

# **MONITORING OF RUSSIA'S ECONOMIC OUTLOOK:**

TRENDS AND CHALLENGES OF SOCIO-ECONOMIC DEVELOPMENT

**No. 14(32) September 2016**

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**Editorial board:** Sergey Drobyshevsky, Pavel Kadochnikov, Vladimir Mau and Sergey Sinelnikov-Murylev

**Editor:** Vladimir Gurevich



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## MAIN TRENDS AND CONCLUSIONS

The events of the past few weeks did not produce any changes in the already existing trends; moreover, these trends have been to a certain extent confirmed, and some of them became more prominent.

The world market for oil, which retains its system-forming significance for the Russian economy, continued to demonstrate its usual volatility, and its two major players – Russia and Saudi Arabia – continued to exercise their dialectical approach to the task of its stabilization. Both countries are once again discussing the possibility of oil extraction freeze, while at the same time continually boosting their oil output (Russia has hit its oil production record high, and the Saudis are also approaching that point). It is as yet difficult to say just how effectively the mutual promises of two alpinists not to climb higher than the summit of Mount Everest may succeed in making all the others sit still and abstain from climbing anywhere.

The current state of Russia's budget and, most importantly, its prospects are gradually beginning to correspond to the pessimistic development scenarios. At least two facts confirm this sad truth. First, a discussion was launched as to which investment projects, to be funded from the National Welfare Fund (the money that had been firmly promised), should actually be cancelled – because soon (when the Reserve Fund is spent) it is the National Welfare Fund that will have to bear the burden of covering Russia's budget deficit. Secondly, the RF Ministry of Finance presented its proposals concerning raising taxes on every taxable item, by way of saying to the government: so, now make your choice. This 'tax maneuver' of sorts, which perhaps is not a politically correct measure to be applied during the current election campaign, was to show that the art of 'budget cutting-and-fitting' has its limits.

Those limits narrowed very visibly when the privatization of *Bashneft* was suddenly postponed, whereas the RF Ministry of Finance must have relied on the proceeds to be generated by that deal in its budget revenue planning for the next few months. But the State, as it turned out, at the last moment had lost its understanding of what could be called a state-owned company. If this forgetfulness should extend to the notion of state-owned property, privatization may become a somewhat more troublesome matter: in fact, it will be difficult to give coherent answers to questions like what can be privatized, who may privatize property, and what privatization *per se* actually is. However, if one remembers the history of *Bashneft* – how was transferred from one level of public ownership to another, privatized, and then nationalized once again, and now is being prepared for becoming either a private or semi-private entity – it will become obvious that the complaints concerning the difficulties of its current privatization are rather exaggerated. The parameters of that process are well within the multiyear average data.

Another trend – which is, on the contrary, positive and quite new – has to do with the Russia's inflation and its behavior over recent weeks. If we set its actual behavior curve against the forecasts made in January, the difference may become a pleasant surprise. As for the public feelings with regard to inflation, these have also become more positive. They are sustained by the

very moderate fluctuations of the ruble's exchange rate, which has not been following blindly the changes in oil quotes.

However, this peaceful landscape may soon be disturbed, and that disturbance will be radical and manmade. The calls for a so-called *targeted growth of broad money supply*, or even for the RF Central Bank to cover budget deficit, are becoming increasingly insistent. As a rule, they come in the same package with demands that the ruble's exchange rate against major world currencies should be fixed, and restrictions imposed on capital movement (which would be quite logical for somebody with an urge for increasing money supply in the economy).

Meanwhile, one gets the impression that these calls have already been unequivocally answered. The answer was given by the RF President while speaking to investors from the Far East. Naturally, he was luring and encouraging them, but two of his promises were far from being political gimmicks. First, Russia has switched over to a floating exchange rate of the ruble, and this policy is here to stay, notwithstanding the issues associated with such a move. Second, Russia, once having made the capital movement liberalization decision, has never deviated from that course, has not imposed any restrictions on capital movement, and is not going to resort to any such measures, although such proposals were voiced more than once. 'I did not do this even in 2008–2009', added in this connection Vladimir Putin on a personal note. In crisis conditions and against the backdrop of the ongoing increasingly dramatic discussions (mostly of a populist nature), these statements appear to be fundamental enough to serve as a foundation for macroeconomic policy – that is, if such a policy may indeed rely on any statements.

On the whole, the economic picture has not changed much, including – as noted by our experts – *the situation in the regions. In this respect, the most serious problems are associated with income and consumption decline*. As seen by the period-end results for H1 2016, regional budgets remained unchanged, and two-thirds of the regions executed their budgets with a deficit. Debt indices also stayed at the same level, but the structure of debt altered: the share of expensive commercial loans shrank, to be replaced by budget loans issued by the RF Ministry of Finance. The regions demonstrating a continuing investment decline became somewhat fewer in number. According to the period-end results for the first seven months of 2016, the number of regions where industrial decline was continuing also shrank.

In H1 2016, on the whole across Russia, the main industries no longer demonstrated any serious decline. *Experts believe that in the majority of the real sector's segments, decline gave way to zero growth rates*. So, they conclude that the period of a relatively high output volatility in the real sector is now over.

Moreover, judging by the results of surveys conducted by the Gaidar Institute, *in Q3 2016 the share of generalized estimates, by Russian industrial enterprises, of their current conditions as 'normal' (demand, stock, capacities, human resources, finances, etc.) was found to be a record high of the entire 23-year observation period*. The so-called adaptation index appears to be too good for a time of crisis. A possible explanation is that at the onset of the crisis, enterprises probably expected their future to be much worse, and when the threats did not come true, their mood greatly improved. Even the factor of 'lack of understanding' of the current economic situation, which used to worry an increasing number of enterprises, is now on the decline.

Nevertheless, the situation in the markets did not improve for Russian enterprises. The ruble's plunge prevented many of them from keeping their former position with regard to exports, let alone expanding their exports. According to the year-end data released by the WTO, in 2015 *Russia's share in world exports of goods shrank from 2.7% to 2.1%, which occurred, naturally, due to the plunging prices for Russia's main exports.* Mineral fuel and some non-ferrous metals are among the few items with regard to which Russia's share in world exports has increased. *Russian presence is diminishing practically in every relevant region of the world, with the exception of the EAEU.* Exports of many types of goods continued their decline over H1 2016. Meanwhile, *the share of mineral fuel in Russian exports over the same period amounted to 58.6% vs. 65.0% in H1 2015 and 71.9% in 2014.*

Imports, for their part, were no longer shrinking at the same high rate, although the share of imported goods in the Russian food market shrank dramatically as a result of the food import ban introduced by Russia by way of retaliating for the economic sanctions imposed by the West. The ban on food import, as is well known, has boosted the activity of Russian domestic producers. However, according to the calculations made by our experts, *it failed to result in major losses in the countries that had introduced the sanctions against Russia, because they reoriented their exports to other markets.* Nevertheless, we may point to a group of countries that have suffered most from their withdrawal from the Russian market. Their food exports shrank by half, and sometimes even collapsed due to their discontinued deliveries to Russia. These countries are *Norway, Finland, Lithuania, Latvia, Estonia, and Poland.* ●

## 1. RUSSIAN REGIONS: ONGOING SLOW-ROLLING CRISIS

N.Zubarevich

*In Q1 2016, the regional view of the crisis changed insignificantly. Decline of population's income and consumption posted in the majority of regions remain the most acute issue. The number of regions which register ongoing investment decline has somewhat fallen. This being said, 2/3 of regions reduce the volume of housing construction. At the same time, fewer regions post industrial recession. The state of regions' budgets has not changed. As year earlier, 2/3 of regions boasted of the deficit and by the end of 2016, their number will grow. The debt volume has not declined, the list of debt-laden regions remained unchanged and the debt pattern saw a reduction of tight credits at the expense of budget loans extended by the Finance Ministry.*

### Industry and investment

During the first 7 months of 2016, recession in industry was ongoing in 31 regions, and in manufacturing sectors – in 36 regions (in 2015 – 35 and 42, respectively). In January–July 2016, the Vladimir region (-13%), the Orenburg, Omsk and Chelyabinsk regions (-5 – -7%) have posted the most significant recession rates among industrial regions. Strong industrial decline (-8 – -12%) has also taken place in the less developed regions of the Far East (the Amur region, the Jewish Autonomous Region, and the Chukotka Autonomous Region) in the Republics of Buryatia and Mordovia.

Industrial production has been noticeably growing in several regions with large enterprises of the military-industrial complex for the second year in a row (Briansk, Rostov – 13–14%, and Tula region – 7%). Growth has been registered in certain regions (Kemerovo, Sakhalin regions – 8–12%).

By contrast with industrial production, decline in investment is ongoing (4.34% posted in Q1 2016). Investment shrank in 48 regions. It is less than was registered in 2015 when the number of regions with negative dynamic hit 56 regions (Fig. 1).

In Q1 2016, the most significant investment growth was mainly characteristic of the regions where their volume was small. This is the low base effect excluding the Leningrad and the Tyumen regions, the oil and gas producing Republics of Komi and Yakutiya. Investment geography as before is targeted at the regions with the obvious competitive advantages – resources and metropolitan areas. Leading oil and gas producing Khanty-Mansi and Yamal-Nenets Autonomous Regions have received in total 14% of all investment in the country, and together with the Tyumen region – over 16%. Large metropolitan areas represent another group of leaders. Moscow boasted of 11% of the overall investment, the Moscow region and St. Petersburg – 4% each. Noticeable share of investment falls on Tatarstan (4%), Krasnoyarsk Krai (3.5%), and Sakhalin (2%), which is largely owing to the production of oil and gas resources. Investment has been falling for a third year in a row in the Krasnodar Krai.

