MONITORING OF RUSSIA'S ECONOMIC OUTLOOK:

TRENDS AND CHALLENGES OF SOCIO-ECONOMIC DEVELOPMENT

No. 4(42) March 2017

Monitoring has been written by experts of Gaidar Institute for Economic Policy (Gaidar Institute), Russian Presidential Academy of National Economy and Public Administration (RANEPA) and Russian Foreign Trade Academy of the Ministry of Economic Development of Russia.

Monitoring of Russia's Economic Outlook: trends and challenges of socio-economic development. 2017. No. 4 (42). March / E. Avraamova, V. Gurevich, A. Knobel, D. Loginov, A. Mamedov, A. Firanchuk, E. Fomina, M. Khromov, S. Tsukhlo. Edited by: V. Gurevich, S. Drobyshevsky, P. Kadochnikov, V. Mau, and S. Sinelnikov-Murylev; Gaidar Institute for Economic Policy, Russian Presidential Academy for National Economy and Public Administration, Russian Foreign Trade Academy. 28 p. http://www.iep.ru/files/text/crisis_monitoring/2017_4-42_March_eng.pdf

MAIN TRENDS AND CONCLUSIONS

V.Gurevich

Two sufficiently high profile projects added an element of excitement to the economic landscape of the past few weeks, although they differed considerably in terms of their degree of elaboration. One of these projects was announced by the RF Ministry of Finance, while the second – by the RF President and the Moscow Mayor.

From April onward, the RF Ministry of Finance will begin to issue easily available and relatively profitable state-insured bonds for individual purchase. It has already been noted that these securities compare most favorably with bank deposits. The face value of the planned bond issues is rather modest, because the Ministry apparently intends to put people's attitude towards such initiatives to the test. If the response is positive, further bond issues will be launched on a larger scale. In point of fact, the real objective of this test is the State's attitude towards its own promises, because the State has a long history of failing to honor its obligations – especially to individuals. Judging by the recent freeze of individual pension savings, the State has so far failed to break with this bad tradition. It is not improbable that the zero-rate weekly inflation index registered in Russia in late February (which had never been seen at the end of February) is a sign that Russia has indeed begun entering a protracted period of low and stable price inflation, which is one of the fundamental preconditions for these financial obligations to be honored.

The second project is also directly concerned with the people, namely the 1.6 million Muscovites inhabiting the 8,000 5-storey walkups earmarked for demolition, to be replaced by new dwellings. The scale and intricacy of this project exceed those of the biggesr-scale oil and natural gas transportation projects. Besides, the housing construction project falls in the zone of social interests, which is much better understood and appreciated by any layman. The replacement of so many 'dilapidated', in the words of the Moscow Mayor, houses by brand-new ones will certainly entail a rise in demand for goods and services in allied industries. The expected increase in demand would be even more impressive if the project is simultaneously launched not only in the capital city, but in Russia's other regions as well: the country as a whole definitely has at least as many derelict houses of this kind as Moscow does. Although it is highly unlikely that the inhabitants of the 5-storey walkups to be demolished will be resettled in business class apartments, it is really impossible at this point to estimating the true cost of the project. The cost of implementing it in Moscow will almost certainly exceed the Rb 2.5–3 trillion estimate released by the authorities; moreover, it apparently does not include the cost of dismantling and replacing the existing urban communications and underground structures, as well as other elements of the infrastructure. Obviously, the project will be primarily funded from the city budget (it is much less obvious with regard to Russia's other regions – when and if their turn comes), which still looks rather healthy.

As far as the federal budget is concerned, experts who have examined its implementation in 2016 have come to the opinion that the said budget can hardly be called 'a development budget', because expenditure on human capital and infrastructure has been persistently cut down. Although higher

than in 2015, the budget deficit (3.4% of GDP) was nevertheless lower, by 0.3% of GDP, than the budget deficit planned in the final version of the law. In spite of the persistent plunge of oil and gas revenues, the decline in aggregate revenues did not exceed 0.7% of GDP due to a notable increase in non-oil and gas revenues. In 2016, quite unexpectedly, federal budget spending went up by 0.3% GDP, primarily due to the additional allocation of Rb 740m to national defense.

