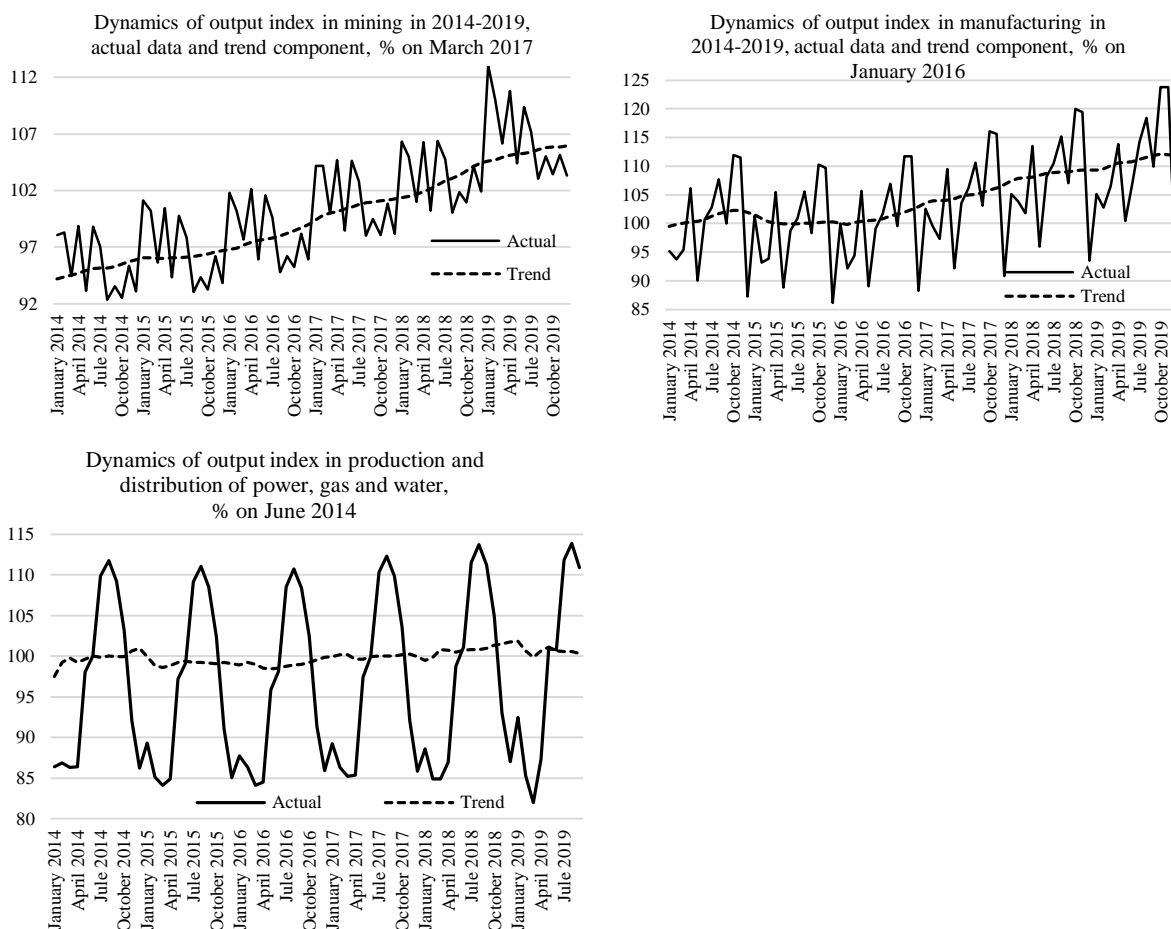


Fig. 10. The dynamics of output indices in mining, manufacturing and production and distribution of power, gas and water, 2014–2019

On the back of extension of the OPEC+ agreement, reduction of oil production in Venezuela and the US warning of sanctions to be introduced against countries importing Iranian oil, in Q1 2019¹ the price of Brent oil appreciated substantially on the global market to USD 68.35 a barrel (an increase of nearly +25 percent as compared with the beginning of the year). Growth in oil prices was accompanied by positive dynamics of the national currency.

Also, early in 2019, changes in the customs and tax regulations affected the volumes of supply and demand in the Russian industrial sector: the beginning of implementation of measures of the final stage of the tax maneuver in the oil and oil-refining industries accompanied by freezing of wholesale prices of gasoline; an increase in excise rates, including those on engine fuel (growth in costs on transportation and storage of goods); change in the VAT rate from 18 percent to 20 percent (growth in prices on products for ultimate consumers).

¹ Kaukin A.S., Miller E.M. Output Dynamics in Q1 2019: Manufacturing Industry Growth // Russia's Economic Development. 2019. Vol. 26. No 5. pp. 14–19.