# 1. RUSSIAN REGIONS: ONGOING SLOW-ROLLING CRISIS

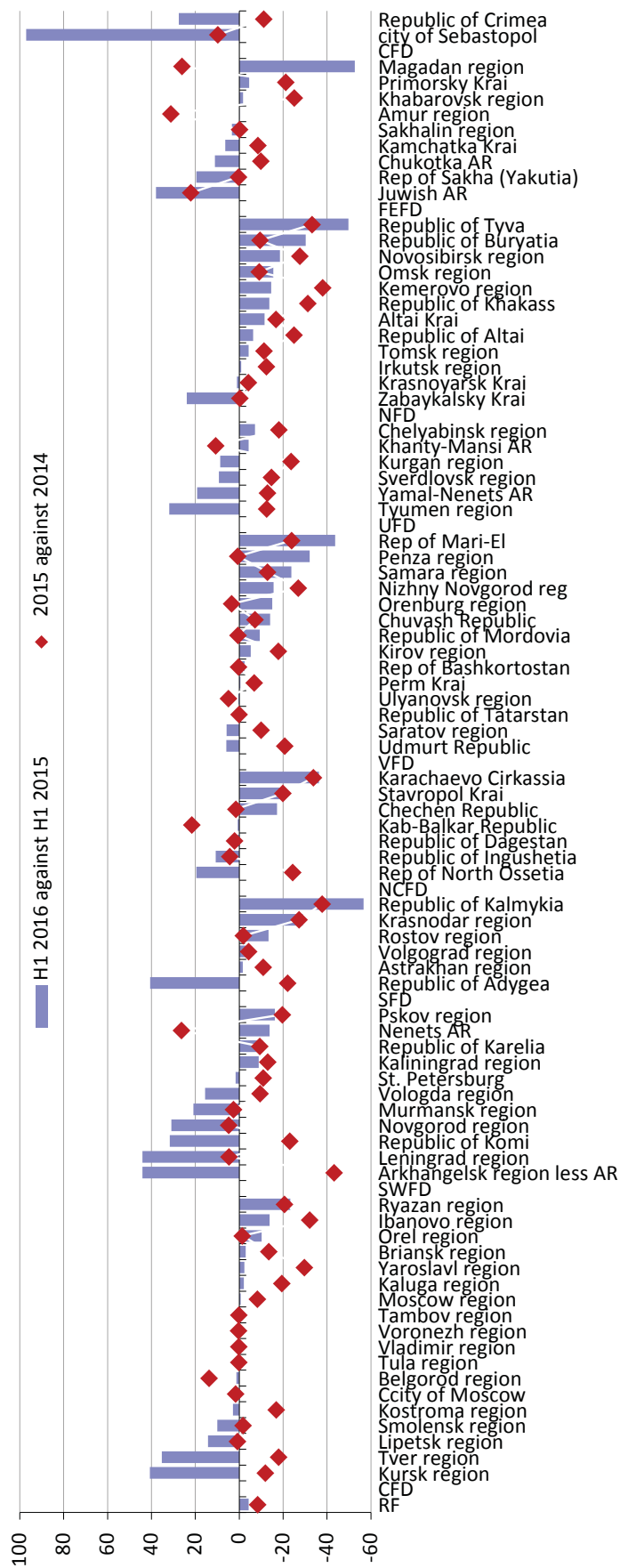


Fig. 1. Dynamics of business investment in H1 2016, in % to the same period of 2015

### Housing construction and commissioning of housing

Three-year investment decline trend is accompanied by a negative construction dynamic. Decline in the construction volume for January–July 2016 constituted 5.2% for the country as a whole and was registered in 48 regions. Among economically developed regions most drastic decline of the housing construction is being observed in the Rostov region (-36%), the Kaluga region and Krasnodar Krai (-24%), Nizhny Novgorod, Novosibirsk, Kemerovo regions (-15 – -20%), Khanty-Mansi Autonomous Region and Chelyabinsk region (-11%). At the same time, Moscow, St Petersburg and Republic of Tatarstan have boasted construction growth by 4-7%. Some developed regions have demonstrated still higher construction growth rates (Leningrad and Samara regions, Krasnoyarsk Krai, Yamal-Nenets AR, and Yakutiya – -8 – -22%)

Contraction of the effective demand of the population has led to a reduction of housing commissioning indices. Maximum decline was registered in H1 2016 (-9.2%); for January–July 2016, the rates of decline were lower (-7.4%) but this was due to the lower base effect. Contraction has taken place in 54 regions; the most indicative dynamic is registered in the regions with extensive housing construction. The situation is controversial: the Moscow region posts maximum of commissioning of housing volume (over 10% of the national level) and posts ongoing growth (+6%), meanwhile in Moscow housing commission shrank by 28%. Alternatively, in St Petersburg commissioning of housing has gone up by 9% on the back of insignificant reduction posted in the Leningrad region. Dynamic was negative in all other regions, which have significant volumes of commissioning of housing: in Krasnodar Krai, Rostov region, Republics of Tatarstan and Bashkortostan – reduction by 2–7%, in Tyumen region – by one third.

### Social indicators

Social indicators have also post different dynamic. According to data for May–July 2016, the unemployment level remains minimal (5.5%). Part-time employment, which better reflects the state of the labor market in the Russian regions, hardly changed in Q2 2016. Increased rate of part-time employees post republics of Crimea, Chuvashia, Samara, Ulyanovsk, Tver and Ivanovo regions (5.2–7.3% of the headcount in Q2 2016 with the average national rate of 3.4%). Increased rate of employees who went on unpaid leave is registered in Chelyabinsk, Sverdlovsk regions and Republic of Mari-El (9.5–11.8% with average rate of 7.3%).

So far, crisis has little effect on the regional labor markets. There are different pressure points. Paramount one is the ongoing decrease of the real income of the population, which came to 4.8% in H1 2016. According to Rosstat, reduction continued in the vast majority of regions except part of regions of the Center, Tatarstan, Krasnodar Krai and several republics of the North Caucasus (data on these republics are least reliable), as well as in the Republic of Crimea (*Fig. 2*). A lesser decline of real income was posted in the Center and in several regions of the South, which can partly be explained by a stronger momentum in the defense and food industries, although the reliability of the regional statistics on the population income is rather relative. There are significant reduction rates of income posted in the regions of the East, Urals and Volga federal districts.



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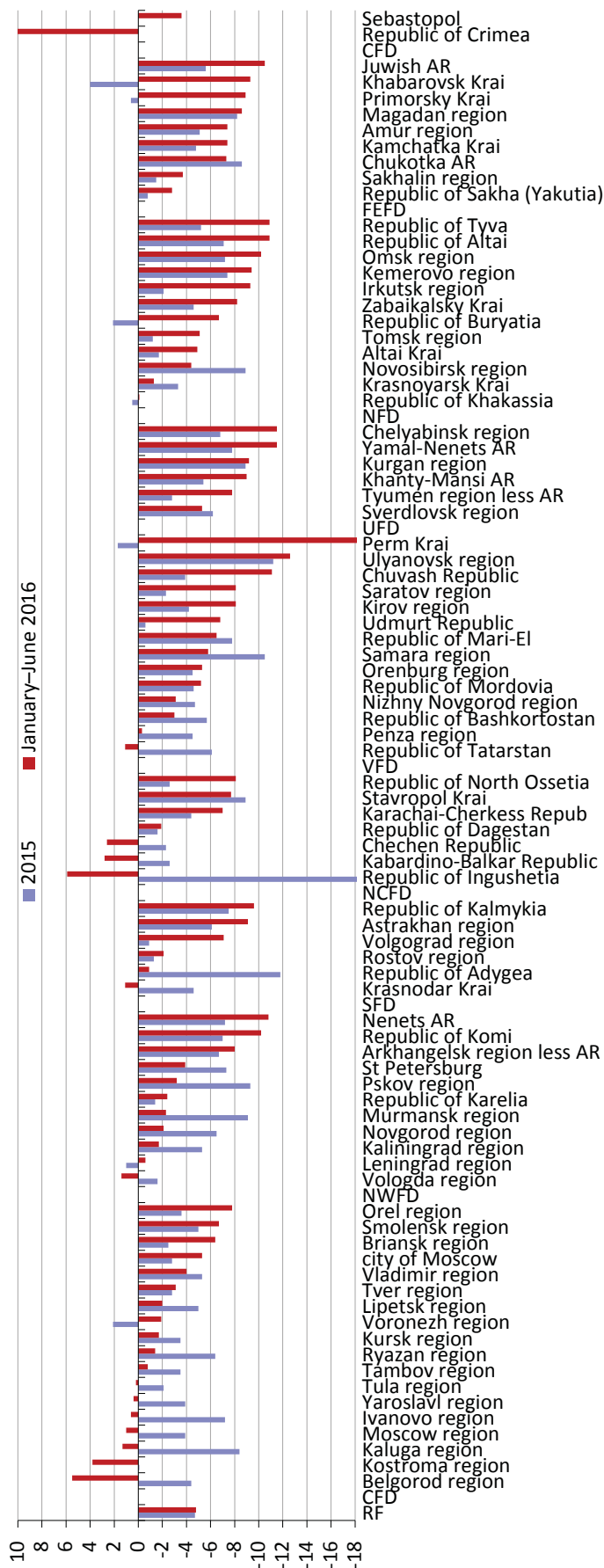


Fig. 2. Dynamic of the real income of the population, in % to the corresponding period of the previous year

Consumption of the population was falling at the same rates: retail commerce decline for January–July 2016 constituted 5.6% against the same period of 2015 and embraced 75 regions. Among them are all regions of the Urals, Siberia, nearly all regions of North-West (except the Leningrad region) and Volga FD. According to statistics, especially strong reduction of the retail trade has taken place in Moscow (-12%) and in the Omsk region (-17%), which is significantly worse dynamics of income of their population and that is why raise doubts.

### **Budgets of regions**

In H1 2016, acute challenges of the budgets of regions remained the deficit and large debt. It is hard for the regions to avoid the deficit because the nominal revenues of the consolidated budgets have gone up by merely 2.7% (due to nearly zero growth proceeds from the income tax and reduction of transfers by 12%), and expenses have moved up by 5.7%. Spending of the regions on national economy grew faster (by 11%). This growth was largely secured by Moscow because the capitol accounts for a quarter of the total expenditure of the regional budgets on national economy. Expenses of the Moscow budget along this item have gone up by 20% including on the public road system – by 57%. Priority of provision of urban amenities represents another feature of the capitol (growth by 37%). In H1 2016, the share of outlays on these purposes exceeded 9% of the total outlays of the budget, in other regions it comes to 1–2%. As a result, Moscow accounts for 59% of the total regional budgets spending for the provision of urban amenities.

