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TRENDS AND OUTLOOKS**

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RUSSIAN ECONOMY IN 2017. TRENDS AND OUTLOOKS / [Alexander Abramov etc.; Doctor of sciences (economics) Sergey Sinelnikov-Murylev (editor-in-chief), Doctor of sciences (economics) Alexander Radygin]; Gaidar Institute for Economic Policy. – Moscow: Gaidar Institute Publishers, 2018. – 544 p. – ISBN 978-5-93255-530-9.

The review “Russian economy in 2017. Trends and outlooks” has been published by the Gaidar Institute since 1991. 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: the socio-political issues and challenges; the monetary and budget spheres; financial markets and institutions; the real sector; social services; institutional changes. The paper employs a huge mass of statistical data that forms the basis of original computation and numerous charts confirming the conclusions.

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4.7. The year-end results of 2017 and new developments in Russia's agrarian policy¹

4.7.1. The behavior of agricultural production

In 2017, the harvest of cereals, including wheat, Russia's top agricultural export commodity, hit its record high. This happened mostly due to a significant rise in wheat harvest against the three previous years (*Tables 34, 35*). At the same time, the record-high harvest caused problems with the transportation of grain from the regions of the Siberian Federal District. Agricultural producers also note a decline in the profitability of agricultural production (on the average, by 8.4 percent, to 12-14 percent²) due to the accelerated growth in the prices of inputs by comparison with that of the sales price of grain, which lagged behind because of the record-high harvest.

Among the year 2017's most important news events pertaining to the functioning of the grain market was the introduction of the Charter on Grain Turnover. This Charter was developed by the Federal Tax Service of Russia in order to discipline the procedures for reimbursement VAT on grain exports³. The traders that have signed the Charter thereby agree 'to resist VAT avoidance schemes and avoid cooperation with unscrupulous intermediaries that obtain a competitive advantage through the use of illegal VAT refunds'.⁴

Also, the year 2017 saw a continuation of the rise in barley, oat, buckwheat, and soya bean production. The gross yield of sugar beet was only slightly below its record-high harvest of 2016. Although slightly below last year's level, the gross yield of sunflower seeds was 4 percent above its average level of the past five years (2012-2016). These crops are traditionally produced by the commercial sector (agricultural organizations, peasant (farm) holdings (PFH), and individual entrepreneurs (IE)). Thus, in 2017, the share of agricultural organizations, PFHs, and IEs in the production of cereal grains, sunflower seed and sugar beet amounted to 99 percent. The volumes of production of these crop products exceeded their pre-reform levels of 1986–1990. The growth rates of soya bean, sunflower seed and corn production were especially high (*Table 34*).

It should be noted, though, that the achievements in the production of labor-intensive cheap crops, where the share of individual households is still high, are not that impressive. Thus, the gross yield of potatoes, where the share of individual households amounted, in 2017, to

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² URL: <http://grainboard.ru/news/zernovie-interventsii-otkladivayutsya-na-2018-god-379413>

³ The Charter on Grain Turnover was signed by more than 500 companies. Agroinvestor, URL: <http://www.agroinvestor.ru/markets/news/28497-khartiyu-ob-oborote-zerna-podpisali-bolee-500-kompaniy/>

⁴ URL: <https://хартия-АИС.рф/о-hartii>

77 percent, was almost 5 percent lower than in 2016 and 18 percent lower than in the last pre-reform years¹.

A somewhat different trend is observed in the production of vegetables – in 2017, their gross yield at agricultural holdings and enterprises of all types amounted to 16.3 million tons, which represented a 1.5 times rise on the pre-reform level. Having hit its record low of 22 percent in 2002, the commercial sector's input in their production (22 percent) has been on the gradual increase ever since, reaching 37 percent in 2017, mainly due to the rising share of PFHs and IEs.

Table 34

Gross Yields of Major Agricultural Crops, Millions of Tons

Indices	On average during 1986-1990	2015	2016	2017*	2017 relative to 2016, percent	2017 relative to average for period 1986-1990, percent
Grain	104.3	104.8	120.7	134.1	111.2	128.6
including wheat	43.5	61.8	73.3	85.8	117.1	197.3
Corn	3.3	13.2	15.3	12.1	78.7	365.2
Sugar beet	33.2	39.0	51.4	48.2	93.9	145.3
Sunflower seed	3.1	9.3	11.0	9.6	87.4	310.6
Soya beans	0.6	2.7	3.1	3.6	114.1	595.9
Potatoes	35.9	33.6	31.1	29.6	95.1	82.4
Vegetables, melons and gourds	11.2	16.1	16.28	16.3	100.3	145.8
Fruits and berries	3.3	2.9	3.3	2.9	89.0	89.3

* Preliminary data.

Source: Rosstat.

The most significant growth in yield in comparison to the period 1986-1990 was registered for sugar beet, cereals, grains, fruits, vegetables, and potatoes (Table 35).

Table 35

Yields of Major Agricultural Crops, Centners [Russia] per Hectare

Indices	On average during 1986-1990	2015	2016	2017*	2017 relative to 2016	2017 relative to average for period 1986-1990, percent
Wheat	17.6	23.9	26.8	31.2	116.4	177.3
Corn	28.7	49.3	55.1	48.7	88.4	169.7
Sugar beet	225	388	470	430	91.5	191.1
Sunflower seed	12.7	14.2	15.1	14.7	97.4	115.7
Soya beans	10.3	13	14.8	14.1	95.3	136.9
Potatoes	108	159	153	156	102.2	144.4
Vegetables, melons and gourds	154	225	227	236	104.3	153.2
Fruits and berries	39.5	75.7	85.6	76.6	89.5	193.9

* Preliminary data.

