

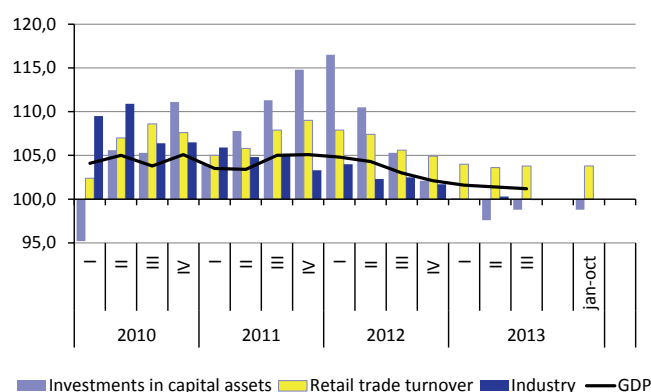
RUSSIA'S REAL SECTOR OF THE ECONOMY: FACTORS AND TRENDS IN JANUARY–OCTOBER 2013

O.Izryadnova

In January–October 2013, business activities were determined by a decrease in the consumer and investment demand. A drop of 1.2% in investments in capital assets and stagnation in manufacturing industries as compared to January–October 2012 had a negative effect on the domestic market. A factor which supported the GDP dynamics at the level of 101.4% against January–February 2012 was growth of 5.3% in the agricultural output as compared to the respective period of the previous year. From June 2013, growth in the total number of the unemployed year-on-year was registered; it is to be noted that in October growth in the unemployment sped up and its level (in accordance with the ILO methods) amounted to 5.5% of the gainfully occupied population with 5.2% on average in the 3rd quarter of 2013. A drop in the demand in the workforce resulted in a reduction of the number of vacant jobs declared by the employment service from 2.1m vacant jobs in May to 1.6m in October 2013.

According to the preliminary estimate of the Rosstat, the index of the physical volume of GDP in the 3rd quarter amounted to 101.2% on the previous period, while in January–September 2013, to 101.3% on the respective period of 2012. The rates of economic development have kept falling for the past eight quarters. In January–October 2013, investments in capital assets amounted to 98.1% on the respective period of the previous year and the volume of work in building, to 98.6%. Unlike the dynamics of the total volume of work, commissioning of new housing keeps growing for three months running. In October, growth in commissioning of new housing on the respective period of the previous year amounted to 21.9%, while in January–October the rates of commissioning of new housing were 13.2% higher than in the same period of 2012. High rates of housing development were accompanied by a speed-up in volumes of mortgage housing lending to the population.

Financial performance of entities and enterprises has kept falling throughout this year. So, in January–September 2013 the balance of profits and losses amounted to 83.3%, including 68.3% in the manufacturing industry on January–September 2012, which situation dramatically reduced the possibilities to fund investment programs by means of enterprises' and entities' own funds. Investments in capital assets mainly rely on state financing as the inflow of foreign investments is still at a low level. Growth of 15.7% in foreign investments in the Russian economy during nine months of 2013 only made up for a drop in that index in the same period of the previous year. Prevalence of the share of direct foreign investments at the level of 14.1% in the pattern of funds received from abroad against 26.0% in the 2008 pre-crisis period points to a low investment attractiveness of the domestic economy. Export of capital is growing: in January–September



Source: Rosstat.

Fig. 1. Dynamics of the main macroeconomic indices in 2010–2013 as % of the respective quarter of the previous year

2013 the outflow of capital amounted to \$48.1bn and exceeded by 1.7bn the index of the respective period of 2012. Russian companies invest funds more willingly abroad, that is, in January–September 2013 investments in the Russian economy amounted to \$132.4bn, while Russian investments abroad, to \$162.3bn.

