

IMPORT OF INVESTMENT GOODS¹

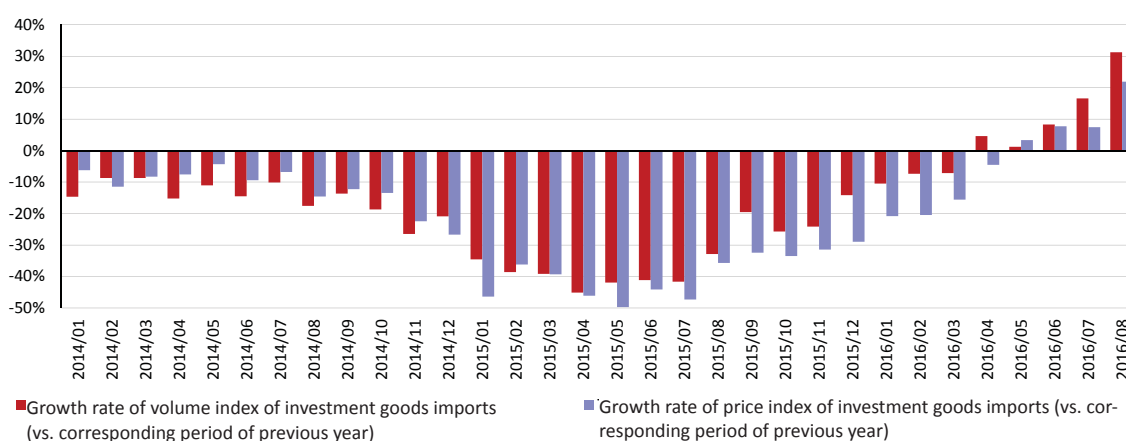
G.Idrisov, A.Kaukin, P.Pavlov

The sharp fluctuations of the ruble's exchange rate in the period 2014–2016 have not resulted in a reduction of the share of investment goods in the price structure of Russian imports. At the same time, domestic demand has visibly reoriented towards cheaper analogues. The recovery of imports of investment goods visible since the second half of 2016, which in part can be attributed to the strengthening of the ruble, points to a temporary halt of import substitution processes.

According to the Bank of Russia, over the period from January 2014 through September 2016, the Russian currency weakened by approximately 25%², which resulted in a corresponding rise in the ruble prices of imported goods. As a result, the volume of imports shrank. At the same time, the share of investment goods in total imports remained stable throughout the period under consideration, amounting to approximately 40%.

In fact, the fluctuations of the ruble's exchange rate, including its explosive fall in late 2014, did not result in any shifts in the price structure of imports between investment and non-investment goods.

From January through September 2016, the real exchange rate of the ruble against the US dollar increased, thus pushing down the ruble prices of imports and conducing to a transition to positive growth rates of imports of investment goods (both in terms of their price index and volume index) by the end of the first half-year of 2016 (*Fig. 1*).



Source: Own calculations, based on data released by the RF FTS.

Fig. 1. The price and volume of imports, as a percentage of the corresponding period of a previous year

¹ This paper was originally published in *Online Monitoring of Russia's Economic Outlook* No.17(35).

² The real effective exchange rate of the ruble against foreign currencies (Index, January 2014 = 100 p.p.) amounted to 64 p.p. in January 2016 and to 76 pp. in September 2016. This corresponds to the following averages of the nominal exchange rate of the US dollar: 31.51 rubles in January 2014; 76.25 rubles in January 2016; and 64.6 rubles in September 2016.

The structure of imports

When estimating the shifts in the structure of imports of investment goods that were taking place before and after the significant changes that occurred in the macroeconomic conditions associated with the new constraints on tradability of goods¹, one should make note of its sufficiently high stability. Over the period 2013–2016², the main groups of imports included motor cars, accessories and spare parts for various types of motor vehicles, and telecommunications equipment (*Table 1*).