Source: Rosstat.

The growth in yield resulted in a sufficiently high profitability of crop production (Table 36).

Table 36

Profitability (unprofitability) of Sold Goods, Products, Work and Services²

Indices	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total, national economy	14.0	14.3	14.0	11.5	11.4	11.5	9.7	7.7	8.6	9.3	8.1
Agriculture	10.1	15.7	12.4	9.8	11.1	11.2	12.9	6.8	19.5	22.3	17.6
Crop production	11.3	22.5	18.3	9.8	13.4	15.3	16.4	13.5	22.5	35.9	31.8

¹ According to data of the All-Russia Agricultural Census 2016, the input of individual households in potato output may be subject to a significant downward adjustment.

² The profitability of the sold goods, products, work and services is calculated as a ratio between the balanced financial result (profit minus loss) of the sales of goods, products, work and services, and the cost of the aforesaid sold goods, products, work and services (including commercial and managerial costs).

Indices	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Animal husbandry	9.1	10.1	8.1	9.8	9.9	8.8	11.1	3.4	18.4	15.8	10.5

Source: Rosstat (The Unified Interdepartmental Statistical Information Service, UISIS).

The year 2017 also saw some success in the animal husbandry sector. There was growth in egg production (by 2.8 percent relative to 2016). The output of meat and poultry products increased, including that of poultry meat (6.9 percent on the previous year), pork (5 percent), and mutton (2 percent). The pig herd owned by agricultural holdings and enterprises of all types increased to a total of 23.3 million head (a rise of 5.7 percent on the previous year); the total number of poultry flock – to 557 million head (0.7 percent on the previous year).

Growth in the production of poultry meat and pork was achieved, in 2017, only by agricultural organizations. Peasant (farm) holdings, IEs including, and individual households reduced their pig herd by nearly 6 percent, and their poultry flock by 3.6 percent. This decline – and particularly with regard to pig breeding – has had to do with the long-term policy of imposing constraints on individual household and small business production in order to reduce the threat of spreading animal diseases to the livestock of big agricultural organizations.

As before, no breakthrough could be achieved in cattle breeding, although thanks to the ongoing government support measures, the rate of cattle herd decline decreased, while milk production has been maintained at a level of 31 million tons for 4 straight years, and in 2017, it even demonstrated slight growth (*Table 37*). That growth was achieved through increased dairy cow productivity, and not through herd growth (the yield of agricultural organizations in 2017 increased by 5.3 percent to 5.8 tons per head¹). Dairy cattle breeding has remained one of the problem ridden sectors. Total national cattle herd decline has been contributed to not only by that at individual households, but by that at agricultural organizations. The only category of agricultural enterprises displaying cattle herd growth is peasant (farm) holdings. However, their share in national milk production is still small (slightly above 7 percent), whilst agricultural organizations account for 50.3 percent, and individual households – for 42 percent of total milk output (2017). In 17 RF subjects, this sector's yield took up more than 70 percent of a given region's milk production. Individual households receive no support from the federal budget for selling their milk, and they have some issues with milk sales. Given these conditions, they have no incentives for maintaining their current production level or increasing their milk output, as they lack a well-developed distribution infrastructure.

Table 37

The movement of gross output value of animal husbandry for agricultural holdings and enterprises of all types

Indices	1991	2014	2015	2016	2017	2017 relative to 2016, percent	2017 relative to 1991, percent
Total meat production, carcass weight, million tons	9,375	9,070.3	9,565.2	9,899.2	10,391.0	105	110.8
Including cattle	3,989	1,654.1	1,649.4	1,619.0	1,618.5	100.0	40.6
Pigs	3,190	2,973.9	3,098.7	3,368.2	3,536.7	105.0	110.9
Poultry	1,751	4,161.4	4,535.5	4,620.8	4,940.9	106.9	282.2
Sheep and goats	347	203.9	204.5	213.1	217.3	102.0	62.6
Milk, million tons	52	30.8	30.8	30.8	31.1	101.2	59.8
Eggs, billion	47	41.9	42.6	43.6	44.8	102.8	95.3

Source: Rosstat, 2017 – estimations based on data released by Rosstat.

Overall in 2017, milk, beef, and mutton production indices were significantly below the corresponding indices for the 1990, while pork and poultry meat production was higher. It is

¹ In 1990, the average milk yield per cow in agricultural enterprises was 2.8 tonnes per annum.

thanks to the development of the latter that the pre-reform meat livestock and poultry output index was exceeded (*Table 37*).

In recent years, agriculture's higher profitability relative to the national economy's average profitability index translated into a boost in its development: over the last three years, the average annual value added growth rate in agriculture has stayed above the growth rate of GDP (*Table 38*).

Table 38

**Russia's GDP volume index and gross value added index
for agriculture**

	GDP growth index, as percent relative to previous year	value added growth index in agriculture*
2013	101.8	104.7
2014	100.7	101.3
2015	97.2	102.5
2016	99.8	102.9
2017	101.6**	102.1***

* Including hunting, forestry, fish farming and fishing (calculations based on Rosstat data).

** January–September 2017.

*** January–September 2017, including forestry, hunting, fish farming and fishing.

Source: Rosstat (Unified Interdepartmental Information and Statistics System (EMISS)); Information on the Socioeconomic Situation in Russia (January–November 2017).

Thus, in 2017, the sector displayed the same trends as had been typical of several recent years.