As per the findings of the calculation, in Q1 2019 the industrial production index saw slow growth like that early in 2018. However, the factors which determined such dynamics early in 2018 and early in 2019 were different: growth in Q1 2019 was facilitated simultaneously by the mining sector and manufacturing, while in the same period of 2018 it was mainly the mining sector that saw growth.

In Q1 2019, industries engaging in production of fuel and energy commodities were growing despite negative factors on the part of supply: the beginning of fulfillment of obligations under the OPEC+ agreement on reduction of the daily rate of oil production. Growth was facilitated in particular by some changes in demand:

- early in the year abnormally warm weather in Europe led to the reduction of export supplies of natural gas, however, it was offset by growth in reserves at European and Russian underground gas storage facilities;
- substantial reduction of global prices of gas resulted in a partial replacement of coal by natural gas, particularly, in Germany;
- implementation of the program of reduction of carbon dioxide emissions in Europe, gradual scale down of the coal-fired power industry and, consequently, a switchover to renewable energy resources and gas;
- growth in Russian coal supplies to Ukraine by railway, including re-exports via Belarus in January-February 2019.¹

In Q1 2019, growth in manufacturing industries was driven by the following: the food industry – partially because of import substitution’s residual effects; metallurgy – owing to growth in output volumes of industries, which are end-users of manufactured products (manufacturing of transport vehicles) and lifting of sanctions from the Rusal; the chemical industry – owing to continued investments in building of new production facilities; woodworking and manufacturing of wood products – thanks to putting into operation of a number of large industrial facilities in the timber industry in 2018.

A slump in the pulp-and-paper industry was justified by entering of the existing capacities into the active modernization phase and introduction of new ones, which situation slowed down production somewhat. In the next few years, the pulp-and-paper industry is expected to see the expansion of its production capacities and growth in its output and exports.

Despite coming into effect from January 1, 2019 of measures to complete tax reforming in the oil industry and the agreement on the extension of a freeze on wholesale prices of gasoline, production of petrochemicals and charred coal saw slow growth as per the results of Q1 2019, which can be explained by an increase in production capacities in January-February 2019 as compared with the previous year, that is, putting into operation of the Euro-5 gasoline production facilities at the Antipinsky Oil Refinery and the Taneko Plant in autumn 2018.²

The findings of separation of trend components of sectorial indices of the mining and manufacturing sectors are presented in *Fig. 11–12*.

¹ IPEM’s indices. Monitoring of the Situation in the Industry // IPEM. February 2019.

² The Energy Bulletin: New Requirements to Marine Fuels// The Analytical Center under the RF Government. February 2019. Issue No. 69. p. 7–8.