Table 1

STRUCTURE OF IMPORTS OF INVESTMENT GOODS, VALUE VOLUME

FEACN Groups (four-digit code)	Share in imports, %	
	2013	2016
8517 – telephone sets, including telephones for cellular networks ...	5.52	8.60
8703 – motor cars and other motor vehicles ...	12.32	8.25
8708 – motor vehicles; parts and accessories thereof ...	8.33	7.85
8419 – machinery, plant (not domestic), or laboratory equipment ...	1.79	6.70
8471 – automatic data processing machines and units thereof ...	3.58	4.83
8481 – taps, valves and similar appliances for pipes, boiler shells ...	1.68	2.33
8414 – air or vacuum pumps, air or other gas compressors ...	1.74	1.81
8413 – pumps; for liquids, whether or not fitted with measuring device, liquid elevators ...	1.64	1.78
8479 – machinery and mechanical appliances; having individual functions ...	1.95	1.75
8529 – parts suitable for use solely or principally with the apparatus of ...	1.85	1.48
8707 – bodies; (including cabs) for the motor vehicles ...	2.94	1.38
8407 – reciprocating or rotary internal combustion piston engines ...	1.89	1.30
8704 – vehicles; for transport of goods ...	2.16	1.28
8502 – electric generating sets ...	2.35	1.12
8429 – bulldozers, graders, levellers, scrapers, angledozers ...	2.24	0.90
Other groups	48.03	48.64
Total	100	100

Source: own calculations, based on data released by the RF FTS.

When comparing the structure of imports of motor cars in terms of their physical volume in H2 2013 (on the eve of the ‘macroeconomic turbulence’ period) and H2 2015, one notable feature is the significant growth of the share of Japanese and German brands³. This can be in part explained by the fact that the average ruble price of these motor car brands did not jump as highly as that of motor cars produced in the US and the UK⁴, and in part by the marketing policies of certain companies that wanted to retain their marked shares by reducing their profit rates, and the altered structure of car fleet imports.

When looking at the related segment of motor vehicles for the transport of goods, we should note the altered structure of demand depending on their country of origin. Over the period from July 2013 through December

1 The regime of economic sanctions introduced against Russia and Russia’s retaliatory sanctions.

2 The ‘year 2016’ is understood as the period from January through August 2016.

3 Their share was calculated with regard to the number of motor vehicles from the given country in the total number of imported motor vehicles. Growth from 19.3% to 29.2% and from 10.2% to 17.2% respectively.

4 The average prices of UK and US motor cars in US dollar terms gained 5% and 12% respectively, while those of Japanese and German brands (also in US dollar terms) lost 17% and 19% respectively.

2015, the share of trucks imported from Thailand increased dramatically¹. According to data released by the Federal Customs Service, in Q3–Q4 2013, the average price of a vehicle of gross combined weight rating under 5 t was as follows: for imports from Germany – \$26,100; for imports from Thailand – \$18,600. Meanwhile, in Q3–Q4 2015, the average price for the same category of motor vehicles was \$19,400 (for imports from Germany) and \$17,100 (for imports from Thailand).

Russian consumers reoriented to cheaper technological products. The noted shrinkage of the price interval within one and the same category of imported goods depending on their country of origin is a sign of a reducing available product variability that illustrates the evolving crisis trends.

Another notable fact is the shrinkage of the price and volume indices of imports of goods road motor vehicles produced in Belarus against the backdrop of their average price rising by 30% (in US dollar terms). The structure of demand for this commodity category also changed, in that the share of more expensive motor vehicles (including super-heavy goods road motor vehicles like, for example, mining dump trucks of the BELAZ Series²). The emergence of this trend can be explained by the satisfactory development of the economic situation in the mining sector (including the extraction of coal³ and metal ores), which is oriented to exports and thus enjoys a winning position in face of plummeting national currency.

Import substitution factors

Over the period from Q3 2014 through Q4 2015, the share of imports in the turnover of motor vehicles and spare parts and accessories thereof was consistently on decline (*Fig. 2*). However, the import substitution process in that segment halted some time around late 2015 and early 2016. The ruble's strengthening triggered a simultaneous growth of the share of imports in these commodity groups. At the same time, while over the previous period the share of imports in the total turnover of machines and equipment stayed at approximately 30%, from early 2016 onwards it also began to expand⁴.