4.7.2. Government support of agriculture

The amount of federal budget allocations for 2017 in the framework of the Government Program of Agriculture Development and Regulation of Agricultural Products, Raw Materials and Foodstuffs for 2013–2020 (hereinafter – Government Program), in accordance with the most recently adjusted budget revenue and expenditure targets, was RUB 242.1 billion. This is RUB 26.3 billion more that was initially envisaged in Federal Law No 415–FZ dated December 19, 2016, and RUB 24 billion above the budget allocation level for 2016. However, the amount of federal government support represents only part of overall state support. In reality, its volume is significantly bigger due to allocations from regional budgets. Regional funding of the agricultural sector takes up between 30percent and 50percent of the aggregate budget allocated to federal and regional support programs targeting agricultural enterprises.¹

Over the course of 2016–2017, the Government Program was significantly amended several times.² While the previously introduced innovations resulted in program detailing and the creation of specifically targeted sub-programs and measures supported and protected by specific items added to their approved budget functions, including the funding of sectors that were vital for import substitution (2015), in the later version of the Government Program some

¹ Data on regional funding for 2017 are not yet available.

² Decree No 396 dated March 31, 2017 ‘On Introducing Alterations in the Government Program of Agriculture Development and Regulation of Markets for Agricultural Products, Raw Materials and Foodstuffs for 2013–2020’; Decrees of the RF Government No 902 dated July 29, 2017; and No 1347 dated November 10, 2017.

of these directions were pooled. The Government Program, as amended on 1 December 2017, includes 9 subprograms. Their funding and structure are shown in *Table 39* and *Fig. 48*¹.

Table 39

Federal Budget Allocations to the Government Program in 2017, billions of rubles

Item	2016	2017		2017 Adjusted budget targets relative to planned targets, %	2017 relative to 2016, %
	Cash execution as of January 1, 2017	Federal Law No 415-FZ dated December 19, 2016	Adjusted budget revenue and expenditure targets as of September 18, 2017		
Total	218.09	215.85	242.15	112.18	111.03
Development of AIC sectors	78.05	55.31	58.33	105.46	74.73
Maintaining ongoing operation of AIC sectors	10.33	11.12	11.29	101.57	109.29
Technical and technological modernization, innovative development	11.16	0.09	14.21	15,788.89	127.33
Promotion of investment activity in AIC	66.11	91.67	97.12	105.95	146.91
Development of AIC financial and lending system	8	5.00	5.00	100.00	62.50
Management of Government Program implementation	25.04	25.21	27.82	110.35	111.10
Sustainable development of rural territories in 2014–2017 and over period until 2020	12.07	15.45	16.1	104.23 133.39	
Agricultural land improvement in Russia in 2014–2020	7.34	11.28	11.43	101.36	155.72
Priority project <i>Export of AIC's products</i>	0	0.73	0.85	116.69	

Source: RF Ministry of Agriculture.

¹ Hereinafter, the Government Program as amended by Decree of the Government No 1347 dated November 10, 2017, which was effective through December 31, 2017, is analyzed. From January 1, 2018, a new version of Government Program was introduced (by Decree of the RF Government No 1544 dated December 13, 2017).

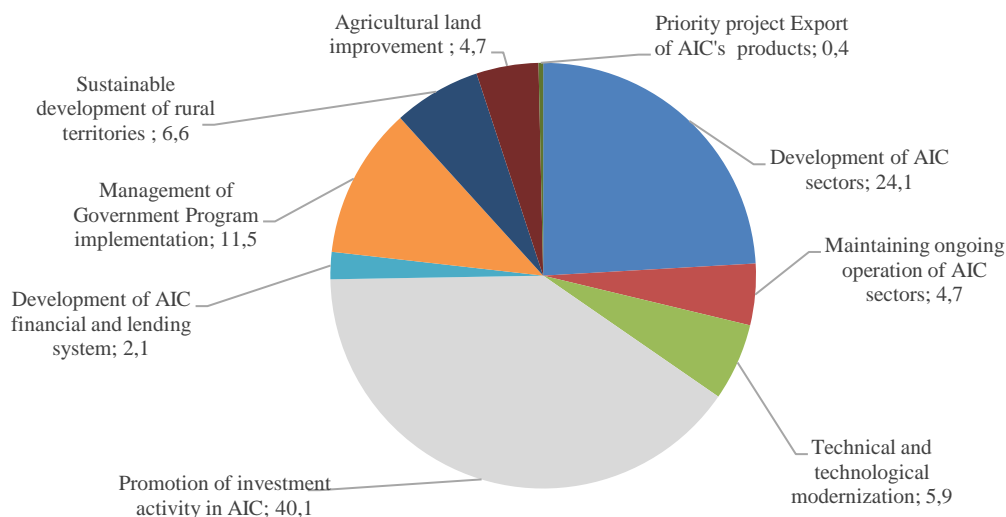


Fig. 48. The structure of federal funding allocated to the Government Program in 2017 (adjusted budget revenue and expenditure targets), percent

In Fig. 48, it can be seen that the lion's share in the allocation structure (a total of approximately 64percent) was taken up by the subprograms oriented to the development of specific sectors: the Subprogram *Promotion of Investment Activity in AIC*, which envisaged support for low-rate investment loans in the AIC and reimbursement of the direct costs associated with building construction and modernization of AIC property entities; and the Subprogram *Development of AIC Sectors*, through which all the subsidies allocated to specific sectors were paid. It is these types of support that were directly addressed to agricultural producers, and were most important for them. In 2017, the funding allocated to practically all the ongoing subprograms was increased relative to 2016 (Table 39), with the exception of the Subprogram *Development of AIC Sectors*. In the case of the latter, the amount of funding allocated to all the types of support listed in it was substantially reduced (Table 40).