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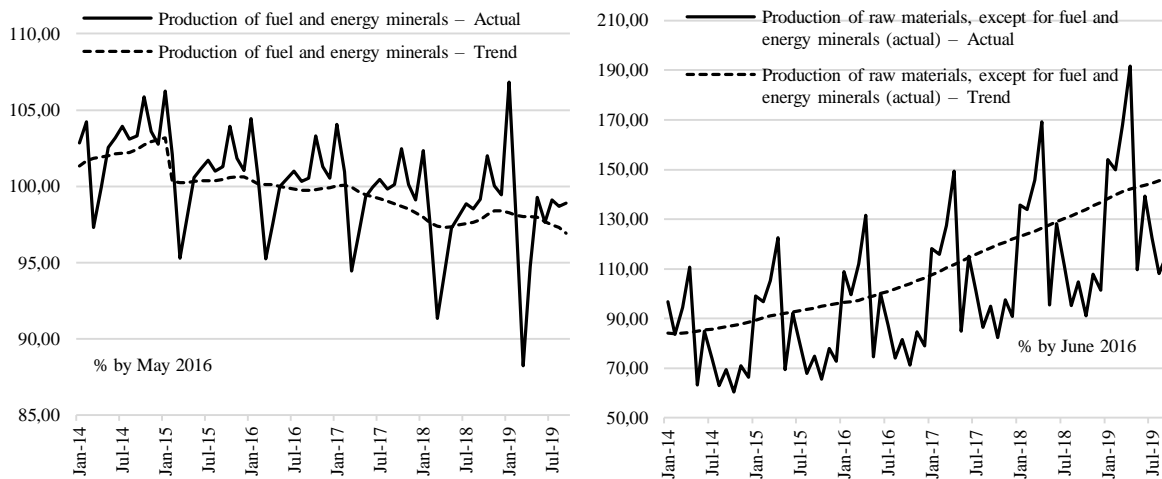
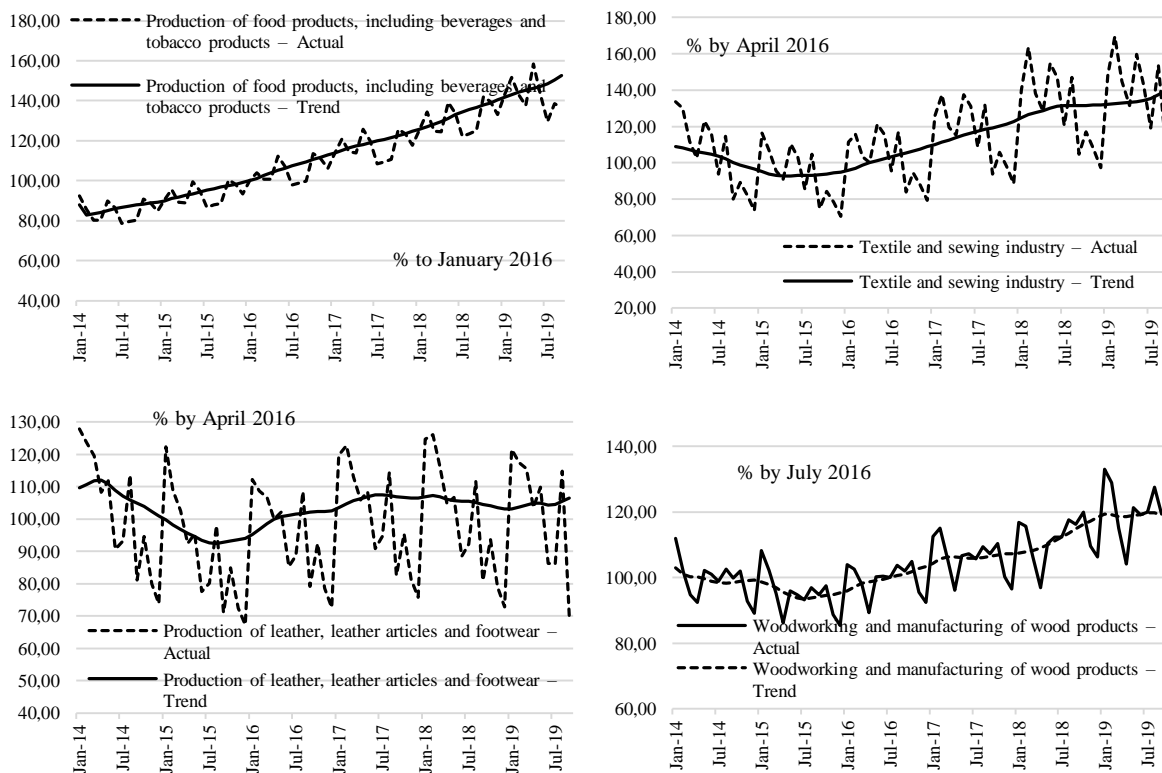
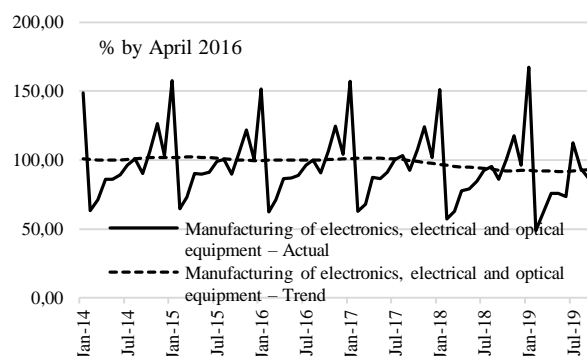
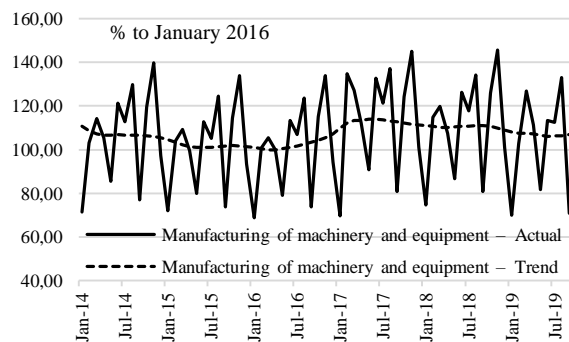