A drop in the net export had a negative effect on economic growth in January–October 2013; according to the preliminary data of the Ministry of Economic Development of the Russian Federation that drop amounted to 8.8% on the respective period of the previous year. A drop in growth rates of monetary volumes of the export year-on-year has been registered during the past five quarters. Slowdown of growth rates of import supplies has been registered from the 1st quarter 2013: 6.5% – in the 1st quarter, 3.7% – in the 2nd quarter and 0.4% in the 3rd quarter of 2013 on the respective period of the previous year. Despite the slowdown, the role of import in formation of the economy's resources with stagnation of the output by the base type of economic activities did not become

less important. The pattern of GDP utilization changed towards growth in the expenditures on ultimate consumption with a decrease in the share of gross savings and the net export.

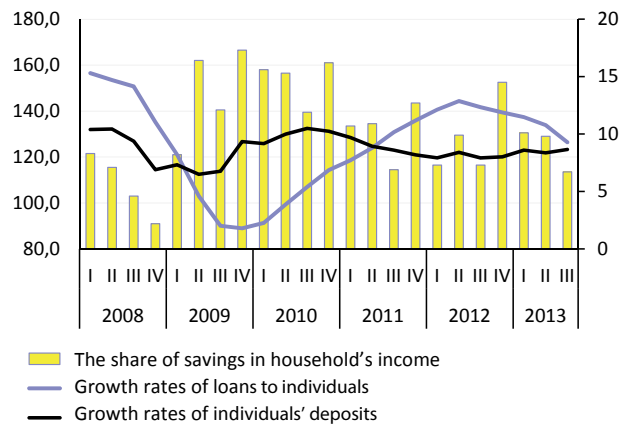
Weak growth of the domestic market was maintained by means of growth in retail trade volumes (2.3%) and paid services to households (2.3%) as compared to January–October 2013. In January–October 2013, growth in the volumes of the food market and non-food market amounted to 2.4% and 4.8%, respectively, against 4.0% and 8.9%, respectively a year earlier. In October 2013, growth of 104.9% year-on-year in households' real disposable cash income against 103.8% in 2012 had a considerable effect on the dynamics of consumer demand.

Changes in households' consumer behavior take place, as well: households' disposition to savings got weaker from 10.1% of households' cash income in the 1st quarter to 9.8% and 6.7% in the 2nd quarter of 2013 and the 3rd quarter of 2013, respectively. In households' income, the share of expenditures on purchasing of goods and services keeps growing.

Stagnation in industry is the result of slowdown of economic growth. From the 2nd quarter of 2013, a change in trends in industry is observed, that is, growth in production of primary products and a drop in output of the manufacturing industry. In October, production of primary products and the output of the manufacturing industry amounted to 101.8% and 98.1%, respectively, on the index of October 2012.

In January–October 2013, production of the main types of primary fuel and energy resources increased by 1.2%: the output of oil and gas rose by 0.8% and 2.6%, respectively, as compared to the respective period of 2012. It is worth mentioning mixed trends in development of oil and gas production. According to the data of the CDU TEK of the Ministry of Energy of the Russian Federation, in January–September 2013 in the oil sector the total volume of drilling rose by 5.6% on the level of January–September 2012, including production drilling (by 5.6%) with investments in capital assets at current prices rising by 3.9%. In January–September 2012, in the gas sector the total volume of drilling (in meters) fell by 19.0% on the respective period of 2012, including production drilling of gas wells by 25.9%, while investments in production of gas at current prices decreased by 31.9% (the data of OAO Gazprom).

A drop in the output of the manufacturing industry is justified by a reduction in the solvent demand, non-competitiveness of domestic goods as compared to import analogs, as well as low efficiency of production. A drop in the annual growth rates of development of manufacturing industry was observed for six months



Source: Rosstat.