Table 39

Funding of the measures listed in Subprogram *Development of AIC Sectors*, billions of rubles

Subprogram measures	2016	2017		2018	2017 relative to 2016, percent
	Cash execution as of January 1, 2017	Federal Law No 415-FZ dated December 19, 2016	Adjusted budget revenue and expenditure targets as of September 18, 2017	Draft FZ 'On FB for 2018 and Planning Period 2019 and 2020'	
Allocations to Subprogram <i>Development of AIC Sectors</i>, Total	78.05	55.31	58.33	39.00	74.7
Subsidies to non-targeted support of crop production	23.34	11.34	11.34	0.00	48.6
Subsidies to increase productivity in dairy cattle breeding sector	12.67	7.96	7.96	0.00	62.9
Aid in achieving targets set by regional AIC development programs*	42.04	36.00	39.02	39.00	92.8

*In 2016, the subsidy titled *Aid in Achieving the Implementation Targets of Regional AIC Development Programs* was not yet introduced; for reference, the table lists the support measures that would later be integrated into this subsidy.

As follows from *Table 40*, the amount of federal funding allocated to the basic support of crop production, which had earlier already incorporated some important subsidies as reimbursement of cost of mineral fertilizers, crop protection, etc, was cut nearly by half. The subsidy to the dairy cattle breeding sector was cut by almost 40percent, although – as demonstrated earlier – this sector is still faced with some grave problems. Nevertheless, the Draft Federal Law 'On the Federal Budget for 2018 and the Planning Period of 2019 and 2020' suggests that all the funding allocated to these items should be discontinued.

This state of affairs can be explained by the necessity to redistribute the funds within the budget actually allocated to the ministry in favor of those investment loans that involve long-term government obligations. When trying to fit its loan agreements into the list of subsidized loans, the RF Ministry of Agriculture aims to stay within the amount of subsidies allocated for a given year. However, in a situation when an agreement is approved for subsidizing, say, in December, the payments are minimal, but they become substantial over the next year, while as a rule, the total amount of subsidies allocated under the Government Program is not increased (see, e.g., the Draft Federal Law 'On Federal Budget for 2018 and the Planning Period of 2019 and 2020'). As a result, in 2016, a total of RUB 55.3 billion was allocated to the reimbursement of part of interest paid on investment loans. In 2017, the amount allocated to that subsidy in accordance with the adjusted budget revenue and expenditure targets was RUB 58.8 billion, while another RUB 25.4 billion was allocated to the newly introduced subsidy received by Russian credit institutions by way of compensation of their loss of income on their loans issued to agricultural producers at a special reduced interest rate, which means a 1.5-times increase. These expenditures were partly covered by increasing the amount of allocations earmarked for the Government Program, and partly by cutting the basic types of support. However, such a situation cannot be regarded as an optimal one.

In order to make subsidized loans more accessible to small agricultural businesses and small farms, by Decree of the RF Government No 1528 dated December 29, 2016, a mandatory quota was introduced, whereby they were guaranteed to receive subsidy 'in an amount not less than 20percent of the total amount of compensation for the loss of income, by banks, on the short-term loans with a reduced interest rate to be issued by them in the territory of a given RF subject'.¹ At the same time, the percent share of subsidy could be changed by the RF Ministry of Agriculture on the basis of proposals submitted by regional authorities. The quota floor in that case would be 'the share of small agricultural businesses and small farms in the total agriculture output of the corresponding RF subject over a reporting financial year'. For investment loans, the share of small agricultural businesses and small farms was set at not less than 10 percent of the amount of subsidy.

The Decree also set a cap on the amount of short-term loans that could be paid to one and the same borrower. The cap was to be determined on the basis of proposals submitted by regional authorities to the RF Ministry of Agriculture for each RF subject in accordance with the methodology introduced by Order No 415 dated August 21, 2017, of the RF Ministry of Agriculture. As a result, the cap on loan in many RF subjects was set at a level above RUB 1 billion, and in some of them it jumped tenfold, thus making it possible to distribute the bulk of an allocated subsidy among only 20-30 biggest recipients.²

¹ Decree of the RF Government No 1528 dated December 29, 2016 (as amended on July 24, 2017).

² Uzun V. Restriction of the Size of Subsidies Allocated to One Agricultural Producer: Its Necessity, Mechanisms, and Consequences // APK: Economics and Management, No 11, 2017, pp.12–31.

Among the other new provisions introduced in 2017 we must note the 'pooling' of measures envisaged in the Government Program in the framework of a single subsidy earmarked for providing aid in the achievement of targets set by regional AIC development programs (hereinafter - single subsidy). It absorbed some important areas of subsidizing, such as support of small agricultural businesses and small farms (previously covered by a separate subprogram) and other areas that are important for the development of agricultural sectors. As a result, it became difficult to trace each declared measure and the funding allocated to it at the federal level. By way of dealing with that issue, and to avoid a loss of certain areas of support, the RF Ministry of Agriculture continues to exercise control and keep records concerning each of the 'pooled' measures through a system of mandatory targets, although the distribution of that subsidy is actually the prerogative of regional authorities. The measures had been pooled with the intention of reducing the associated administrative costs, but in the end these costs, in fact, increased.

At the same time, the structure of the Government Program in 2017 still contained subprograms like *Technical and Technological Modernization*, *Development of the Financial and lending System*, and the Priority Project *Export of AIC's Products*, each envisaging only one or two measures and relying on very modest funding, or with no funding being planned for the nearest future.¹

The general services provided to the agricultural sector were funded, in 2017, through the federal target programs *Sustainable development of rural territories in 2014–2017 and over the period until 2020 (FTP SDRT)*² and *Agricultural land improvement in Russia in 2014–2020 (FTP Melioration)*,³ as well as through R&D projects, agricultural education, land monitoring, and supervisory and veterinary agencies covered by the Government Program. Russia currently lacks well-developed agencies capable of providing information and consulting services, or a well-developed market information system, although the Government Program does envisage the relevant funding targets. However, every year the funding is reallocated to some other targets, which the RF Ministry of Agriculture believes to be more important. Thus, in 2016, RUB 0.26 billion was allocated to the measures defined as Formation of State Information Resources in the Sectors Responsible for Food Safety and Agro-industrial Complex Management; in 2017, in accordance with the adjusted budget revenue and expenditure targets, the same amount was allocated. However, its cash execution as of September 1, 2017 was only 16 percent of the planned level.