According to our authors, 2015 and 2016 saw a *de-facto* weakening of the federal budget's dependence on the situation on the global energy market: the share of oil and gas revenues steadily declined from 51% in 2014 to 43% in 2015 to 35% in 2016. However, this downward trend can be largely explained by the considerable reduction in the volume (and share) of oil and gas revenues and the shrinking share of the oil and gas sector in GDP caused by the slide in oil prices, and cannot be attributed to the diversification of the RF economy's structure.

Our authors note that the general decline in the value of Russian exports in 2016 (to 83% of its value in 2015) was mainly caused by a considerable drop in fuel exports. The share of fuel in total exports declined from 70% in 2014 to 63% in 2015 to 58% in 2016. On the whole, in 2016 exports did drop (in value terms, while the physical volume of many exports increased); however, in H1 2016 their volume became practically stabilized. As regards imports, 2016 saw practically no decline; moreover, in H2 2016 imports even increased on the same period of 2015. On the whole, it can be said that in 2016, both exports and imports became stabilized to some extent.

As far as Russian industry is concerned, business surveys regularly carried out by Gaidar Institute for Economic Policy indicate that positive expectations are not only very much alive in its midst, but are actually on the rise. February 2017 data demonstrate that such indicators as demand, output, stocks, and investment plans all point to positive expectations. According to the authors of the corresponding IEP study, these results do not seem to be accidental. For example, the surveyed enterprises are becoming more satisfied with their sales performance, and also more optimistic in their sales forecasts. In the first months of 2017, there has been a sharp reduction in the negative impact of the factor of 'vagueness of the current economic situation and its prospects'. On the other hand, the 'low demand for exports' factor has come into 3rd place (among the 17 factors that the respondents believe to produce a negative impact on industry). It is noteworthy that the appraisal, by the surveyed enterprises, of the influence of the ruble's exchange rate on their current state of business was far from orthodox: in early 2016, it was the weak ruble that held 3rd position on the list of negative factors (noted by 36% of enterprises). On the contrary, the strengthening of the ruble, which took place in late 2016 and early 2017, 'was applauded by Russian industry'.

It should also be noted that nowadays, when enterprises have begun to exit the crisis and are becoming more investment-ready, they are more wary of their financial constrains. There has been an increase in the number of enterprises lamenting about their shortage of circulating assets (4th place on the list of negative factors), and also about the high cost of borrowed funds and their shortage. However, loans have stayed at the bottom of the list (9th and 13th places respectively).

In 2016, the situation in retail lending was characterized by the fact that the notable growth in retail loans occurred entirely due to housing mortgage

lending. The shift, in the structure of debts, towards cheaper and longer-term home purchase loans stabilized the debt burden on citizens' incomes. In 2016, this burden amounted to 9.6% of the disposable income of households (same index as in 2015). Over the course of 2016, personal income in nominal terms increased by 0.5%, to Rb 50.0 trillion. Compulsory credit payments to banks (including interest payments) amounted to Rb 4.6 trillion, approximately the same as in 2015.

Nevertheless, housing mortgage lending's contribution to the disposable income of households remained negative. In 2016, the interest payments to banks on retail loans amounted to Rb 1.8 trillion, while accounts payable rose by a mere Rb 0.2 trillion. As a result, in 2016 bank loans were responsible for a Rb 1.6 trillion decline in the aggregate budget of households, and amounted to 4.2% of personal consumption expenditures. The lending market's negative contribution to the budget of households in 2014–2015 was approximately on the same level as in 2016. In the years that can be called 'the period of lending boom' (2011–2013), the positive contribution of bank loans amounted to just 2.8% of personal consumption expenditures.

The attitude of the population to the change in the economic situation can be determined, among other things, on the basis of the IEP's regular monitoring of social feelings. According to the latest round of social feelings monitoring (November 2016), 53% of the respondents noted a worsening in the state of the economy (either slight or considerable), 40.9% believed that the situation was stable, and 3.7% saw some improvements.

However, the specific estimates heavily depend each respondent's field of activity. The most negative assessments of the situation came from respondents engaged in industry and the construction sector. The most positive outlooks were voiced by respondents from the ranks of the power structures, and those working at state and municipal government institutions. It is the latter who most frequently estimate the economic situation to be stable, because they more rarely than the other population categories experience salary cuts less, and are more confident that will not happen to them.