In the majority of regions, social expenses were not cut due to pending elections. There are few exceptions and Moscow is one of them. For the third year in a row, Moscow has been cutting budget spending on education (by 7% in H1 2016) in spite of a huge budget surplus. Spending of regional budgets on the social safety net have noticeably moved up (“social policy” item) – by 6%, which is typical for the election period. Growth of spending on education (by 3%) and health care (by 2.5% together with spending of the territorial funds of mandatory medical insurance – by 3.6%) was minimal.

Budget deficit remains an acute issue; however, it is “disguised”: in H1 2016 as in H1 2015, there was no deficit in all regions as a whole (*Fig. 3*). Surplus in the amount of Rb 276.6 bn was due to a huge excess of income over expenditure in the Moscow budget (Rb 178.7 bn) and Sakhalin (Rb 61.6 bn) as well as significant budgetary surpluses of the Khanty-Mansi AR (Rb 20 bn), the Tyumen region (Rb 17 bn), the Leningrad region and St Petersburg (Rb 14–15 bn each).

During H1 2016, 52 regions had budgetary deficit, 50 regions – a year earlier. Total deficit of these regions is somewhat lower than in H1 2015 (Rb 109 and 120 bn, respectively). Based on half-year data, at the end of 2016, acuteness of the problem will happen to be no less than during last year because the imbalance of the regional budgets is spurting in November–December due to growth of expenditure commitments.

As of 1 August 2016, the regional debt volume (Rb 2.66bn) has not changed in comparison with the turn of the year. However, its pattern has improved. The share of tight bank loans has shrunk from 44 to 35%. The share of extended ultra-low budget loans has grown from 34% to 45% owing to additional lending extended by the Finance Ministry. The same improvement of the debt pattern took place during summer 2015. However, by the

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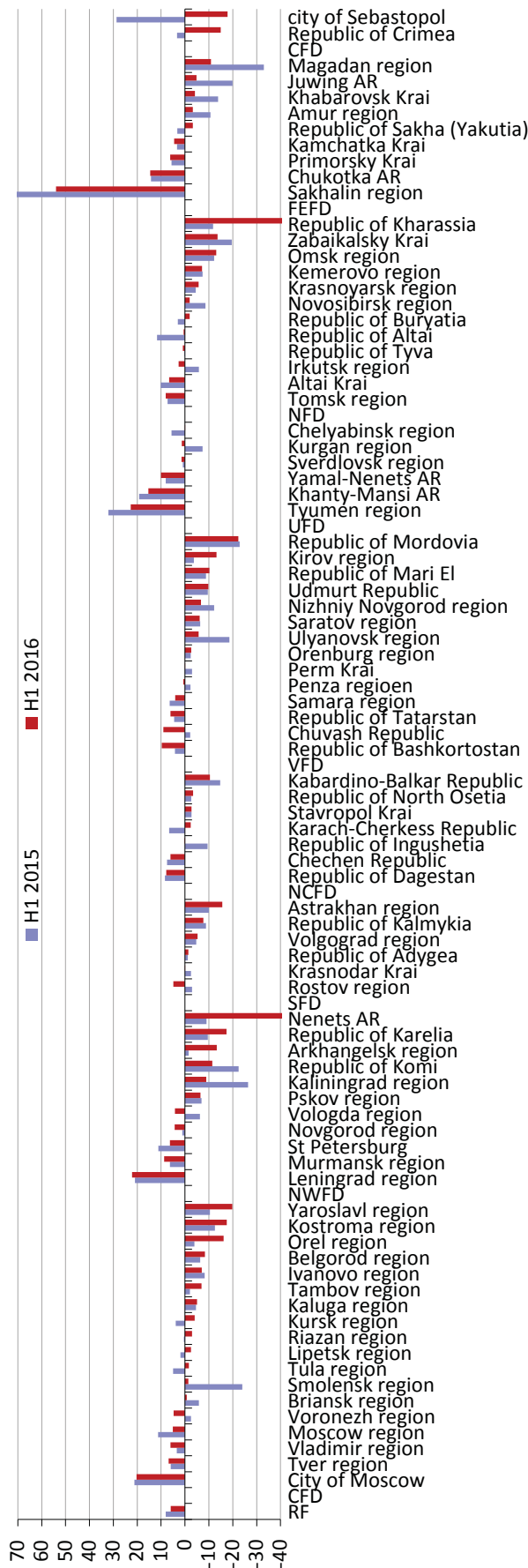


Fig. 3. Deficit/surplus of the consolidated budgets of regions, in % to budget income

end of the year regions had to draw upon tight bank loans in order to meet expenditure commitments. The list of debt-laden regions remained unchanged: the highest debt against budget revenue (fiscal and non-fiscal) have Republics of Mordovia (185%), Khakasia and Kostroma region (122–125%), Republics of North Ossetia, Karelia, Udmurt, Smolensk and Astrakhan regions (100–111%). Another 12 regions have debt in the range of 80 to 100% of budget revenues at average indicator of 35%. The issue has been “frozen” and remains unsolved. ●

## 2. RUSSIAN INDUSTRY IN H1 2016: ZERO DYNAMICS<sup>1</sup>

A.Kaukin, G.Idrisov

*The trend that first became visible in early 2016 – decline giving way to zero rates of growth – towards the end of H1 had spread across a majority of segments of the economy's real sector. The lack of a noticeable domestic demand and dependence upon foreign equipment supplies coupled with the persistently low relative income generated by exports of raw materials make it impossible to expect any significant domestic production growth in the nearest future.*

In spite of the temporary deterioration of the terms of trade in late 2015 – early 2016, no significant decline in the main sectors of Russian industry could be observed over the course of H1, in contrast to the situation in late 2014<sup>2</sup>. Rather, the statistical data for early 2016 indicated that the period of a relatively high output volatility in the real sector was over, possibly to give way to the period of a near-zero growth rate<sup>3</sup>. This change was caused by the absence of additional negative factors – in 2014 these had been the introduction of economic sanctions against Russia and Russia's retaliatory sanctions, the events in Ukraine, and the expectations of further deteriorating terms of trade. Besides, late 2015 was a period of gradual stabilization in the economy and adaptation of businesses to the new realities – among other things, by adjusting their business plans and investment projects.

The currently available *Rosstat's* data<sup>4</sup> applied by the Gaidar Institute for the purpose of decomposition and removal of the trend component in its by-sector time series analysis<sup>5</sup> have provided an answer to the question as to how sustainable the trend that first became visible in Q1 actually is (output stabilization and zero growth rates in the majority of segments of the real sector).

The results of our calculations demonstrate (*Fig. 1*) that on the whole, the situation in industry over Q2 2016 remained stable, while at the same time a slow decline of the Industrial Production Index (IPI) could be observed (99.5% in July on March 2016).

Similarly to the situation in Q1, the production indices in different sectors still vary across Russian industry, but their values are becoming increasingly uniform and starting to display zero growth rates (*Table 1* and *Fig. 2*).

Among the sectors that over recent months have been displaying positive growth rates, however small, we may point to mineral extraction; textiles and textile products manufacturing; manufacturing of rubber and plastic products; and machinery and equipment manufacturing.

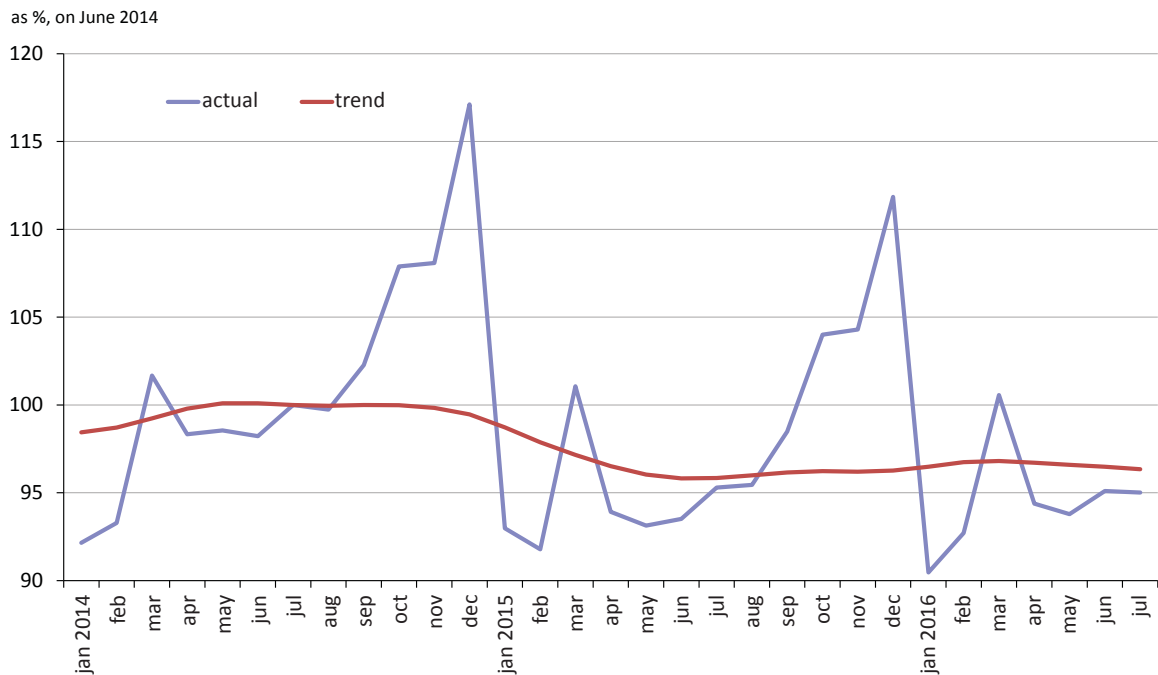
1 The authors should like to express their gratitude to Marina Turuntseva and Olga Morgunova for their help in statistical analysis.

2 Russian Economy in 2015. Trends and Outlooks (Issue 37). M., IEP. 2016.

3 A. Kaukin, G. Idrisov. Russian industry in Q1 2016: the onset of stagnation? // Online Monitoring of Russia's Economic Outlook. Trends and Challenges of Socioeconomic Development, No 7 (25), April 2016.