In 2017, in the framework of FTP *SDRT*, funding was allocated to measures designed to improve the housing conditions for citizens residing in rural areas, including young families and young specialists, develop the network of general education establishments, midwife obstetric units and general practitioners, sports venues, institutions for cultural and recreational activities, gas and water supply systems, comprehensive development of land plots for building residential communities, motor roads networks providing access to socially significant objects

¹ Decree of the RF Government No 717 dated July 14, 2012 (as amended on November 10, 2017) 'On the Government Program of Agriculture Development and Regulation of Markets for Agricultural Products, Raw Materials and Foodstuffs for 2013–2020'.

² Approved by Decree of the RF Government No 598 dated 15 July 2013 (as amended on May 25, 2016) 'On the Federal Target Program *Sustainable development of rural territories in 2014–2017 and over the period until 2020*'; it is part of the Government Program.

³ Approved by Decree of the RF Government No 922 dated October 12, 2013 (as amended on 17.05.2017) 'On the Federal Target Program *Agricultural Land Improvement in Russia in 2014 – 2020*'; it is part of the Government Program.

in rural areas and agricultural production and processing entities; grant support of local initiatives of citizens residing in rural areas; promotion and popularization of achievements in the development of rural territories and scientific and methodological backing of the implementation of FTP *SDRT*.

In 2017, the volume of funding allocated to FTP *SDRT* from the federal budget, in accordance with the adjusted budget revenue and expenditure targets, was RUB 16.1 billion, which is by RUB 4 billion above the 2016 level. However, its cash execution as of September 1, 2017 was only RUB 6.9 billion, or 43 percent of the planned target. The allocation of federal budget funding to FTP *SDRT* is handled by the RF Ministry of Agriculture. In 2017, the aforesaid ministry allocated to the Federal Road Agency a total of RUB 6.8 billion (in 2016 – RUB 7.3 billion). The total amount of co-financing from regional budgets in 2017, according to the existing agreements, was RUB 6.9 billion (in 2016 – RUB 7.9 billion)

The allocation of resources from the federal budget to the FTP *Melioration* in 2017 was significantly increased and amounted to RUB 11.4 billion (in 2016 – RUB 7.4 billion).

From January 1, 2018, the implementation of the FTP *SDRT* and the FTP *Melioration* was terminated early by Decree of the RF Government No 1243, dated October 12, 2017, 'On the Implementation of Measures Envisaged in Federal Target Programs and Being Integrated in Separate Government Programs of the Russian Federation'. The measures envisaged in these two programs will be implemented in the framework of specific subprograms incorporated in the Government Program of Agriculture Development and Regulation of Agricultural Products, Raw Materials and Foodstuffs for 2013–2020¹.

Over the course of 2017, the Government Program was amended 5 times.¹ One of the latest innovations was the switchover, from January 1, 2018, to a project-based management principle, followed by yet another revision of the Government Program's structure. As a result, the Government Program now includes 10 subprograms: *Development of Those Sectors of the Agro-industrial Complex That Ensure Accelerated Import Substitution of the Main Types of Agricultural Products; Raw Materials and Foodstuffs; Promotion of Investment Activity in AIC; Technical Modernization of the Agro-industrial Complex; Export of the AIC's Products; Development of Agricultural Land Improvement Measures in Russia; Sustainable Development of Rural Territories; Management of Government Program Implementation; Creation of General Conditions for the Functioning of Sectors in the Agro-industrial Complex*. Besides, two separate subprograms were formally established: *Scientific and Technological Backing for the Development of Sectors in the Agro-industrial Complex* and *Development of the Raw-materials Base for Providing Light Industry with Quality Agricultural Raw Materials*. The latter encompasses the measures designed to support the production of flax, wool, etc., which previously had existed in the main as part of other subprograms. The succession of relevant measures is also typical of other subprograms.

In order to control the volatility of prices in the domestic market, the RF Ministry of Agriculture, by its Order No 185 dated April 19, 2017, approved a special methodology for calculating price floors and ceilings for grains, dried milk and butter for the purpose of launching public goods and buying interventions. By Order of the RF Ministry of Agriculture No 158 dated March 31, 2017, the price floor was set at which, in 2017–2018, government buying interventions should be launched, targeting the grain harvested in 2017. The Order came in force from July 1, 2017, and is to stay in force until July 1, 2018.

¹ As amended by Decrees of the RF Government No 396 dated March 31, 2017; No 902 dated July 29, 2017; No 1347 dated November 10, 2017; No 1544 dated December 13, 2017.

According to the Grain Market Overview released by the RF Ministry of Agriculture on its official website, the price floor was indeed reached, but no interventions took place.

The mechanisms designed to support the incomes of agricultural producers in 2017 demonstrated their weaknesses. First, they are built in such a way that they fail to guarantee purchases at a minimum price to all producers. Second, they cannot promptly respond to changes in the current situation: in face of the large harvest in 2017 relative to 2016, RUB 4.3 billion was allocated to the measures involving government interventions (in 2016 – RUB 6.9 billion). Third, the volume of funding to be allocated to the intervention was determined without taking into account the fact that in October 2017, the RF Ministry of Agriculture had accumulated debt to United Grain Corporation and other holders of grain stocks in the amount of RUB 3.8 billion.¹ For all these reasons, the size of the intervention fund was not increased in response to the increased crop yield: as of November 1, 2017 it was the same as in December 2016 – 4 million tons.