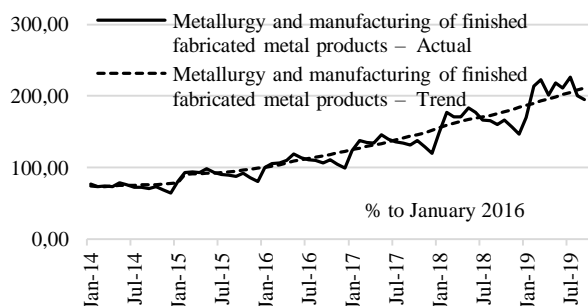
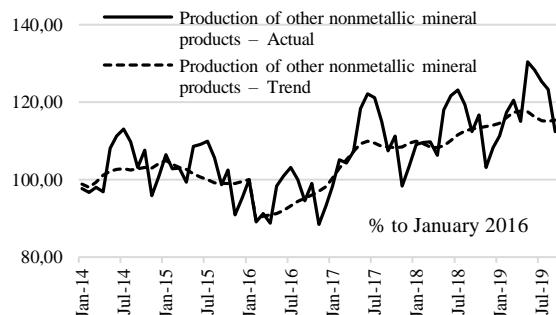
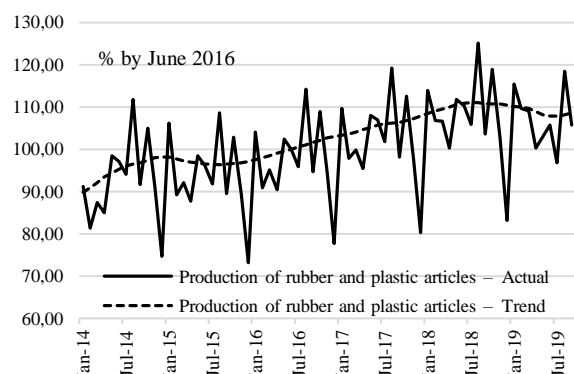
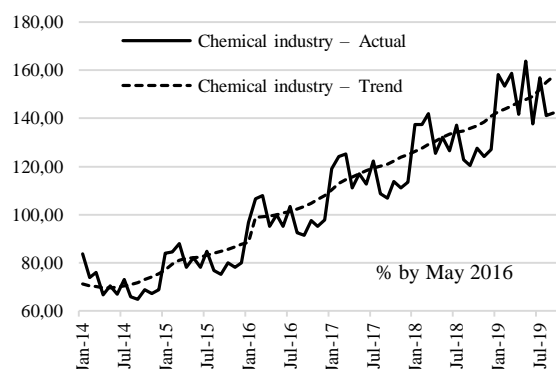
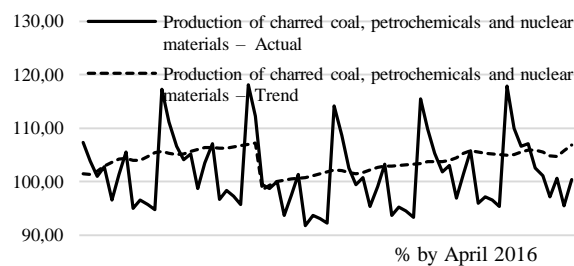
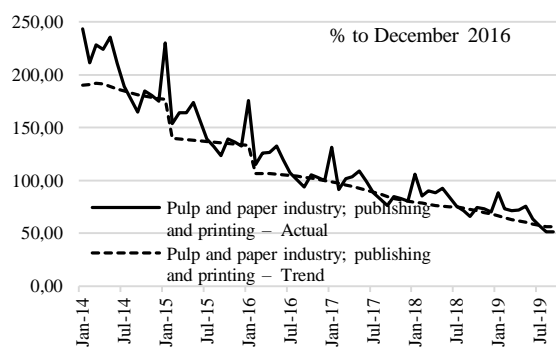