4 Information on the social and economic situation in Russia, January–July 2016, Rosstat.

5 The trend component was removed by using Demetra software package based on X12-ARIMA.



Source: Rosstat; own calculations.

Fig. 1. The movement of the Industrial Production Index (IPI) in 2016- 2014, actual data and trend components

The aftereffects of the 2014 crisis have turned out to be comparatively mild in the manufacturing industry (Fig. 2). Although the implementation of several investment projects was suspended, a certain revival of the investment activity has recently been observed and conducted to slight growth.

The situation in the textiles and textile products manufacturing sector is somewhat more interesting. Traditionally, wages take up a substantial share in the cost structure of textiles and final goods (alongside depreciation and technical upgrading costs). The soaring USD-to-ruble exchange rate after 2014 made the transfer of foreign production entities into Russia's territory<sup>1</sup> and cooperation of domestic producers with their foreign partners<sup>2</sup> very attractive; besides, it boosted the demand for Russian exports of these products<sup>3</sup>. In fact, these are examples of inclusion into international value chains, which translates into domestic output growth reflected by an increasing industrial production index in a given sector.

A movement in the opposite direction over the entire period of H1 2016 was demonstrated by metallurgical production. The output plunge in that industry, according to experts<sup>4</sup>, was caused primarily by the shrinking domestic demand (a declining construction volume coupled with a general industrial

1 SC ELIS will build a new factory in Rostov to the value of Rb 200m // RBC, 18 June 2016. [<http://rostov.rbc.ru/rostov/18/07/2016/578ccb5b9a7947109655868c>]

2 Pierre Cardin is considering the possibility of clothes manufacturing in the Kuban region // RBC, 23 June 2016. [<http://kuban.rbc.ru/krasnodar/23/06/2016/576b89039a79471299fae7fb>]

3 BTK Textile signed contracts for fabric supplies to Italy // RBC, 24 May 2016. [<http://rostov.rbc.ru/rostov/freenews/574455a09a7947585491afda>]; Recently, we have been observing demand growth // RBC+, 15 June 2016. [<http://www.rbcplus.ru/news/575e1dd77a8aa97007fb7e1d>]

4 Metallurgical crisis. Problems in Russia // Pro nedra, 3 March 2016. [<http://pronedra.ru/mining/2016/03/03/metallurgicheskij-krizis-v-rossii/>]

Table 1

## THE BY-SECTOR MOVEMENT OF OUTPUT INDICES

	Share in total industrial production index, %	July 2016 on December 2015, %	July 2016 on March 2016, %	July 2016 June 2016, %	Changes over recent months
Industrial production index		100.09	99.52	99.86	stagnation
Mineral extraction	33.99	100.25	100.37	100.26	slow growth
Manufacturing industry	52.50	99.88	99.59	99.78	stagnation
including					
Production of foodstuffs, including beverages, and tobacco products	17.05	100.83	100.22	100.06	stagnation
Textiles & textile products manufacturing	1.43	108.48	103.25	99.84	slow growth
Leather production and leather products & footwear manufacturing	0.32	102.00	98.58	99.31	slow decline
Timber & wood product processing	2.20	100.34	99.78	99.20	stagnation
Cellulose & paper production	3.92	100.76	99.78	99.79	stagnation
Production of coke & petroleum products	18.78	99.38	99.75	100.05	stagnation
Chemical production	7.46	100.55	99.10	99.60	decline
Manufacturing of rubber & plastic products	2.26	104.10	103.49	100.00	growth
Manufacturing of other non-metallic mineral products	4.41	96.07	98.87	98.96	slow decline
Metallurgical production & finished metal products	17.23	97.95	97.05	98.91	decline
Machinery & equipment manufacturing	6.24	98.71	99.43	100.94	slow growth
Electrical, electronic and optical equipment manufacturing	6.05	97.81	98.54	99.63	decline
Production of means of transport and transportation equipment	7.06	99.35	99.24	99.41	decline
Other industries	5.59	91.09	94.63	98.32	decline
Electricity, natural gas & water	13.51	99.97	100.00	100.00	stagnation
Retail trade		97.37	98.58	99.75	decline
Wholesale trade*		100.43	99.31	99.75	stagnation
Transport		99.70	100.65	100.49	slow growth
Construction		96.97	98.16	99.78	decline
Commercial services rendered to population*		99.60	99.52	99.77	slow decline

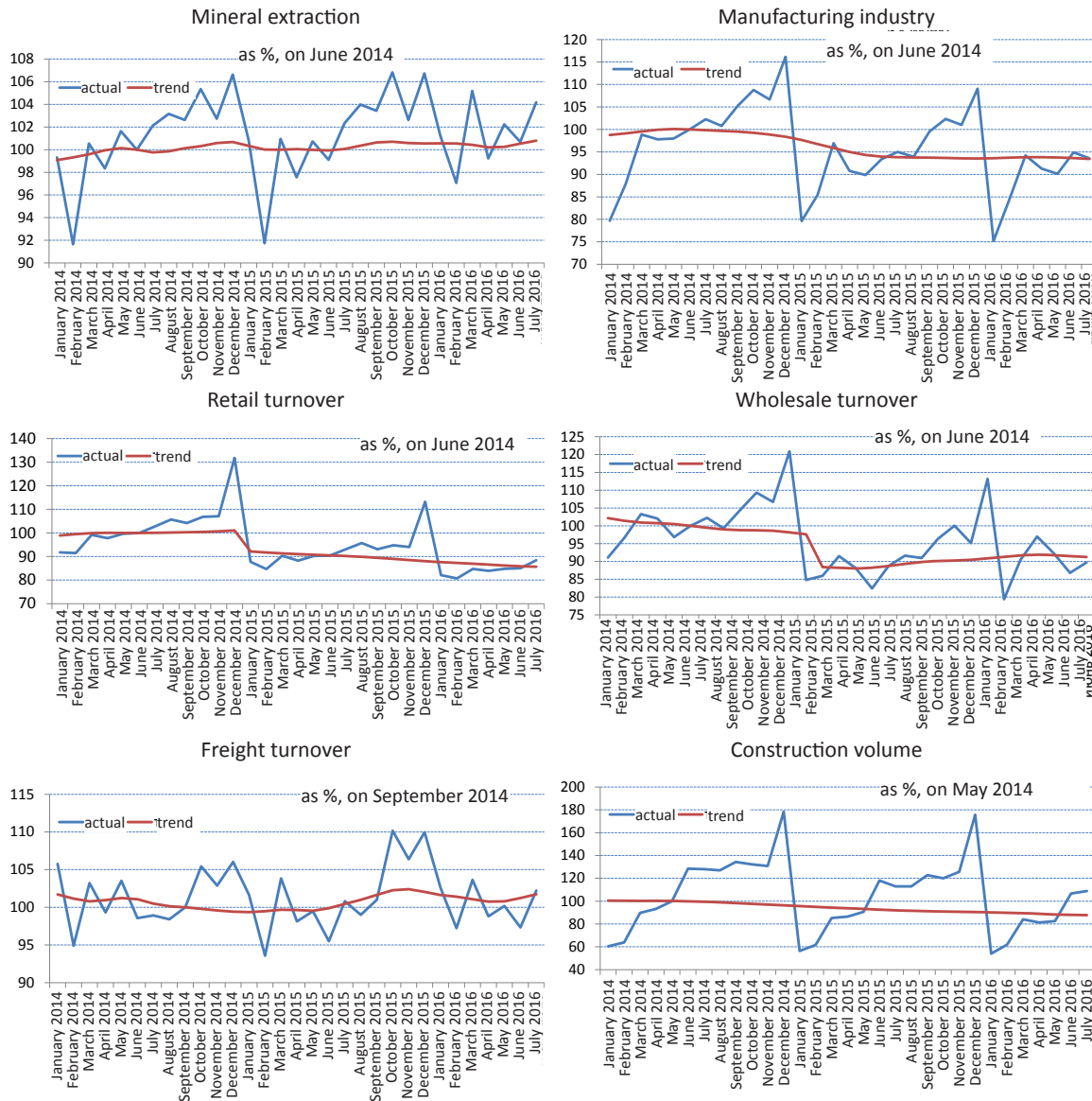
\* for these sectors, calculations were done as of June 2016.

Sources: Rosstat; own calculations.

production decline), as well as by the introduction of antidumping duties and economic sanctions by the European Union<sup>1</sup>, which prevented Russian metallurgists from taking advantage of their new competitive opportunities that had arisen as a result of the shrinking ruble-denominated component of their costs in the final price of their products (denominated in US dollars) after the ruble's weakening (as it happened in the case of textiles and textile products manufacturing).

On the whole in the machinery and equipment manufacturing sectors, including the production of electrical and transportation equipment, output

1 Russian metallurgists have come under the European Union's sanctions // RBC, 4 August 2016. [<http://www.rbc.ru/business/04/08/2016/57a311779a79475ea5c2fd91>]



Source: Rosstat; own calculations.

Fig. 2. The by-sector movement of production indices in 2014- 2016, actual data and trend components

continues its decline caused both by the general shrinkage of demand for their products and their rather high dependence on foreign equipment and spare parts, which have become significantly more expensive due to the ruble's plunge. Slight output growth over recent months has been observed only in the machinery and equipment manufacturing sector, but this is obviously only a manifestation of recovery growth<sup>1</sup>. The government support measures for the production of means of transport and transportation equipment<sup>2</sup> have not yielded any results as yet, judging by the production indices.

1 Some branches of the Russian economy are entering the new year with optimism // *Vzglyad*, 5 January 2016. [<http://vz.ru/economy/2016/1/5/786502.html>]

2 Program of transport machine-building for 2016 (Directive of the Government of the Russian Federation of 21 January 2016, No 57-r).