1. THE EXECUTION OF THE FEDERAL BUDGET FOR 2016

A.Mamedov, E.Fomina

The RF federal budget for 2016 was executed with a deficit of 3.4% of GDP. This figure is significantly higher that the corresponding index for 2015 (2.4% of GDP), but still lower than the projection in the most recent version of the Law on the Federal Budget for 2016 (3.7% of GDP). The plunge of total federal budget revenue did not exceed 0.7 p.p. of GDP (as compared with 2015) due to the increased non-oil and gas revenue component. The year-end expenditure for 2016 jumped by 0.3 p.p. of GDP, due in the main to the additional allocation, in November, of Rb 739.7bn to national defense.

Revenue and Expenditure: General Estimates

As demonstrated by the year-end results of 2016, RF federal budget revenue amounted to 15.7% of GDP, which is 0.7 p.p. of GDP below the corresponding figure for 2015 (the plunge did not exceed 1.5% in nominal terms – see *Table 1*). The downward movement of aggregate federal budget revenue over the course of last year was caused by the radical shrinkage of its oil and gas component. By the year-end 2016, the amount of oil and gas revenues shrank by 17.4% even in nominal terms, and by 1.4 p.p. as a percentage of GDP. At the same time, an even deeper plunge was avoided thanks to the noticeable growth in the amount of non-oil and gas revenues: over 2016, that component increased by 0.7 p.p. of GDP, and by 10.5% in nominal terms. The improved dynamics of the non-oil and gas revenues in the federal budget had to do in the main with the partial privatization of PAO *Rosneft* (approximately Rb 700bn).

Federal budget expenditure executed over 2016 amounted to 19.1% of GDP, which is 0.3 p.p. of GDP above the corresponding index for 2015 (in nominal terms, it increased by 5%). This growth in expenditure was contributed to by an increase in both interest and non-interest spending under a number of budget items. The growth of expenditures related to public debt servicing (+19.8%) resulted from the significantly increased domestic debt servicing costs (+28%) coupled with the low rate of growth demonstrated by the foreign debt servicing costs (+1%). While over the entire year-long period of 2015 Russia's domestic debt had shrunk by 1.1%, over the same period of 2016 it gained 4% in nominal terms. The growth rate of budgeted interest on public debt turned out to be much higher than that of debt, i.e., the interest rates jumped.

In 2016, non-interest expenditure gained 4.6% in nominal terms and 0.3 p.p. of GDP. This increase in government spending was related to the amendments to the Budget Law introduced in November 2016, resulting in their total growth by Rb 304bn[1] (see below for more details).

The year 2016 saw a continuation of the increase in the federal budget deficit, which climbed to 3.4% of GDP, thus overshooting its 2015 level by 1.0 p.p. of GDP (in nominal terms, the budget deficit grew by more than 50%). The main source of deficit financing was the Reserve Fund, which accounted for

1 Federal Law on the Federal Budget for 2016, as amended on 22 November 2016, No.397 FZ.

covering about 70% of the deficit. As a result, over the course of 2016, the Reserve Fund dwindled by 59% (by 73%, if exchange rate changes are taken into account).

Table 1

MAIN PARAMETERS OF THE FEDERAL BUDGET FOR 2015–2016

	2015 (actual) % of GDP	2016 Federal Budget Law* % of GDP	2016 Federal Budget Law, as amended** % of GDP	2016 (actual) % of GDP	Deviation	
					nominal growth rate, %	p.p. of GDP
Revenue, including:	16.4	17.5	16.1	15.7	-1.5	-0.7
oil and gas revenues	7.0	7.7	5.8	5.6	-17.4	-1.4
non-oil and gas revenues	9.4	9.8	10.4	10.0	+10.5	+0.7
Expenditure, including:	18.8	20.5	19.8	19.1	+5.1	+0.3
interest	0.6	0.8	0.8	0.7	+19.8	+0.1
non-interest	18.1	19.7	19.0	18.4	+4.6	+0.2
Surplus (deficit)	-2.4	-3.0	-3.7	-3.4	+50.8	+1.0
primary deficit	-1.7	-2.2	-2.9	-2.7	+63.9	+1.0
non-oil and gas deficit	-9.4	-10.7	-9.4	-9.1	-0.3	-0.3
For reference: GDP at current prices	83,233	78,673	82,815	85,881	-	-
Price of Urals crude, USD per barrel	51.2	50.0	41.0	41.9	-	-

* Federal Law of 14 February 2015, No.359-FZ, 'On the Federal Budget for 2016'.
** Ibid, as amended on 22 November 2016, No.397-FZ.
Source: RF Federal Treasury, Rosstat, own calculations.