Among the main factors that can help promote the import substitution policy in Russia we may note the following ones: the weakening national currency; the constraints on tradability of goods created by the mutually imposed economic sanctions; the consistent policy implemented by the government's economic departments. The statistical data for 2015 demonstrate⁵ that the potential offered by the import substitution policy was low, and that the new opportunities were taken advantage of by only a handful of industries. The ruble's strengthening observed in Q1–Q3 2016 became one of the factors working against the import substitution processes. The effects of the 'import substitu-

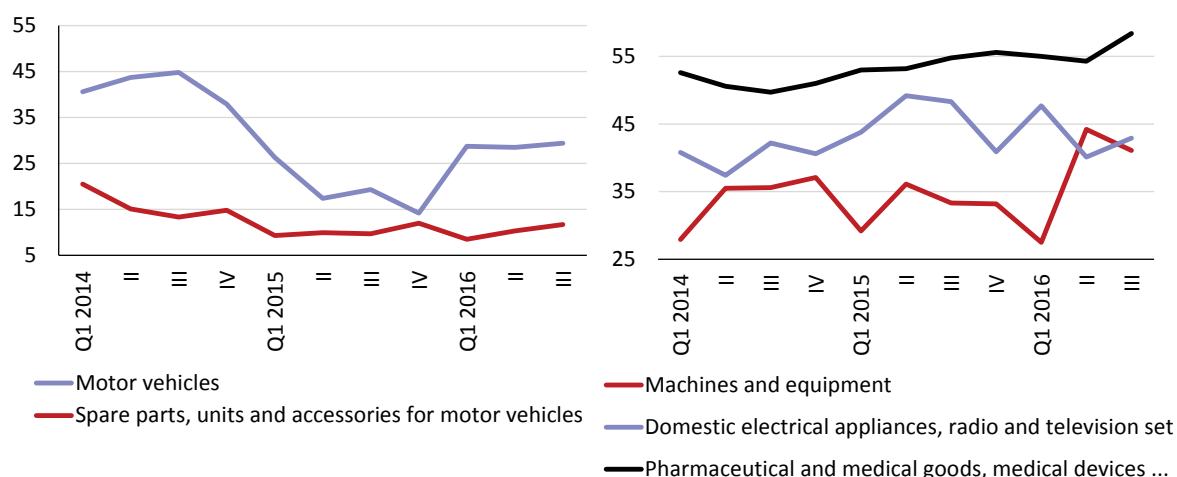
1 From 9.36% to 36.71% in terms of physical volume, and so Thailand now topped the structure of Russia's imports (the leaders over the previous period were: Italy – 15.7%; Germany – 14.4%; Korea – 12.9%). The value volume (in US dollar terms) increased only slightly – by 5%.

2 The price of BELAZ 7571 Series trucks with payload capacity of 450 mt is up to \$7.5m. See http://naviny.by/rubrics/economic/2014/08/22/ic_articles_113_186370

3 In 2015, the output of black coal, brown coal and peat increased by 3.4%; that of metal ores – by 2.2% (on 2014).

4 In some commodity groups, the share of imports continued to increase (at a monotonous rate) even during the ruble's plunge, which points to absence of their domestically produced analogues.

5 *Kaukin A., Pavlov P.* Import Substitution in Russia's Manufacturing Industry. Russian Economic Developments, No.3. 2016, pp. 63–66.



Source: Rosstat.

Fig. 2. The share of imports in total trade turnover, %

tion successes¹ proved to be short-lived: the temporary advantages created for some sectors by the ruble's plunge and the introduction of economic sanctions were not backed by any transformations that could lay a foundation for sustainable growth in the medium- and long-term perspective. ●

1 See, e.g., Medvedev D. A. Social and economic development of Russia: Finding new dynamics. Voprosy Ekonomiki, 2016, No.10, pp. 5–30 (In Russian).