The RF Government was urgently trying to find some other support mechanisms. A draft of the RF Government Decree 'Rules for the Allocation, in 2017 – 2018, of Subsidies from the Federal Budget to JSK *Russian Railways* by Way of Compensating It for the Losses of Income Arising As a Result of Railway Transportation of Grain Cargoes without Charging Carrier Fees'. The volume of subsidized deliveries is estimated to be 3.2 million tons, to the value of nearly RUB 3 billion.² However, the Rules were approved only at the year's end, by Decree of the RF Government No 1595 dated December 20, 2017.

The pressure on the grain market could be lowered by measures designed to promote exports. However, little funding was allocated to the measures implemented in the Priority Project *Export of the AIC's Products* (support of the activity of the Federal Veterinary and Phytosanitary Supervision aimed at broadening the access, to foreign markets, of the products of Russia's AIC; creation and running of a center for conducting analysis of exports of the agro-industrial complex' products and research of potential foreign sales markets, etc.).

In late 2016, the Presidium of the Presidential Council for Strategic Development and Priority Projects gave high priority to the Development of International Cooperation and Exports Program, one part of which addressed the issue of expanding the national food exports support system. Support of exports is viewed by the RF Ministry of Agriculture as one of market regulation levers. This applies not only to grains, but also to other types of products with export potential. By Order No 524 dated October 19, 2017 of the RF Ministry of Agriculture, 7 programs aimed at promoting and increasing exports were approved, including the products of the sugar beet industry, the fats and oils industry, the poultry breeding sector, and grains. By way of supporting exports, one more priority project – *Export of the AIC's Products* – was incorporated in the Government Program's structure, to be funded from 2017 onwards. The project's goal is to boost the volume of agro-food exports to USD 21.4 billion by 2020. That project became an integral part of the Government Program of Agriculture Development and Regulation of Agricultural Products, Raw Materials and Foodstuffs for 2013–2020'. The project funding target for 2017 was RUB 745.9 million. The main measures envisaged in the project are as follows:

- consulting services, training of potential exporters;

¹ Grain Interventions Are To Be Postponed until 2018. URL: <http://grainboard.ru/news/zernovie-interventsii-otkladivayutsya-na-2018-god-379413>

² Grain Interventions Are To Be Postponed until 2018. URL: <http://grainboard.ru/news/zernovie-interventsii-otkladivayutsya-na-2018-god-379413>

- creation of a system for analyzing foreign markets for agricultural producers and exporters;
- development of regional sub-brands, their registration, and subsidizing of the cost of promoting the sub-brands on foreign markets;
- improvement of the quality control system for export products;
- support of business travels of importers;
- subsidizing, in part, of the costs of participation in fairs;
- setting up of 117 interdepartmental commissions for cooperation in trade, science and technology (between the RF and foreign countries).

To help promote the products of small agricultural businesses and small farms, it is intended to set up special export co-ops, authorized to represent the interests of their members before various organizations implementing export support programs (in order to help the co-op members to receive loans, insurance products; to participate in fairs and exhibitions, etc.) and ease their access to such products.

Besides, a Russian Export Center has been set up.¹ There, potential exporters can order market surveys of their products in those countries where they are planning to supply their products. Some of these services are provided free of charge. At present, the Russian Agency for Export Credit and Investment Insurance (EXIAR) is developing insurance instruments to support Russian export loans and investments in the agro-industrial sector, as well as financing instruments for agricultural exports in the framework of Eximbank of Russia, which is part of the Russian Export Center Group.²

To ease the market entry of Russian goods (including all commodity groups, and not only foodstuffs and agricultural produce), the umbrella fund *Made in Russia* has been registered. The state subsidizes the activities aimed at increasing Russian brand recognizability and thus promoting exports of agro-food products from the Russian Federation.

The RF Ministry of Agriculture has not created a special department charged with the task of promoting exports. Instead, an interdepartmental group for the development and support of exports of agricultural products was set up (hereinafter – IDG).³ A subordinated organization also exists. At present, sectoral programs of developing exports of the AIC's products are being elaborated.

The principal shortcoming of the existing government support system oriented to agricultural producers is the concentration of the bulk of subsidy within a limited group of enterprises.⁴ That the subsidy can benefit only selective big recipients is recognized as a negative practice by the lawmakers of all countries. In this connection, the developed countries have restricted the opportunities for receiving reimbursable government support.⁵

4.7.3. Food security

The official system of food security indices demonstrates an improvement of the situation in 2016–2017. Thus, the average consumption, disposable income, behavior of food prices, daily calorie intake, protein intake level, production volume, and dependence on imports, over

¹ URL: <https://www.exportcenter.ru>

² URL: http://www.ved.gov.ru/rus_export/financial_measures/state_specialized_russian_export_import_bank

³ URL: <http://mcx.ru/ministry/coordination-and-advisory/export-group/0>

⁴ Report of the Center for Strategic Research 'The Development Trends and Main Challenges of Russia's Agrarian Sector' (in Russian) URL: <https://www.csr.ru/wp-content/uploads/2017/12/Report-Agricultural-Sector-November-2017-Web.pdf>

⁵ Uzun V. Restriction of the Size of Subsidies Allocated to One Agricultural Producer: Its Necessity, Mechanisms, and Consequences // APK: Economics and Management, No 11, 2017, pp.12–31.

the period 2016–2017, all improved relative to 2014–2015.¹ The share of food imports in total retail turnover in 2017 was at its record low – see *Table 41*. The food security criteria for agricultural products envisaged in the Food Security Doctrine of the Russian Federation were all met, with the exception of dairy products.