At the same time, the non-oil and gas deficit kept on decreasing, thus continuing the downward trend that began as far back as 2015: in 2016, this deficit amounted to 9.1% of GDP, which represented a 0.3 p.p.-of-GDP drop on 2015. In 2015–2016, the dependence of the federal budget on the situation in global energy markets was *de facto* steadily declining: the share of oil and gas revenues in total federal revenue dropped, from 51% in 2014, to 43% in 2015, to 35% in 2016. However, this fledging trend is strongly related to a considerable shrinkage of Russia's oil and gas revenues and, correspondingly, of their share of GDP, and to a reduction in the oil and gas sector's share thereof in a time of slipping global oil prices. Therefore, this downward trend can be seen only as a very formal indicator of the Russian economy's structural diversification[1].

The Characteristic Features of the Execution of the Federal Budget for 2016

In November 2016, the Federal Law on the Federal Budget for 2016 was notably amended[2]. In contrast with previous years, the adopted budget law

1 While Russia's GDP grew by 3.2% in nominal terms in 2016, budget growth under Mineral Extraction amounted to a mere 1.4%, which resulted in a 0.2 p.p. reduction in this function's share of GDP.

2 Federal Law of 22 November 2016, No.397-FZ.

was changed only once, at the very end of the year. This specific feature of the budgetary process in 2016 primarily resulted from the authorities' decision that the process of adopting these amendments should be concurrent with that of discussing and passing the law on the next federal budget, for 2017–2019, by the newly elected legislators.

The adopted amendments redistributed funds among various expenditure items, and increased total expenditure by Rb 304bn. This growth in expenditure was related to increased spending on *National Defense* (+Rb 740bn) and *Social Policy* (+Rb 177bn). The former increased primarily due to the allocation of additional monies to companies belonging to the defense complex, earmarked for the repayment of loans due to be redeemed in 2016–2018. As a result of the allocation of the entire lump sum in 2016, it can be expected that the corresponding expenditure function will be reduced in 2017–2018. The expenditure on *Social Policy* largely rose due to the increased funding allocated to the pension system. At the same time, the new amendments resulted in shrinkage of some of the budget functions. The most radical cuts were observed with regard to the allocations to *National Economy* (-Rb 427bn).

With due regard for the newly introduced amendments, the revenue projection was likewise adjusted – from 17.5% to 16.1% of GDP, as a result of shrinkage of its oil and gas component relative to the reduced price of Urals projection from $50 to $41 per barrel. The upshot was that the federal budget deficit projection increased from 3.0% to 3.7% of GDP.

Tax-generated Revenues

The parameters of the execution of the 2016federal budget on its revenue side are presented in *Table 2*. When analyzing the movement of the actual amount of tax receipts over that period, we noted their plunge by 1.1 p.p. of GDP as compared with the same period of 2015.

Table 2

TAX RECEIPTS IN THE FEDERAL BUDGET OVER 2015–2016

	2015 (actual)	2016 (actual)	Deviation	
	% of GDP	% of GDP	nominal growth rate, %	p.p. of GDP
Tax-generated revenues, total, including	14.3	13.2	-4.6	-1.1
tax on profit of organizations	0.6	0.6	-0.1	0.0
VAT on goods produced in RF territory	2.9	3.1	+8.5	+0.2
VAT on goods imported into RF territory	2.1	2.2	+7.2	+0.1
Excises on goods produced in RF territory	0.6	0.7	+19.8	+0.1
Excises on goods imported into RF territory	0.1	0.1	+15.2	0.0
MRET	3.8	3.3	-9.4	-0.5
Revenues generated by foreign trade (customs duties)	4.0	3.0	-20.9	-0.9

Source: RF Federal Treasury, own calculations.

The shrinkage of tax receipts was caused in the main by the corresponding plunge of revenues generated by foreign trade, not only as a percentage of GDP, but also in absolute terms. In nominal terms, their plunge amounted to nearly 21%, or 0.9 p.p. of GDP, largely due to the reduced export duties on oil and petroleum products (by 32% in nominal terms). The loss of tax on mineral resources extraction in nominal terms was as high as 9.4%, or

0.5 p.p. of GDP. Overall, the shrinkage of oil and gas revenues was caused by a significant plunge in oil prices[1], which was only partly offset by the ruble's weakening relative to the US dollar[2]. At the same time, the physical volume of fuel and energy exports to the countries of far abroad, according to operative data released by the RF Federal Tax Service[3], gained 3.2%, while the corresponding index for the CIS member states, on the contrary, lost 8.7% (meanwhile, in 2016, the share of the CIS member states in the total physical volume of Russia's exports of oil and petroleum products amounted to 5–7%, and that in natural gas exports – to 17%).