Fig. 11. Dynamics of output indices in the mining sector of the Russian economy, 2014–2019





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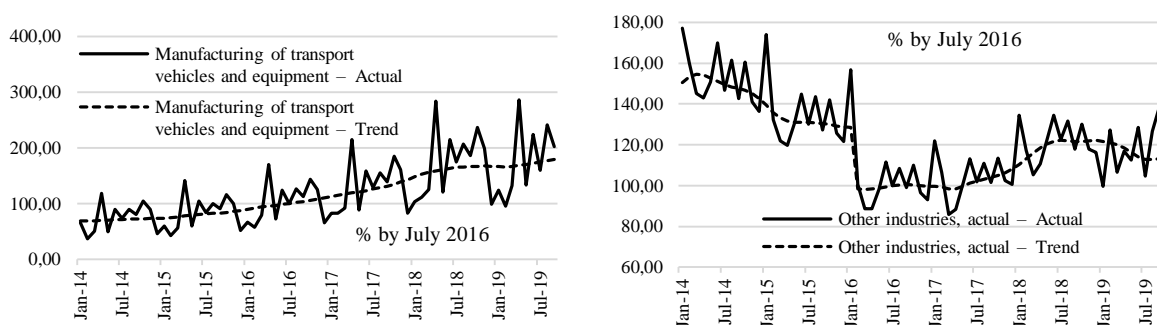
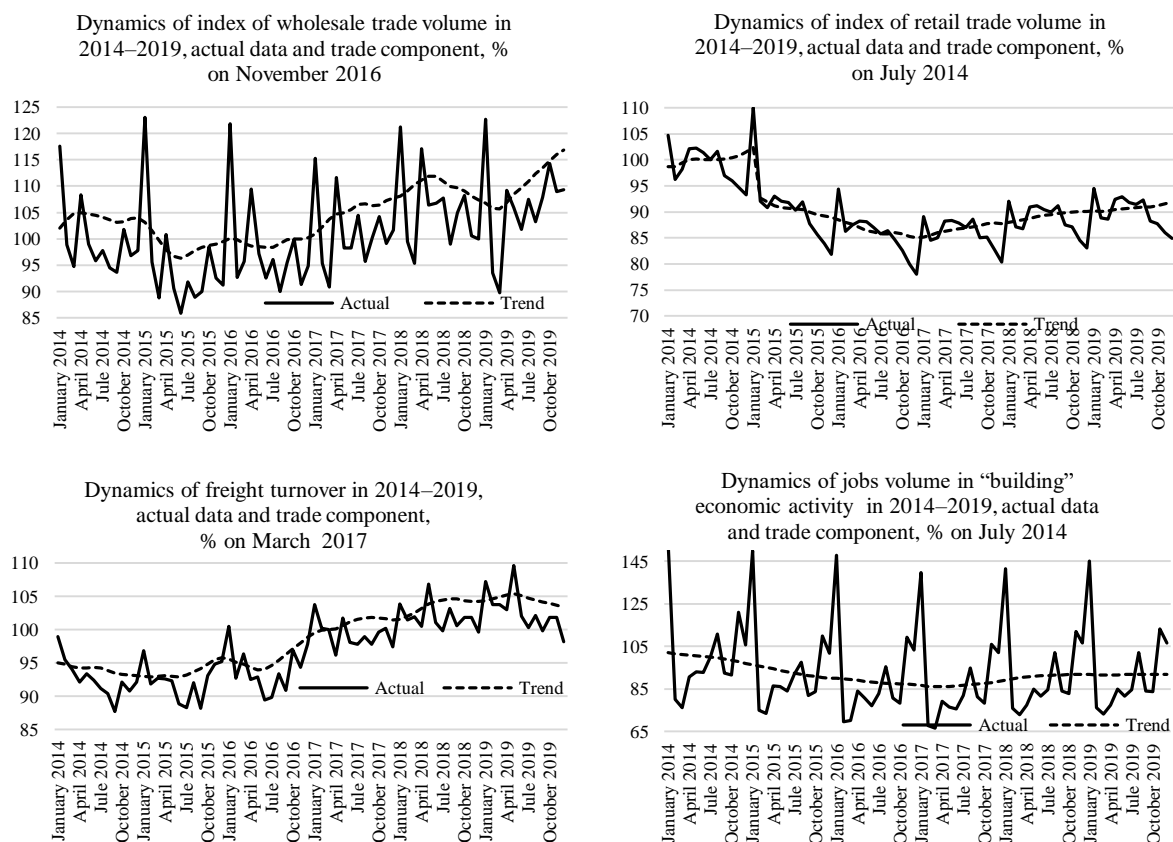


Fig. 12. Dynamics of output indices in the manufacturing sector of the Russian economy, 2014–2019

Also, a slump was observed in wholesale trade, while in Q1 2019 other important sectors of the Russian economy (retail trade, building and paid services to households) saw small-scale positive dynamics. This can be explained by stockpiling by enterprises of reserves late in 2018 ahead of the VAT increase, which situation sped up economic growth in that period, but Q1 2019 saw quite the opposite dynamics of the wholesale trade. Early in 2019, the freight turnover dynamics increased mainly on the back of growth in volumes of transportation of fuel and energy commodities (Fig. 13).



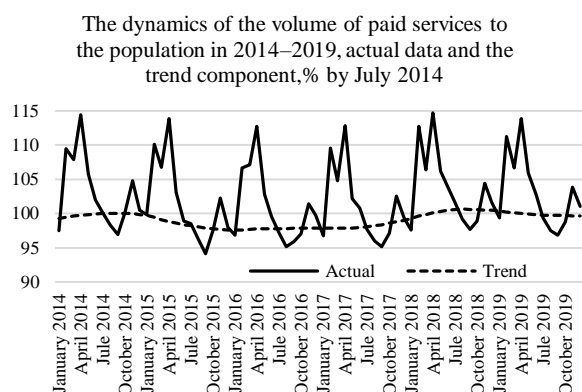


Fig. 13. Dynamics of indices of other industries of the real sector of the economy, 2014–2019

In Q2 2019¹, experts were particularly concerned about exports², which fell amid the continued appreciation of the national currency and oil prices. The factors behind the decline of exports were as follows: first, a large share of the fuel and energy complex in exports, that is, over 60 percent (Q2 2019 saw a reduction in export volumes of natural gas and coal); second, the policy of tariff barriers pursued by a number of countries-consumers of domestic products, for example, metal products; third, a relatively low quality of Russian products which can compete on the international market only in terms of price, but with appreciation of the ruble such prospects largely decreased. With sluggish domestic demand, a drop in private investments and capital outflow observed, this situation could be evidence of the slowdown of economic growth in this country.