Other important sectors have been displaying practically no growth: the decline in the retail and construction sectors is continuing; the wholesale sector is stagnating; and slight growth can be observed only in freight turnover (*Table 1* and *Fig. 2*). ●

### 3. ADAPTABILITY INDEX IN Q3 2016: ALL-TIME HIGH FOR MONITORING YEARS<sup>1</sup>

S.Tsukhlo

*Adaptability Index of Russian industry ("normal" responses) posted an unexpected result in Q3 2016 (even for us who have been working with unusual for economists estimates made by enterprises of the current situation along the scale above normal – normal – below normal). It hit an all-time maximum for the entire 23 years of its calculation.*

In Q3 2016, the Adaptability Index of Russian industry hit 74 points (previously it posted not more than 72 points). According to the Index it turns out that at present Russian industry assesses the situation in the best possible way. Because the Index dynamics measured over all previous years coincide with intuitive assessment of even moderate set of data of the official industrial statistics (not to speak of a more complete system of indicators of the IEP's survey statistics) then we may consider the latest Index value as a correct estimate of the situation in Russian industry. Furthermore, it exceeds the previous value merely by 2 p.p., in other words is not an outlying case.

It should be noted that from end-2010 our indicator has been demonstrating a very high stability by changing not more than 2 p.p. (on either side) against the previous period. Even in Q1 2015 in comparison with the previous period, the Index "crashed" barely by 1.8 points. Moreover, this value so far remains the most significant negative change of the indicator during the course of the crisis. Although both the authorities and experts were getting ready for the downturns of the 2008–2009 pattern. Russian industry found it hard during that crisis. In the end of 2008, the Adaptability Index shed 11 p.p., at the beginning of 2009 – another 10 p.p. In order to recover the Index to its pre-crisis values businesses and authorities required six quarters. In the course of the current slow-rolling crisis, the adaptability Index has not lost more than 2 p.p. in a period of a quarter, but according to the available for the beginning of September 2016 estimates has hit all-time maximum. Notably due to nearly all its basic indicators.

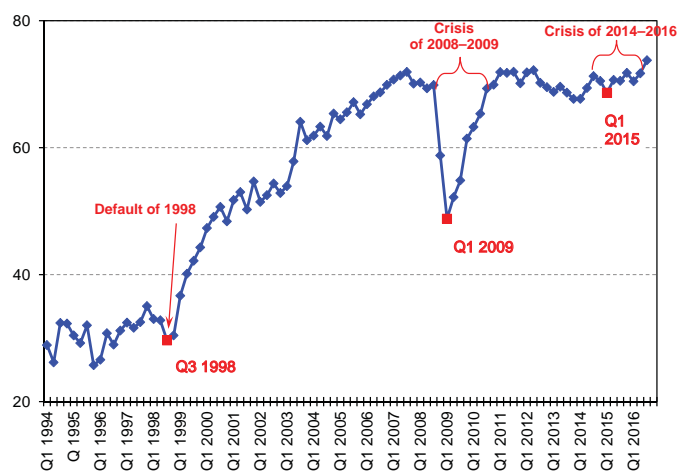


Fig. 1. Adaptability Index (normal) of industry, 1994-2016, % (share of enterprises estimating their indicators as "normal")

1 Business surveys of managers of industrial enterprises have been conducted by the Gaidar Institute using a European harmonized method in monthly cycles since September 1992, covering the entire territory of the Russian Federation. The panel size is about 1,100 enterprises employing over 15% of industrial employees. The panel is shifted towards large enterprises for each of the segregated sub-industries. The ratio of returned questionnaires is 65–70%.

### **Estimates of employment and industrial capacity**

The number of employed has become single exception in the estimates made by businesses. Normal (sufficient) supply of labor for Russian industry according to this indicator decreased in Q3 2016 by 5 p.p. to 75%. Thus, three fourth of Russian industry, according to our estimates, after all have sufficient number of workers for maintaining the current output volume and its possible changes. During previous crises, this indicator fell to 51% (1996) and to 59% (2009). In other words, it is still far from its previous crisis values. In the course of the current crisis, the indicator decreased to 72% and moved up to 80%. The latest value has become its all-time maximum for the entire period (1996–2016) of monitoring Russian industry's supply of labor.

Irregularity of the current crisis is evidenced by the official statistics of unemployment, which is contrary to the crisis one. This naturally reassures authorities but concerns businesses. Businesses in case of onset of more or less sustainable industrial growth simply will not be able to find worker on the labor market.

In such circumstances industry is very rarely provides responses "more than sufficient" while estimating the headcount: not more than 12% during the current crisis. In Q3 2016, the share of such responses fell to 9% (five-year minimum). Businesses less often discharge employees than cut wages, transfer to part-time employment, or send on leave without pay. In the course of the current crisis had to take very good care of qualified workers, whose numbers are falling due to inexorable demographic processes and their replenishment from the destroyed system of vocational education is catastrophically insufficient.

Industry rather differently appraises available (assembled and installed) industrial capacity. In Q3 2016, sufficient capacity, measured as "normal", has gone up to 76% and formally is equal to normal sufficiency of labor. Latest estimates of capacity have nearly hit all-time high: the best result (78%) was obtained in Q2 2011, when industry was about to recover after the 2008–2009 crisis. However, since Q3 2008 among other responses ("more than sufficient" and "less than sufficient") responses "more than sufficient" always dominate. In other words, industry during eight years has been carrying a great deal of extra capacity, which in Q1 2009 went up by 33 p.p. and logically hit maximum (+39 p.p.). However, in Q1 2015, balance of these responses fell in comparison with the previous quarter. Industry failed to detect in January 2015 symptoms of the outset of output downturn and avoided a review of capacity estimates.

### **Stock of finished products**

Russian industry estimates stock of finished products as more "normal" with each passing "crisis" quarter. Estimates of stock of finished products for the first two months of Q3 2016 have reached normal level, which was never registered during the period of 1992–2016. In July–August 2016, 78% of Russian industrial enterprises were completely satisfied with their stock of finished products.

Estimates of stock of finished products obtained for five crisis quarters demonstrate nearly peak level of normality in the range of 77–80%. The all-time record (81%) of the indicator was registered at the beginning of 2012, but turned out to be unstable. Furthermore, one should bear in mind that Russian industry never estimated its stock during 2014–2016 as crisis one. In

Q1 2015, the share of normal estimates (both finished products and raw materials) in no way changed compared to estimates for Q4 2014 and the result of Q2 2015 is no different from the estimates of the previous quarter.

#### **Estimates of demand**

Estimates of the current volumes of demand moved up in Q3 2016 hitting the pre-crisis maximum of 55% (the same result was received in Q3 2015). Thus, more than half of Russian industrial enterprises are satisfied with the sales of their products. The crisis minimum of this indicator was obtained anything but at the turn of 2015 but in Q1 2016 when industry falling for constant assurances about imminent economic growth never managed to reveal it and gave up on demand potential. This took the form of misunderstanding of the current economic situation and its prospects down to 50%. Starting with Q2 2016, the level of misunderstanding has fallen to ordinary 36% (in Q3 – to 33%) and satisfaction with sales has moved up first to 53% and then to 55%. Industry apparently has come to terms with the fact that it is no good to expect growth and was content with very little.

#### **Estimates of financial and economic state**

Russian industry measures its financial and economic state as predominantly good. In Q3 2016, 82% of enterprises remain in good or satisfactory state (up 2 p.p. against Q2). During the current crisis, the minimum of this indicator hit 78% (Q1 2015). During the previous crisis of 2008–2009, the share of “normal” responses regarding financial and economic state moved down to 56% and in prior to default period did not exceed 30%. ●

## 4. RUSSIA IN GLOBAL EXPORTS: 2015–2016

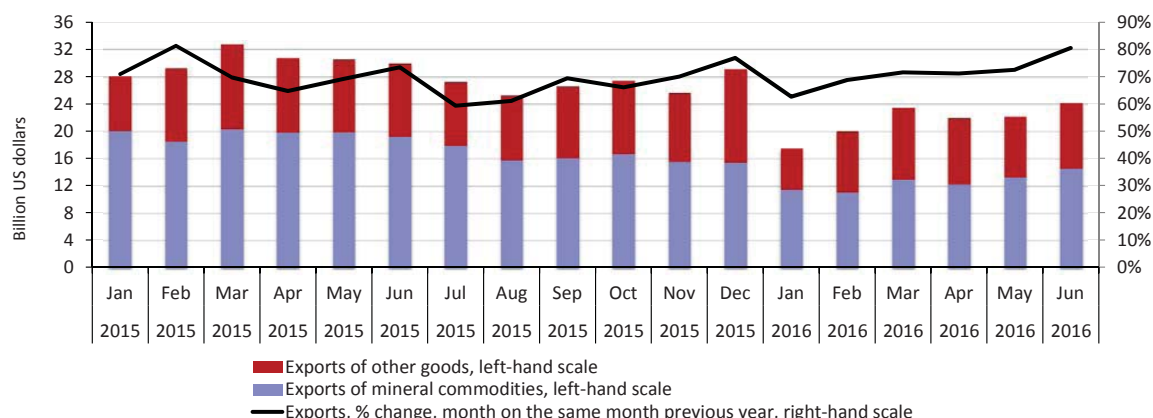
Knobel A., Firanchuk A.

Exports in Russia dropped to \$129.7bn in H1 2016, representing 71.3% and 50.8% of what they were in H1 2015 and H1 2014, respectively. Russia's share of global exports of all goods stood at 2.1% at 2015 year end, down six p.p. from 2.7% in 2014. The share of Russia exports in global markets of cereal grains, inorganic chemicals, fertilizers, resins, rubber, wood, ferrous metals, nickel dropped, too, while it increased slightly in global markets of mineral fuels and of some non-ferrous metals (copper, aluminium, lead). Russia exports fell almost in all major commodity markets (EU, China, EFTA), except the Eurasian Economic Union (EAEU).

In terms of volume, exports in Russia continued to fall in June 2016, as compared to what they were in 2015 (Fig. 1). In terms of value, exports dropped to \$129.7bn in H1 2016 (representing 71.3% and 50.8% of the values seen in 2015 and 2014, respectively). Exports continued to decline not only for mineral fuels: exports of goods unrelated to mineral fuels (commodity item 27) dropped to \$53.7bn (representing 84.4% and 74.6% of the levels seen in 2015 and 2014). The share of mineral fuels in Russia total exports shrank to 58.6% in H1 2016 (it stood at 65.0% and 71.9% in H1 2015 and H1 2014, respectively).