Table 41

The share of food imports in RF retail food stocks, percent

	Q1	Q2	Q3	Q4	Year
2012	35	34	34	33	34
2013	36	35	35	36	36
2014	36	33	32	36	34
2015	29	26	27	30	28
2016	24	22	22	24	23
2017	23	21	22		

Source: Rosstat.

However, the index of economic access to food in 2017 was worse than in 2013, 2014, 2015, and in part in 2016. The consumption revival noted in 2016 (after its plunge in 2015) was estimated on the basis of budget surveys, and it is not confirmed by data on the physical volume of food purchases in 2017. Thus, a stable decline of food purchases was observed throughout the period from August 2014 to June 2017.² In June 2017, this index amounted to -13 percent relative to June 2012. In September, food purchases in comparable prices rose above the level of September 2016 to that of September 2015, while failing to reach the level of September 2014, let alone that of September 2013.

From 2014, the share of total household expenditure spent on food has been on the rise (*Fig. 49*).

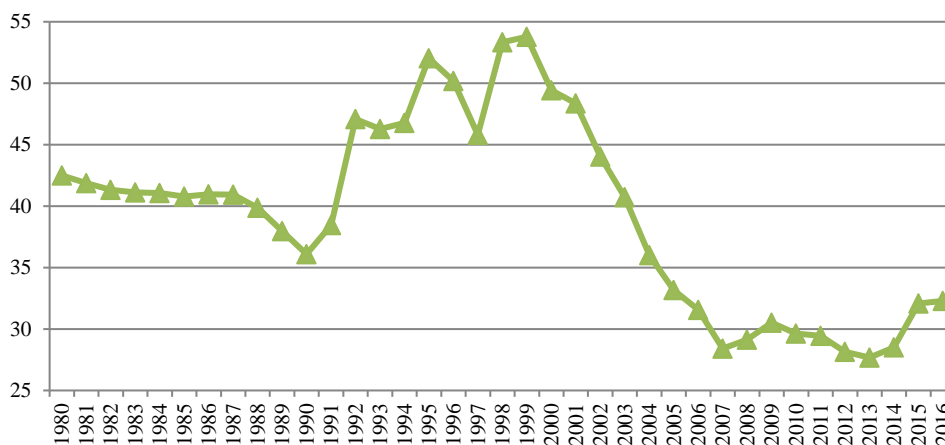


Fig. 49. Economic access to food – household food expenditure share (percent)

In rural families, the *share of total household final consumption expenditure spent on food increased from 41.8 percent in 2013 to 45.3 percent in 2016, and in urban families this index moved from 31.3 percent to 35.6 percent.* This growth was especially noticeable in the poorest

¹ As the final data relative to some food security indices for 2017 will be published in mid-2018, our estimates in this section are partly based on relevant data for 2016.

² It could have been assumed that the shrinkage of household purchases was offset by an increased production of individual households. However, the budget surveys conducted in 2016 (Rosstat) failed to demonstrate production growth at individual households.

families (first decile): from 48.2 percent in 2013 to 54.4 in 2016. Calorie intake in the first decile verged on starvation (2,045 kcal/day in 2016), while the Food and Agriculture Organization (FAO) defines hunger as consumption of 1,600–2,000 kcal/day, and the US Department of Agriculture – 2,100 kcal/day. This population group must be urgently protected by a government food assistance program. In order to raise the average annual food consumption level of the first decile (their current disposable income level preventing them from buying the recommended food basket) at least to that of the second decile, the government will need to spend RUB 144 billion. This represents a serious burden on the budget. Considering the limited potential of the federal and regional budgets, the high number of the needy, and the traditional non-transparency of income sources in many households, it becomes problematic to provide assistance to those who truly need it. It is obvious that the official household income data must be augmented/adjusted with due regard for the real household living standards of those who apply for government food assistance.

If the people cannot afford the recommended food basket, import substitution with Russian products can be justifiable only if the prices of Russian foodstuffs are not higher than those of their imported counterparts. Otherwise the orientation to Russian producers will reduce the economic access to food. According to the OECD estimates, over the period 2014–2016, Russia's population was buying food at prices that were on the average 10 percent higher than the prices in the world food market.¹ In this situation, in order to improve the economic access to food, it would be feasible to continue agriculture modernization, promote competition, lift the embargo on food products, and avoid linking government food assistance programs to Russian products alone. If this principle is not complied with, the artificial restrictions on the access to the Russian market of foreign food suppliers will reduce competition, create negative incentives for the reduction of domestic food prices, and thus undermine the country's food security.

The ruble's depreciation conduced to growth of food prices, as well as of the prices of other goods. However, the sharper growth trajectory displayed by food prices after the introduction of an embargo can be explained specifically as the upshot of artificial constraints on competition in the food market food. In *Fig. 50* it can be seen that, relative to August 2011, the growth patterns of prices across all groups of goods and services were practically the same as those of the prices of foodstuffs, and this situation lasted until June 2013. But from mid-2013 onwards, food prices began to grow at a faster rate, and this gap further increased after the introduction of the food embargo by Russia.

¹ Agricultural Policy Monitoring and Evaluation 2017. OECD, 2017.