Despite concerns, the dynamics of the industrial production index and its trend component highlighted growth which was achieved, as in Q1 2019, owing both to the mining and manufacturing sectors of the Russian industry.

The mining sector was still under influence of the OPEC+ agreement on reduction of oil production volumes. Also, it was affected by an unfavorable pricing environment on the global coal market that made enterprises of this sector adjust their output plans, that is, to reduce output volumes by the end of Q2 and reorient supplies to Asian markets.³ Growth in the gas industry was facilitated by expectations of appreciation of prices of gas before winter, so European countries started to accumulate it actively at their underground gas storage facilities buying it at current relatively lower prices. The fill rate of gas storage facilities increased by nearly 100 percent as compared with last June.

In Q2 2019, in the manufacturing sector growth was still observed in the food industry, the timber industry, the chemical industry, the iron and steel industry and manufacturing of transport vehicles. The factors behind growth remained the same, that is, the state support and a favorable market environment. The wholesale trade's positive dynamics recovered. The highest growth was registered in freight turnover mainly owing to motor transport. Among the factors which had an effect on it were the following:

¹ Kaukin A.S., Miller E.M. Industrial Output Dynamics in H1 2019 // *Russia's Economic Development*. 2019. Vol. 26. Issue No. 8. pp. 27–32.

² Bashkatova A. Russia's Export Curse Stats to Come True // *The Nezavisimaya Gazeta*. 13.06.2019. [URL: http://www.ng.ru/economics/2019-06-13/4_7597_export.html].

³ In Kuzbas, coal production fell by 7 percent on the back of depreciation of prices in Europe // *RBK*. 22.07.2019. URL: [<https://www.rbc.ru/business/22/07/2019/5d35dc409a7947aa069fe85f?from=newsfeed>].

- Extension of the transportation range thanks to the commissioning of new high-speed highways;
- Speed up of the car fleet renewal. As compared with the similar period of the previous year, the rate of leasing and extension of loans to transportation carriers against new vehicles was higher (those who postponed the renewal of their car fleet started to do it actively). With new vehicles in use, the rate of breakdown and idle time instances becomes lower and the number of hauls over the distance of more than 300 km increases;¹
- increase in small batch deliveries because of restrictions which were in effect in April in the Central Federal Okrug, the North-Western Federal Okrug and the Privolzhsky Federal Okrug.²

Other important sectors of the Russian economy did not see any significant growth: paid services to households, retail trade and the building industry demonstrated near-zero dynamics.

According to the data of the IHS Markit company,³ in September 2019 the business activity index in Russian industry decreased considerably, the largest drop since May 2009.⁴ According to the company's survey, manufacturers pointed to a decrease in the volume of orders and loss of customers on the domestic market and reduction of export orders.

Also, the evidence of shrinkage of domestic demand is the decline of the "balance of estimates of demand in products (order portfolio)" component of the business confidence index calculated by the Rosstat in respect of the manufacturing and mining sectors in September 2019. Indirect evidence of reduction of domestic demand is the shrinkage of the wholesale trade turnover: in January-August 2019 the index value was equal to 97.9 percent as compared with the relevant period of the previous year.

A number of the following factors hindered growth in volumes of production of key raw materials: the extension of the OPEC+ agreement on reduction of the oil production rate to 228,000 barrels a day; a decrease in natural gas export supplies by the PAO Gazprom to the EU countries (filling up of the EU's gas storage facilities to full capacity) and to Turkey (competition on the part of low-priced gas supplied from Azerbaijan via the TANAP gas pipeline); a decrease in exports of coal to Europe (a shrinkage of demand in coal in European countries) and infeasibility to increase coal exports to Asia due to the overloading of the route network. Despite the existence of these factors, Q3 2019 saw positive dynamics in the mining industry.

Among the factors which underpinned growth in the mining sector, the following can be singled out: first, fulfillment of the obligations as regards the reduction of the daily rate of oil production in full volume was complicated due to the cleaning of organochloride soiling of the Druzhba pipeline and a drop in Saudi Arabia's oil production after the attack on its oil-refining facilities (as a consequence, the reduction of oil production in August and September was equal to 140,000 barrels a day and 160 barrels a day, respectively, which values were below the target); second, in August the volume of the Gazprom's exports was underpinned by the

¹ Traft: Cargo turnover is growing, among other things, owing to the extension of haul distance // The Single Transportation Website. 28.05.2019. [URL: <https://trans.ru/news/traft-gruzooborot-rastet-v-tom-chisle-i-za-schet-uvlicheniya-dalnosti-perevozok>].

² Spring 2019 Limitations: Where, When and What Tonnage // The Single Transportation Website. 07.02.2019. [URL: <https://trans.ru/news/vesennie-ogranicheniya-2019-gde-kogda-i-na-skolko-tonn>].