In terms of volume, Russia imports stood stable in June 2016, accounting for 98% of the volume seen in June 2015 (Fig. 2). In terms of value, imports amounted to \$78.9bn in H1 2016 (representing 90.8% and 55.4% of the values seen in 2015 and 2014, respectively). Imports were stable in Q2 2016 (representing 94–98% of the values seen in respective months of 2015).

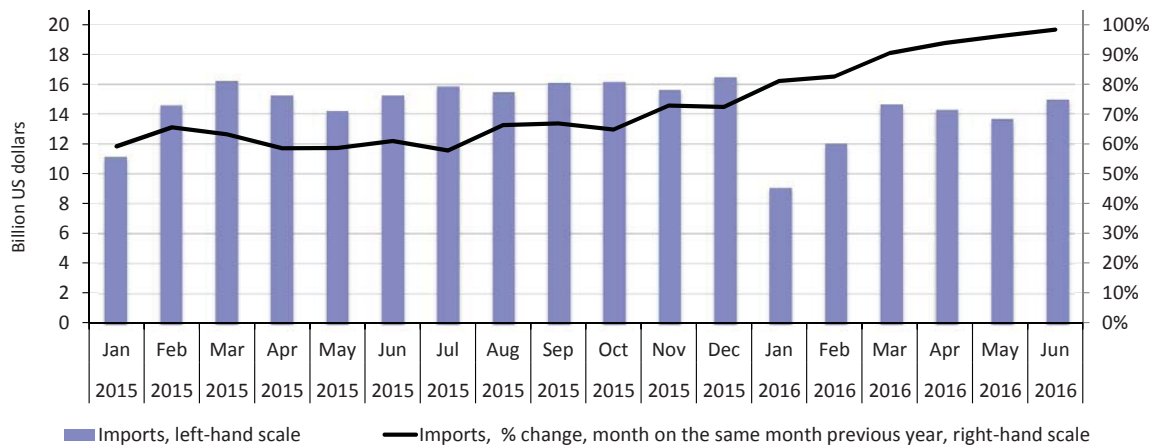
The world trade data in the World Trade Statistic Review (WTO) allow Russia's position in global markets to be assessed for 2015<sup>1</sup>.



Source: own calculations based on the data released by Russia's Federal Customs Service.

Fig. 1. Dynamics of exports in Russia in 2015–2016

1 World Trade Statistic Review 2016 (WTO).



Source: own calculations based on the data released by Russia's Federal Customs Service.

Fig. 2. Dynamics of imports in Russia in 2015–2016

A decline (in dollar terms) of 12% in worldwide export volumes (from \$18.93 trillion to \$16.48 trillion) was driven by decline in global U.S. dollar denominated prices of vast range of commodities (the U.S. dollar strengthened against other world currencies). In terms of volume, world trade increased 2.7% in 2015, according to the WTO.

Russia's share of world trade did have a downward impact (45%, according to the WTO) on prices of energy-carrying resources representing about 70% of Russia exports in 2014. In 2015, this was responsible largely for a 24% and 31% shrinkage of Russia's share of global exports of all goods, as compared to the share seen in 2014 and 2013, respectively (the data on imports in almost all countries were used in analyzing changes in Russia's position in global markets<sup>1</sup>).

The share of Russia exports in global markets of mineral fuels, paper and paperboard, aluminum, "other non-precious metals" changed slightly (not more than 0.1 p.p.) in 2015, as compared to 2013. Russia's market share decreased (down within a range of 0.1–0.6 p.p.) in global markets of resins and rubber, wood and wood products, precious metals and stones, ferrous metals. The share in global markets of inorganic chemicals, fertilizers, natural and artificial fur shrank considerably (down within a range of 0.7–1.4 p.p.). The biggest shrinkage of Russia's share was seen in the nickel market (down 3.5 p.p.). Russia strengthened its position in the markets of copper (+0.6 p.p.) and lead (+0.14 p.p.). In 2015, there was an increase in Russia's share in the cereal grains market, as compared to what it was in 2013, but it shrank from the value seen in 2014.

According to the WTO<sup>2</sup>, Russia's share of global exports of goods decreased to 2.1% (to 2.6%, excluding trade between EU countries) in 2015.

In terms of value, Russia exports of fuels and mineral products plummeted 44%, which allowed the country to remain the world's second largest exporter of these commodities (representing 6.9% of global exports) in 2015. The decline in Russia exports of fuels and mineral products was the biggest after Saudi Arabia, exports by volume were down by an average of 33.8%.

1 All the countries, for which the 2015 data are available in the COMTRADE database (these countries accounted for 92% of world trade and for 95% of Russia exports in 2014).

2 World Trade Statistic Review 2016 (WTO).

Table 1

## SHARE OF RUSSIA EXPORTS OF WORLD TRADE

Commodity item code	Commodity item	Exports in Russia 2014, billion US dollars (according to Russia's Federal Customs Service)	Exports in Russia 2015, billion US dollars (according to Russia's Federal Customs Service)	Share of Russia exports of world trade (as %, according to COMTRADE)			Changes in Russia's share in global markets (as p.p., according to COMTRADE)	
				2013	2014	2015	2015 to 2013	2015 to 2014
10	Cereal grains	7.09	5.65	4.1	6.2	5.7	+1.67	-0.45
27	Mineral fuels	346.12	216.16	16.1	16.0	16.1	+0.01	+0.10
28	Inorganic chemicals	7.36	6.39	4.9	5.1	4.2	-0.77	-0.92
31	Fertilizers	8.99	8.85	16.8	16.8	15.9	-0.94	-0.96
40	Resins, rubber	3.02	2.50	2.1	1.8	1.7	-0.44	-0.09
43	Natural and artificial fur	0.12	0.10	2.3	0.9	0.9	-1.40	-0.07
44	Wood and wood products	7.76	6.32	6.4	6.3	5.8	-0.57	-0.55
48	Paper and paperboard	2.26	1.83	1.3	1.4	1.3	+0.00	-0.13
71	Precious metals and stones	11.85	7.89	1.9	1.9	1.4	-0.42	-0.46
72	Ferrous metals	20.56	15.25	5.6	5.5	5.2	-0.40	-0.34
74	Copper	4.91	4.47	3.6	3.8	4.1	+0.59	+0.38
75	Nickel	4.02	2.66	14.9	14.4	11.4	-3.51	-2.97
76	Aluminium	6.33	6.95	4.9	4.1	4.8	-0.02	+0.75
78	Lead	0.19	0.18	3.0	2.9	3.2	+0.14	+0.22
81	Other non-precious metals	0.80	0.74	5.4	5.1	5.3	-0.03	+0.22
	Total*	497.83	343.60	2.9	2.7	2.1	-0.80	-0.63

\*Including WTO's data on world trade – World Trade Statistic Review 2016 (WTO).

Source: own calculations based on the data released by COMTRADE.

In terms of value, Russia exports of ferrous metals dropped 38%, which is markedly below (-22.8%) that of the top 10 exporters; Ukraine saw the biggest decline (-39%) among the major exporters. In 2015, Russia was ranked the world's sixth largest exporter of ferrous metals (the 5th in 2014), its share represented 4.0% of global exports.

Special emphasis should be placed on the European market of piped natural gas, a very important commodity for Russia<sup>1</sup>. Russia's market share stood at 39.8% in 2015 (159.8 of 401.4 billion cubic meters), as compared to 40.8% in 2014 and 41.0% in 2013<sup>2</sup>.

Exports of commercial services in Russia were markedly below the world average: with a 6% decline in total market volume, exports of commercial services in Russia decreased in volume by 16%, which is also due to drastic changes in the Russian ruble exchange rate. Transport services saw the biggest decline in absolute volumes: exports of transport services dropped by \$3bn to \$16.8bn, representing 1.9% of worldwide exports of transport services.

1 According to the BP methodology, the European region includes Austria, Albania, Belgium, Bulgaria, Bosnia and Herzegovina, Great Britain, Hungary, Germany, Gibraltar, Greece, Denmark, Ireland, Iceland, Spain, Italy, Cyprus, Luxemburg, Macedonia, Malta, the Netherlands, Norway, Poland, Portugal, Romania, Serbia, Slovakia, Slovenia, Turkey, Finland, France, Croatia, Montenegro, Czech Republic, Switzerland, Sweden, Estonia.

2 BP Statistical Review of World Energy (June 2016, June 2015, June 2014).

Table 2

## GEOGRAPHIC PATTERN OF TRADE AND RUSSIA'S MARKET SHARE IN SELECTED MARKETS

Region/ country	Region's / country's share of Russia exports (according to Russia's Federal Customs Service), as %			Russia's share of region's / country's imports*, as %			Changes in Russia's market share, as p.p.	Changes in Russia's market share, as p.p.
	2013	2014	2015	2013	2014	2015	2015 from 2013	2015 from 2014
CIS, including:	14.0	12.9	13.0	36.1	37.0	34.8	-1.3	-2.2
EAEU**	7.8	7.4	8.2	41.1	40.1	41.7	+0.5	+1.5
Ukraine	4.5	3.4	2.7	30.9	31.4	24.8	-6.2	-6.6
EU	53.8	52.0	48.1	12.6	11.4	8.2	-4.4	-3.1
EFTA***	1.8	0.9	1.0	2.3	1.2	1.0	-1.3	-0.2
USA	2.1	2.1	2.8	0.5	0.4	0.4	-0.1	+0.0
China	6.8	7.5	8.3	1.8	1.9	1.7	-0.1	-0.2
Japan	3.7	4.0	4.2	2.4	2.4	2.2	-0.1	-0.2
South Korea	2.8	3.7	3.9	2.9	3.5	3.1	+0.2	-0.4
Turkey	4.8	5.0	5.6	10.1	10.3	9.3	-0.8	-1.0

\* commodity flow from Russia to a given country (according to Russia's Federal Customs Service) is divided by region's/country's total imports by volume (according to COMTRADE, WTO).

\*\* Armenia, Belarus, Kazakhstan, Kyrgyzstan.

\*\*\* Switzerland, Iceland, Norway, Liechtenstein.

Source: own calculations based on the data released by COMTRADE, WTO, Russia's Federal Customs Service.