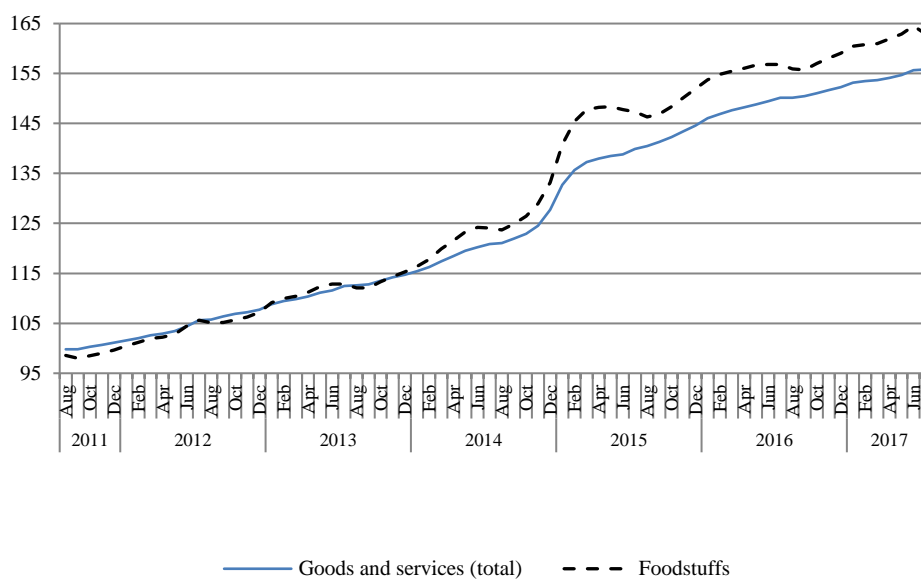


Fig. 50. The price index (January 2011=1)

4.7.4. Conclusions and recommendations

1. Growth in the agricultural sector. For the 5th year in a row, the agricultural sector has been demonstrating stable growth patterns of production, crop and livestock productivity, and labor productivity. The increasing output and productivity translated into Russia's lower dependence on imports, and rising exports of agricultural products and foodstuffs. However, in order to keep up the current growth rates, several issues will have to be properly dealt with:

- the need to increase the volume of both the traditional exports (grains, vegetable oils) and the exports of other products that are now in abundance in the domestic market (pork, poultry meat, sugar, potatoes, some types of vegetables, gourds, and melons);

- the need to ensure successful development of the grain, fats and oils, and sugar beet industries. The current pig and poultry breeding growth occurs alongside the plunging production indices of beef, milk, potatoes, and sheep breeding. The land and labor resources formerly used to develop those sectors are now largely wasting away. The attempts to halt the decline and boost growth in these sectors by way of launching mega-reform have failed;

- the need to replace by the output of small and medium-sized businesses the shrinking output of potatoes, vegetables, gourds, and melons, fruits and berries by individual households. The agricultural census 2016 revealed vast areas of arable lands being held by individual households; according to Rosstat data, they employ more than 4 million workers. As a rule, big businesses cannot properly handle such resources, they are abandoned, and this situation translates into a patchy agriculture development pattern across the country's territory. The use of this potential can become possible through active development of hi-tech farms specializing in the production of milk, meat cattle and sheep breeding, potato and vegetable production, and management of fruit orchards. In order to promote this process and properly fit small agricultural businesses and small farms into food value added chains, it will be necessary to change the current approaches to government support of agricultural businesses.

2. Changing the approaches to government support. The government agricultural policy must gradually switch over from the support of owners of selective big agricultural firms and

holdings to vigorous support, on a massive scale, of predominantly small and medium-sized agricultural businesses. The government's current policy has been focused on preferential treatment of selective big producers, resulting in their having obtained huge arable lands and multiple hired workers, while small and medium-sized businesses were being rapidly ousted from the agricultural market. This practice runs contrary to world historic experience and best practices of the developed countries, which have succeeded in creating a highly-performing agricultural sector. Legislative constraints on the size of subsidy allocated to one recipient represent a widespread international practice. The absence of such constraints in Russian legislation is the factor that prevents efficient development in the agricultural sector. This conclusion is in line with the general theory of government support of agriculture, which should be oriented not only to the existing purely economic issues, but also to sustainable social development of rural areas.

In the framework of measures designed to improve the mechanisms of government support it would be worthwhile to radically alter the principles employed in grain and dairy product pricing. The government public goods and buying interventions must be geared so as to maintain prices in the interval between their floor and ceiling, which will then translate in a similar behavior of the incomes of agricultural producers and household expenditure patterns. So far, this balance has not been achieved. Moreover, the currently applied pricing mechanism runs contrary to the principles established by the Federal Law 'On Agriculture Development'.

3. The launch of a government food assistance program addressing the most vulnerable population group. The main unresolved food security issue in this country is the low economic access to food for the low-income decile. The proper solution would be to introduce, as part of the food security doctrine, a threshold per capita income level ensuring economic access to food. Bringing personal income to the threshold level should be the principle index applied in estimating the country's food security. Food assistance should be provided to the poorest families, where the household monthly income per person is below the threshold level. It is necessary to adjust the methodology employed in identifying the needy, with due regard not only to the official income statements, but also to their actual living conditions. It is not feasible to 'tie' food assistance only to Russian product, because some of them are more expensive than their foreign counterparts.

4. Adjustment of the indices applied in estimating Russia's food security. Given that the existing set of indices does not reflect the index of economic access to food, the estimation methodology should be revised. In addition to the currently applied consumption indices, the estimations must rely on some other indices, e.g. the share of total household final consumption expenditure spent on food; the share of households where food expenditure patterns correspond to less than 75 percent of the food basket recommended by the RF Ministry of Healthcare; the number of regions where the share of households spending on food more than 50 percent of their total expenditure is above 30 percent. It is likewise feasible to prepare annual reports of the food security situation in the Russian Federation, where the current trends should be analyzed not only on a nationwide level, but also across different income groups and territories.