³ The IHS Markit PMI Index of manufacturing industries // 01.10.2019. [URL: <https://www.markiteconomics.com/Public/Home/PressRelease/2a2da5ec9fcb4af8aca0938ef2b77877>].

⁴ Slump was equal to 46.3 points. The IHS Markit PMI index varies from 0 to 100. The index value of over 50 indicates the overall increase on the previous month, while that of below 50, the overall decrease.

reduction of supply of pipeline gas from Norway and liquefied natural gas from Qatar; third, from July in respect of the tariff on export shipments of power-generating coal towards port railway stations of the North Caucasian Railway, a reduced rate (0.9259 to the existing tariffs of Section 2 of Price List No.10-01) was applied; the extension of the period of application of this rate till the end of 2019 had a positive impact on Russian exporters' costs in Q3 2019.

Based on the results of Q3 2019, the main contribution to manufacturing industries' growth was made by the food industry owing to the substantial surplus in the agrarian sector's output indices as compared with the previous year (the yield of grain, pulses, potatoes and vegetables surpassed largely the results of 2018); the chemical industry – mainly owing to the pharmaceutical industry (whose growth was related to an increase in demand on domestic generic drugs on the part of Kazakhstan, Uzbekistan and Belarus); production of other non-metallic mineral products – on the back of growth in production of building materials.

In the beginning of H2 2019, growth in metallurgy continued though metal prices remained below the level seen in 2018 because of high smelting volumes in China, excess of the supply of metals over demand in the US and subdued demand on metals in the EU. Growth in metallurgy can be explained by formation of commodity stocks in the building industry in Q2 for implementation of future investment projects.

In September 2019, growth in manufacturing of transport vehicles was justified by an increase in manufacturing of light commercial vehicles, mainly, busses. According to experts¹, until the end of the year the industry expects a decrease in output due to weak consumer demand and the reduced state support (since the beginning of the year for this purpose RUB 10.4 billion have been allocated out of the federal budget, of which RUB 6 billion and RUB 4 billion were spent on subsidized automotive lending and leasing, respectively).

In Q3 2019, other baseline sectors, particularly, the building industry, freight turnover, retail trade and paid services to households saw near-zero growth rates. The wholesale trade continued its growth: output growth amid slowdown of domestic demand led to the speed up of accumulation of stockpiles (*Table 11*).

Table 11

Change in the output index by industry, %

	Share in index of industrial production, %	December 2019 on June 2019, %	December 2019 on December 2018, %	Change in past few months
1	2	3	4	5
Index of industrial production		100.43	101.69	stagnation
Mining	34.54	100.64	101.48	stagnation
Manufacturing	54.91	100.99	102.28	stagnation
including:				
Production of food products, including beverages and tobacco	16.34	107.33	112.54	growth
Textile and sewing industry	1.14	108.01	109.92	growth
Production of leather, leather articles and footwear	0.27	104.98	106.28	growth

Cont'd

1	2	3	4	5
Woodworking and manufacturing of wood articles	2.02	99.19	99.94	stagnation
Pulp and paper industry;	3.35	92.54	79.61	slump

¹ Romanova T. Car Sales Will Fall This Year after Two Years of Explosive Growth // The Vedomosti daily 04.10.2019. [URL: <https://www.vedomosti.ru/business/articles/2019/10/04/812909-prodazhi-avtomobilei#>].

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Production of charred coal and petrochemicals	17.25	104.24	104.09	growth
Chemical products	7.56	107.75	114.23	growth
Production of rubber and plastic articles	2.14	100.97	98.64	stagnation
Production of other nonmetallic mineral products	4.02	99.47	101.35	stagnation
Metallurgy and manufacturing of fabricated metal end products	17.42	107.58	118.06	growth
Manufacturing of machinery and equipment	6.97	103.91	101.32	growth
Manufacturing of electronics, electrics and optical equipment	6.27	101.31	100.44	stagnation
Manufacturing of transport vehicles and equipment	6.75	107.50	110.80	growth
Other industries	2.42	83.79	78.28	slump
Power, gas and water	13.51	98.74	97.68	slow recession
Wholesale trade		106.53	108.74	growth
Retail trade		101.39	102.06	slow growth
Freight turnover		98.36	99.23	slow recession
Building		100.27	100.18	stagnation
Volume of paid services to households		101.61	104.04	stagnation

Source: own calculations.