The geographic pattern of Russia exports shows a steady “eastward” trend (“the Turn to the East”). The EU's share of Russia exports (according to the data released by Russia's Federal Customs Service) dropped from 53.8% to 48.1% mostly due to the fact that the fuel component prevails in exports to this region<sup>1</sup>. The share of EFTA countries and Ukraine shrank, too. Note that Russia saw its market share contract considerably in the markets of Ukraine, EU and EFTA in the period between 2013 and 2015 (by 6.2, 4.4 and 1.3 p.p., respectively). At the same time, the share of Russia exports to “eastern” partners (China, Japan, Korea, Turkey) increased. However, Russia managed to increase its share (+0.2 p.p.) only in the South Korea's market.

As compared to 2013, the EAEU's share of Russia exports and Russia's market share in EAEU partner countries shrank in 2014, but they rebounded in full in 2015, going up beyond the values seen in 2013. The CIS share of Russia exports combines both positive dynamics driven by growth in EAEU's share and negative dynamics due to the shrinkage of Ukraine's share. ●

1 See Knobel A., Firanchuk A. Russia exports to the EU // Economic development in Russia, 2016, No. 7 (23). PP. 27–30.



## 5. RUSSIAN FOOD EMBARGO: MINOR LOSSES IN WESTERN COUNTRIES

**Uzun V., Loginova D.**

*Most of the countries counter-sanctioned by Russia have seen no decline in food exports, increasing them to other countries to compensate for losses in the Russian market. Only a few countries have experienced a decline in exports due to the Russian food embargo, namely Norway (a total decline of 11.3%, of which the Russian market accounts for 10.1%), Finland (respectively 24.5% and 20.9%), Lithuania (20.7% and 20.6%), Latvia (21.5% and 11.5%), Estonia (22.8% and 12.2%), Poland (4.8% and 4.6%).*

There is an established opinion in Russia that the countries that support sanctions against Russia have sustained considerable losses due to the Russian food embargo. There are few publications that prove it wrong<sup>1</sup>. Mass media and economic literature generally assess the effect of the food embargo using data showing the decline in import volumes from these countries to Russia<sup>2</sup>. However, the respective losses should be assessed given both the decline in exports to Russia and the changes in exports to the markets of other countries.

The Table (see the Attachment hereto) shows that food exports to Russia from the counter-sanctioned countries fell sharply (by \$12.4bn) in 2015, as compared to 2013. The deepest decline was seen in Norway (\$1134m), USA (\$914m), EU member countries as a whole (\$9634m), including Germany (\$1162m), Lithuania (\$1284m), The Netherlands (\$1071m), Poland (\$1027m).

The overwhelming majority of these countries have seen exports decline not only to Russia but also to other countries over the same period. The biggest losses (\$61.9bn) have been sustained by EU member countries (\$14bn by The Netherlands, more than \$10bn by France and Germany each, \$8bn by Belgium). In fact, these countries sustained inconsiderable losses in the Russian market amid the overall decline in exports from these countries. For example, exports in Slovakia dropped 28.9%, with losses in the Russian market being as little as 0.8%. Exports in France fell 15.6%, losing 0.9% in the Russian market.

At the same time, some countries sustained major losses in the Russian market. For example, Norway lost 11.3% in the global market, of which the Russian market accounted for 10.1%. Finland saw its entire food exports fall 24.5%, of which the Russian market accounted for 20.9%, Lithuania (re-

1 Shagaida N., Uzun V. Food embargo and choice of priorities /Voprosy Ekonomiki. 2016. No. 7, pp. 93–105.

2 Western countries sustain \$8.6bn in losses due to food embargo / <https://rg.ru/2016/08/02/poteri-stran-zapada-ot-prodembargo-sostavili-86-milliarda-dollarov.html>; The Baltic states conceal real losses of “the War of Sanctions” /<http://newvhttp://www.rubaltic.ru/article/ekonomika-i-biznes/200116-sanktsii/z.ru/info/80283.html> ;Losses in the war of sanctions against Russia: Brussels count losses / <http://newvz.ru/info/80283.html> ;Loss count in the war of sanctions. Russia’s Ministry of Economic Development have assessed losses sustained due to the food embargo / <http://www.newizv.ru/economics/2016-08-02/243960-v-sankcionnoj-vojne-podschitali-poteri.html>

spectively 20.7% and 20.6%), Latvia (21.5% and 11.5%), Estonia (22.8% and 12.2%), Poland (4.8% and 4.6%).

The initiators of sanctions against Russia, namely the United States, Great Britain, Canada, Germany, France, have sustained minor specific losses from the Russian food embargo. Russia's neighbour countries with whom Russia had well established food trade were hurt the most by the counter-sanctions.

An emphasis should be placed on the fact that food prices have recently been on the slide in the global market. And to obtain a more objective assessment, further study of the effects of the embargo is needed using physical values of exports and imports<sup>1</sup>.

The EU increased exports (in physical terms) of most types of products in 2015, that is, EU member countries found new markets for the products sanctioned by Russia. And, in terms of value, there was no decline in exports from the EU. Instead, they increased to 482.5bn euro in 2015, as compared to 455.1bn euro in 2013. The decline in value of exports (in USD terms) was driven by the euro-dollar exchange rate (1.11 in 2015 compared to 1.33 in 2013). There is a prevailing view in Russian and European mass media that the agri-food market is facing problems due to the Russian embargo, although the key culprit is the national currency devaluation, both in Russia and the EU.

Meat and meat products, milk and dairy products, vegetables and fruits were the principal items of exports from EU member countries to Russia. In 2013, these products accounted, respectively, for 19.8%, 14.2%, 23.4% and 32.5% of EU member countries' exports outside the EU. Given the exports within the EU, Russia's share was much smaller (respectively 3.7%, 3.4%, 3.7% and 5.1%). *Table 1* shows an overall response of EU markets to the Russian embargo on food imports.

*Table 1*

EXPORTS OF SELECTED PRODUCTS FROM EU TO RUSSIA  
AND TO OTHER COUNTRIES

	Meat and meat products		Milk and dairy products		Vegetables		Fruits	
	Russia	Other countries	Russia	Other countries	Russia	Other countries	Russia	Other countries
thousand tonnes								
2013	852	16 985	441	24 367	948	25 827	1 614	20 861
2014	165	18 348	273	25 570	661	26 307	1 074	22 254
2015	10	19 065	49	27 230	81	26 885	104	24 108
Changes (+,-) in 2015 as compared to 2013	-842	2 080	-392	2863	-868	1057	-1 510	3246
million euro								
2013	1 608	41 501	1 462	41 918	769	20 173	1 258	24 477
2014	280	42 866	936	44 357	505	19 484	802	24 826
2015	14	43 691	211	42 034	68	21 664	96	27 621
Changes (+,-) in 2015 as compared to 2013	-1 594	2 190	-1 251	116	-700	1 490	-1 162	4305

Source: Eurostat.

1 Below is analysis that was made using the Eurostat's data, because the Comtrade database provides no data on sales in physical volume.

The decline in exports to Russia was offset by growth in exports to other countries. In terms of value, extra revenues in other countries failed to compensate for the losses in Russia despite growth in volumes of milk exports alone, because exports to Russia used to include more expensive types of food products (cheese, etc.).

The foregoing provide the picture in the EU as a whole. The picture by country differs largely from the EU average. Almost all the major exporters of meat products found a replacement for the Russian market, and not only did they compensate for the loss, but also their exports were increased (*Table 2*).

For example, Poland cut its exports of meat products to Russia by 77,000 tonnes as its exports to other countries were increased by 373,000 tonnes. The sole exception is France that failed to compensate for cutbacks on supplies to Russia with sales in other markets. Germany, Denmark, Belgium saw their revenues from meat exports drop considerably.

*Table 2*

CHANGES IN VOLUME AND VALUE OF EXPORTS OF MEAT  
AND MEAT PRODUCTS FROM EU

	Growth (+) / decline in exports in 2015 as compared to 2013.					
	To Russia		To other countries		Total	
	thousand tonnes	million euro	thousand tonnes	million euro	thousand tonnes	million euro
EU-28	-841.69	-1594.09	2080.21	2189.50	1238.52	595.41
Germany	-184.91	-333.39	284.22	-159.93	99.31	-493.32
Denmark	-134.63	-284.45	125.53	-141.03	-9.11	-425.48
France	-86.94	-123.92	-16.67	-139.38	-103.62	-263.30
Poland	-77.73	-159.57	373.25	689.68	295.52	530.11
The Netherlands	-74.06	-138.86	286.52	245.92	212.45	107.06
Spain	-53.64	-116.02	526.05	837.12	472.41	721.11
Belgium	-44.62	-69.68	136.41	-55.26	91.78	-124.93
Hungary	-36.08	-79.99	61.06	77.18	24.97	-2.80
Italy	-35.51	-56.93	43.91	245.27	8.40	188.34
Ireland	-29.49	-69.25	127.30	405.75	97.81	336.50
Lithuania	-27.25	-64.13	38.66	61.43	11.41	-2.70
Austria	-26.86	-48.96	57.77	22.44	30.91	-26.52

Source: Eurostat.

The picture for dairy products is somewhat different. Expensive products ceased to be exported to Russia due to the Russian embargo. It was not always possible to export expensive products to other countries. The export pattern underwent some changes and almost all the exporters saw their revenues decline, although sales volumes increased (*Table 3*).

Lithuania sustained financial losses in the vegetable, although it managed to compensate for cutbacks in exports to Russia (in terms of volume) by increasing exports to other countries (*Table 4*).

Poland was the sole country whose fruits exports were hurt by the Russian embargo. Exports to Russia were cut by 782,000 tonnes, which was partially offset by increasing exports to other countries (433,000 tonnes).