Fig. 2. Dynamics of individuals' loans and deposits (as % of the respective period of the previous year) and the share of savings in households' income (%)

from May 2013. In the economy, a decrease in the output both of the engineering complex and related production of construction materials was registered. In January–October 2013, production of machines and equipment fell by 6.6%, power equipment – by 4.0%, transport means – by 1.3% and metallurgical output – by 2.0% as compared to the respective period of the previous year. The positive dynamics prevail in the chemical industry (104.1% on January–October 2012), production of rubber and plastic articles (106.0%), production of charred coal and oil products (102.1%) and production of food products (101.6%). The Ministry of Economic Development of the Russian Federation carried out the update of the indices of the 2014–2016 forecast, as well as the long-term forecast till 2030.

Changes in the 2014–2016 forecast as compared to the long-term forecast approved by the Government of the Russian Federation in March 2013 are mainly related to worsening of dynamics of the economic development, as well as new decisions as regards indexation of the regulated tariffs and application of the budget rule. If in the long-term forecast approved by the Government of the Russian Federation as a base one the innovation scenario of development was considered (Option No.2), in the presented version of the long-term forecast it was a conservative scenario (Option No.1) that was considered as a base one. The above is justified by more pessimistic assumptions about growth in competitiveness of domestic products and public and private investments in development of the infrastructure, science and human capital.

As a result, the baseline path of economic growth in 2013–2030 is reduced from 4.0% (Option # 2, March 2013) to 2.8% in the forecast's current version. The ultimate adjustment of the forecast's indices is related to the dynamics of the investment demand: average

Table 1

**AVERAGE ANNUAL RATES OF THE MAIN MACROECONOMIC PARAMETERS IN THE 2011–2015 PERIOD
AND THE 2013–2030 PERIOD (FORECAST)**

	The 2011–2015 period		The 2013–2030 period	
	Options			
	1	2	1	2
GDP	103.1	104.0	102.5	104.0
Investments in capital assets	105.8	107.8	104.3	105.9
Industry	102.5	103.7	102.1	103.2
Retail trade volumes	105.2	106.0	103.2	104.6
Households' real income	102.9	103.5	103.0	104.4
Real wages and salaries	105.0	109.1	103.6	107.4
Export	100.2	100.6	101.2	103.5
Import	106.3	109.0	102.8	105.0
Labor efficiency	103.2	104.0	102.9	103.9
Electric capacity of GDP	98.6	98.5	98.2	97.0

Source: The Ministry of Economic Development of the Russian Federation.

annual growth in investments in the 2013–2030 period in the current version of the forecast was revised downward to 4.3% against 5.9%, while the volume of public capital investments was estimated at the level of 2.2% of GDP against 3.5% of GDP earlier.

Downward revision of the forecast of growth in wages and salaries from 7.4% to 3.6% is mainly related to slowdown of average annual growth in labor remuneration of public sector workers in real terms to 3.7% against 5.3%. With the assumption of changes in the ratio between wages and salaries and growth in pension payments the parameters of average annual growth in households' real disposable income decrease from 4.4% to 3.0%. With low-key dynamics of households' income, in the 2013–2030 period the average annual growth in lending to households goes down as well from 18% to 15% with households' total debts estimated at 50% of GDP in 2030. Downward revision of the estimates of growth in households' income and consumer lending determined in general a lower path of retail trade volumes, that is, 3.5% against 4.6%.

A conservative scenario is based on rather low-key estimates of competitiveness of Russian goods with a high extent of reprocessing on external markets which situation determined adjustment of the dynamics of growth rates of the commodity exports from 3.5% to 1.9% on average in the forecast period.

Substantial adjustment of the estimates of the import dynamics in 2013 and lower parameters of the internal demand in the period till 2030 determined a downward revision from 5.0% to 3.4% as compared to the previous version of the forecast of average annual growth rates of the commodity imports.

With the forecast logic of development, the economy operates in the established reproduction model, that is, advanced growth in import as compared to the dynamics of the domestic market and modest development of the engineering complex as compared to imports and investments in capital assets with rather conservative estimates of growth in efficient utilization of labor, capital and electric power. ●