Based on the results of Q4, 2019¹, the manufacturing and mining sectors of the Russian economy returned to near-zero growth rates; slump was registered in power, gas and water production. The slowdown of the mining sector is related to the fulfillment of the OPEC+ agreement on reduction of the daily rate of oil production and weakening of external demand on Russian gas on the part of European countries because of the warm weather and filling up of European storage facilities.² The highest positive impact was made by the coal industry on the back of reduction of the tariff on export shipments of power-generating coal towards port railway stations of the North Caucasian Railway; from November 1 this tariff was also applied to escort shipments from railway stations of the Kemerovo Region towards port railway stations of the Oktyabrskaya Railway, the Northern Railway and the Kaliningrad Railway.³ The reduced tariff on export shipments was in effect till December 31, 2019.

The analysis of output trend components of individual manufacturing industries in Q4 highlighted the following common factors:

- the list of industries which demonstrated growth did not change as compared with Q3 2019: the food industry, the chemical industry and the iron and steel industry. Growth sources remained the same. Despite the fact that growth was demonstrated by the industries which accounted for 70 percent of the gross value added of the manufacturing industry, the overall index of growth rates in manufacturing was near-zero (such a difference was registered in the Rosstat's primary observations based on output indices, too; the interpretation of the results of the manufacturing sector as a whole requires apparently the update by the Rosstat of online statistical data);

¹ Kaukin A., Miller E. Industrial Output Dynamics in Q4 2019 // The Online Monitoring of Russia's Economic Outlook. Trends and Challenges of the Socioeconomic Development. 2020. Issue No.2. Vol. 103. pp. 12–15.

² For the PAO Gazprom, REPO commodity deals are a current capital management instrument permitting to monetize own gas reserves during the low demand period. De jure change of the owner is deemed as exports, but actually it is the volume of supplies for the next period.

³ The reduced rate was introduced in July because of worsening of demand on western markets.

- a substantial slump (79 percent in 2019 on the relevant period of the previous year) was registered in the pulp and paper industry because of a temporary pause related to the commissioning of new production facilities and modernization of the existing ones;¹
- stagnation was observed in the timber industry and manufacturing of wood products (the implications of wild fires in Siberia and the Far East); production of rubber and plastic articles (a decrease in the share of Russian-made tires and casings on the market to 49 percent²); production of other nonmetallic mineral products on the back of near-zero growth rates in the building industry, which is the major consumer of these products.

Based on the results of Q4, the wholesale trade saw growth. Paid services to households demonstrated near-zero growth rates due to the stagnation of households' disposable cash incomes. Building volumes kept growing at a low rate (100.18 percent in December 2019 on the relevant period of the previous year). Slump continued in freight turnover (99.23 percent in December 2019 on the relevant period of the previous year).

Positive dynamics in the manufacturing sector was observed amid moderate capital investments being made, that is, only the existing production capacities were mainly used. Taking into account the role of fuel and energy industries in the Russian economy, the decision of OPEC+ as regards the new reduction of oil production causes further concern (from January 1 till March 31, 2020 Russia has to reduce the daily rate of oil production by 300,000 barrels as compared with the reduction of 228,000 barrels a day late in 2019).

Thus, in the first three quarters of 2019 industrial growth was facilitated by the manufacturing and mining sectors. In Q4, the industry returned to near-zero growth rates. At the same time, relatively sustainable growth remained in the food industry, the chemical industry (production of fertilizers) and metallurgy, that is, the sectors of the economy with a relatively low gross value added. Growth in industries with a relatively high gross value added was observed only in manufacturing of transport vehicles and would probably be short-termed as the state subsidizing of the sector decreased and domestic demand fell. The industries with high value added potential, such as manufacturing of machinery, equipment and electrics saw the near-zero or weak negative dynamics.

Registered as per calculations late in 2019, the stagnation of industrial production, investment, building sector, transport and logistics determined the starting conditions and moderate estimates of growth dynamics in 2020. Early in 2020, the economic situation became complicated due to dramatic changes in the foreign trade situation, primarily, on the hydrocarbons market. The external factors were supplemented by a simultaneous shrinkage of demand and supply on the domestic market because of changes in prices and the exchange rate of the national currency, as well as the urgent solution of acute economic issues related to the outbreak of the coronavirus COVID-19. The most likely development scenario will consist in stepping up of measures to adapt the economy to changes in the global and domestic environment in the context of implementation of the package of anti-crisis measures both in the healthcare sector and other sectors affected the most by the coronavirus outbreak.

¹ Capital investments in the industry increased by 20 percent in 2018 on 2017; a larger portion was spent on technological modernization. See, for example, Golubkina M. Wealth of Opportunities// The Rossiiskaya Gazeta. 12.09.2019. [URL: <https://rg.ru/2019/09/12/reg-szfo/po-prognozu-moshchnosti-celliulozno-bumazhnoj-promyshlennosti-v-rf-vyrastut.html>].

² As per the marketing research – “The Market of Tires and Casings in Russia: Research and Forecast till 2023” – prepared by the ROIF Expert marketing agency, the market changed its pattern for the first time. As per the retrospective analysis, domestic manufacturers accounted traditionally for a larger share of the market.