Table 3

CHANGES IN VOLUME AND VALUE OF EXPORTS OF MILK  
AND DAIRY PRODUCTS FROM EU (FEACN 04)

	Growth (+) / decline in exports in 2015 as compared to 2013.					
	To Russia		To other countries		Total	
	thousand tonnes	million euro	thousand tonnes	million euro	thousand tonnes	million euro
EU-28	-392.15	-1250.83	2863.30	115.74	2471.15	-1135.09
Finland	-86.75	-252.18	73.27	111.97	-13.48	-140.21
The Netherlands	-63.58	-225.97	1042.30	-275.33	978.71	-501.30
Lithuania	-47.19	-152.69	47.17	-27.20	-0.02	-179.89
Poland	-45.86	-139.57	321.55	95.95	275.69	-43.62
Germany	-45.29	-153.49	437.41	-482.94	392.11	-636.43
France	-27.73	-83.63	166.52	56.05	138.79	-27.58
Denmark	-21.44	-77.86	88.81	117.11	67.37	39.25
Estonia	-20.98	-49.24	-11.49	-11.66	-32.48	-60.90

Source: Eurostat.

Table 4

CHANGES IN VOLUME AND VALUE OF EXPORTS OF VEGETABLES FROM EU  
(FEACN 07)

	Growth (+) / decline in exports in 2015 as compared to 2013.					
	To Russia		To other countries		Total	
	thousand tonnes	million euro	thousand tonnes	million euro	thousand tonnes	million euro
EU-28	-867.73	-700.36	1057.35	1490.39	189.63	790.02
Poland	-297.27	-172.02	234.38	178.90	-62.89	6.88
Lithuania	-264.45	-323.60	470.75	120.73	206.30	-202.88
The Netherlands	-133.76	-48.89	-362.96	414.65	-496.72	365.76
Spain	-69.50	-72.00	567.39	618.47	497.89	546.48
Belgium	-47.89	-40.24	258.95	224.20	211.06	183.96

Source: Eurostat.

Table 5

## CHANGES IN VOLUME AND VALUE OF EXPORTS OF FRUITS FROM EU (FEACN 8)

	Growth (+) / decline in exports in 2015 as compared to 2013.					
	To Russia		To other countries		Total	
	thousand tonnes	million euro	thousand tonnes	million euro	thousand tonnes	million euro
EU-28	-1509.54	-1161.59	3246.15	4305.00	1736.61	3143.41
Poland	-781.73	-338.16	433.21	196.66	-348.52	-141.51
Spain	-161.85	-157.79	668.08	1414.94	506.23	1257.14
Lithuania	-151.38	-271.01	802.80	187.73	651.42	-83.27
Belgium	-147.41	-154.23	169.42	189.26	22.00	35.03
Greece	-107.00	-108.23	100.76	80.36	-6.23	-27.87
Italy	-63.64	-61.29	381.57	416.42	317.92	355.13
The Netherlands	-20.60	0.63	148.82	791.96	128.22	792.59

Source: Eurostat.

There were isolated instances where the decline in imports to Russia caused a real decline in volume and value of exports from the counter-sanctioned countries, however, the economic loss was insignificant. Hence the Russian ban on exports of food staples has to date failed to inflict considerable damages to exporters in these countries.

## ATTACHMENT

## CHANGES IN VOLUME OF AGRI-FOOD EXPORTS FROM COUNTER-SANCTIONED COUNTRIES

Countries	2013			2014			2015			2016 (January-March)			Decline (-), increase (+) in exports in 2015 as compared to 2013			
	total to all countries, millions US dollars	incl. to Russia, millions US dollars	Russia's share, %	total to all countries, millions US dollars	incl. to Russia, millions US dollars	Russia's share, %	total to all countries, millions US dollars	incl. to Russia, millions US dollars	Russia's share, %	total to all countries, millions US dollars	incl. to Russia, millions US dollars	Russia's share, %	to Russia		to other countries	
													millions US dollars	as % of exports to all countries in 2013	millions US dollars	as % of exports to all countries in 2013
USA	146889	1319	0.9	154853	938	0.6	138216	404	0.3	32458	103	0.3	-914.4	-0.6	-7758	-5.3
Australia	31779	351	1.1	32479	168	0.5	30947	60	0.2	6776	32	0.5	-290.8	-0.9	-541	-1.7
Canada	48194	417	0.9	50693	406	0.8	47792	37	0.1	10598	12	0.1	-379.3	-0.8	-22	0.0
Japan	4946	34	0.7	5028	38	0.8	5397	26	0.5	1309	5	0.4	-7.8	-0.2	459	9.3
Norway	11247	1161	10.3	11754	572	4.9	9976	27	0.3	2649	1	0.1	-1134.6	-10.1	-137	-1.2
EU-28, incl.*	595346	15706	2.6	599988	12033	2.0	523806	6077	1.2	129937	1479	1.1	-9629.8	-1.6	-61910	-10.4
Austria	12636	315	2.5	12946	248	1.9	11154	131	1.2	2915	45	1.5	-184.6	-1.5	-1297	-10.3
Belgium	48417	782	1.6	46181	552	1.2	39894	302	0.8	9764	92	0.9	-479.6	-1.0	-8044	-16.6
Bulgaria	5356	71	1.3	4915	67	1.4	4155	49	1.2	906	14	1.5	-21.6	-0.4	-1180	-22.0
Croatia	1567	21	1.3	1735	15	0.9	1723	14	0.8	417	1	0.3	-6.4	-0.4	162	10.3
Cyprus	442	18	4.1	431	8	1.9	370	0	0.1	97	0	0.2	-17.5	-4.0	-55	-12.4
Czech Republic	8203	125	1.5	8690	143	1.6	8059	95	1.2	2016	26	1.3	-29.7	-0.4	-114	-1.4
Denmark	22148	852	3.8	22182	374	1.7	18638	154	0.8	4421	41	0.9	-697.7	-3.2	-2812	-12.7
Estonia	1937	507	26.2	1897	459	24.2	1496	271	18.1	311	43	13.8	-235.6	-12.2	-206	-10.6
Finland	2116	574	27.1	2077	419	20.2	1597	131	8.2	343	26	7.6	-443.1	-20.9	-76	-3.6
France	78953	996	1.3	75931	760	1.0	66687	379	0.6	16532	119	0.7	-617.6	-0.8	-11648	-14.8
Germany	90507	2186	2.4	91709	1595	1.7	79333	1024	1.3	19393	251	1.3	-1161.5	-1.3	-10012	-11.1
Greece	6404	224	3.5	6185	158	2.6	5817	43	0.7	1472	9	0.6	-180.5	-2.8	-407	-6.4
Hungary	10638	356	3.3	10274	307	3.0	8763	199	2.3	2133	69	3.2	-156.4	-1.5	-1718	-16.2
Ireland	13402	297	2.2	14148	171	1.2	12613	53	0.4	3001	14	0.5	-244.1	-1.8	-545	-4.1
Italy	44247	921	2.1	45400	802	1.8	40754	415	1.0	9860	76	0.8	-505.6	-1.1	-2987	-6.8
Latvia	2720	657	24.1	2630	677	25.7	2133	344	16.1	483	48	10.0	-313.1	-11.5	-273	-10.0

Countries	2013			2014			2015			2016 (January-March)			Decline (-), increase (+) in exports in 2015 as compared to 2013			
	total to all countries, millions US dollars	incl. to Russia, millions US dollars	Russia's share, %	total to all countries, millions US dollars	incl. to Russia, millions US dollars	Russia's share, %	total to all countries, millions US dollars	incl. to Russia, millions US dollars	Russia's share, %	total to all countries, millions US dollars	incl. to Russia, millions US dollars	Russia's share, %	millions US dollars	as % of exports to all countries in 2013	to other countries	
															millions US dollars	as % of exports to all countries in 2013
Lithuania	6246	1824	29.2	6183	1438	23.3	4958	540	10.9	1136	115	10.2	-1284.1	-20.6	-4	-0.1
Luxembourg	1330	12	0.9	1590	12	0.7	1370	6	0.4	209	0	0.2	-5.8	-0.4	46	3.4
Malta	1	0	2.0	2	0	0.4	1	0	0.1	0	0	0.0	0.0	-1.9	0	0.5
The Netherlands	102217	1971	1.9	103407	1557	1.5	86850	900	1.0	23165	240	1.0	-1071.1	-1.0	-14296	-14.0
Poland	26869	1669	6.2	27965	1194	4.3	25594	442	1.7	6202	94	1.5	-1226.5	-4.6	-48	-0.2
Portugal	7417	65	0.9	7968	55	0.7	7019	30	0.4	1552	7	0.5	-34.9	-0.5	-363	-4.9
Romania	6309	55	0.9	6669	87	1.3	5925	52	0.9	1235	33	2.7	-3.2	-0.1	-381	-6.0
Slovakia	4270	41	1.0	3633	32	0.9	3033	18	0.6	662	3	0.5	-23.4	-0.5	-1214	-28.4
Slovenia	1179	39	3.3	1288	33	2.6	1181	25	2.1	287	6	2.1	-14.1	-1.2	16	1.3
Spain	48717	776	1.6	50803	565	1.1	46220	268	0.6	12385	58	0.5	-508.6	-1.0	-1988	-4.1
Sweden	9743	131	1.3	10084	122	1.2	8919	68	0.8	2237	15	0.7	-62.3	-0.6	-761	-7.8
Great Britain	31355	223	0.7	33066	180	0.5	29549	122	0.4	6802	33	0.5	-101.1	-0.3	-1704	-5.4
Total for sanctioned countries	838400	18988	2.3	854794	14155	1.7	756135	6631	0.9	183729	1633	0.9	-12356.7	-1.5	-69909	-8.3

\* Aggregate data are presented for all EU member countries, including each country's exports within and outside the European Union.

Source: Comtrade.

## AUTHORS

**Natalia Zubarevich**, principal researcher, Demography, Migration and Labor Market research Department, Institute of Social Analysis and Forecasting, RANEPA

**Georgy Idrisov**, Director of Real Economy Center, Gaidar Institute

**Andrei Kaukin**, Head of Industrial Organization and Infrastructure Economics Department, Gaidar Institute

**Alexander Knobel**, Head of World Trade Laboratory, Gaidar Institute

**Darya Loginova**, researcher, Center for Agroindustrial policy, IAES, RANEPA

**Vasily Uzun**, principal researcher, Center for Agroindustrial policy, IAES, RANEPA

**Alexander Firanchuk**, senior researcher, Foreign Trade Department, IAES, RANEPA

**Sergey Tsukhlo**, Head of the Business Surveys Laboratory, Gaidar Institute