In 2016, the cap for export duty on oil stayed at 42%, while the basic rate of tax on mineral resources extraction was raised from Rb 766 to Rb 857 per tonne. These legislative alterations, which effectively ran contrary to the logic of the tax maneuver, also conduced to lower federal budget losses.

The receipts of VAT on goods produced in RF territory increased by 8.5% in nominal terms, or by 0.2 p.p. of GDP; those generated by VAT on imports gained 7.2%, or 0.1 p.p. of GDP; and receipts of excises on goods produced in RF territory gained 19.8%, or 0.1 p.p. of GDP.

Expenditure

Table 3 demonstrates the by-function distribution of federal budget expenditure over the period 2015–2016. Its surge in 2016 was caused in the main by the increased allocations to national defense by 0.6 p.p. of GDP (or by 18.7% in nominal terms) relative to the same period of 2015. The expenditures on *Social Policy* over 2016 gained 0.2 p.p. of GDP (or 7.6% in nominal terms). This happened largely due to the increased funding allocated to the pension system (growth by 11% in nominal terms).

At the same time, some other budget functions demonstrated a notable shrinkage. The expenditures on *National Economy* were reduced by 0.1 p.p. of GDP (or by 1% in nominal terms). The allocations to *National Security and Law-enforcement Activity* were likewise reduced – by 0.2 p.p. of GDP (or by 3.4% in nominal terms).

The allocations, as a percentage of GDP, to the other major budget functions in 2016 remained practically unchanged.

Table 3 also presents data on the execution of federal budget expenditure over the period 2015–2016 relative to the planned annual targets[4]. Overall, it can be noted that in 2016, the budget execution parameters amounted to 98.7% of the annual budget target, which is 0.2 p.p. above the corresponding index for 2015. The most notable improvement occurred with regard to the following budget functions: Government debt servicing (9.6 p.p.) and *National Security and Law-enforcement Activity* (1.6 p.p.). However, some other budget functions demonstrated significant deviations from their planned targets, namely *Physical Culture and Sports* (by 9.1 p.p.), *Culture and Cinematography* (by 3.5 p.p.), *Housing and Utilities Sector* (by 2.5 p.p.), and *Nationwide Issues* (by 1,5 p.p.). An analysis of the activity of chief budget funds

1 Over 2016, the average price of Urals was $41.9 per barrel vs. $51.2 per barrel over the corresponding period of 2015.

2 The average ruble-to-USD exchange rate over 2016 was Rb 66.9 vs. Rb 60.7 over the corresponding period of 2015.

3 http://www.customs.ru/index.php?option=com_newsfts&view=category&id=53&Itemid=1981

4 2016 Federal Budget Law, as amended on 22 November 2016, No 397 FZ.

managers (CBFMs) also revealed some problems from the point of view of both the degree of expenditure implementation (relative to the annual target) and the evenness of budget execution over the year.

Table 3

FEDERAL BUDGET EXPENDITURE OVER 2015–2016
(BY-FUNCTION DISTRIBUTION OF FEDERAL BUDGET EXPENDITURE)

	2015 (actual) % of GDP	2016 (actual) % of GDP	Deviation		Budget execution, relative to approved annual budget projections		Deviation of implementation of annual targets in 2016 from that in 2015, p.p.
			nominal growth rate, %	p.p. of GDP	2015, %	2016, %	
Expenditure, total, including:	18.8	19.1	5.1	0.3	98.5	98.7	+0.2
Nationwide issues	1.3	1.3	-2.0	-0.1	98.6	97.1	-1.5
National defense	3.8	4.4	18.7	0.6	99.8	99.2	-0.6
National security and law-enforcement activity	2.4	2.2	-3.4	-0.2	98.8	100.4	+1.6
National economy	2.8	2.7	-1.0	-0.1	96.5	95.9	-0.6
Housing and utilities sector	0.2	0.1	-50.0	-0.1	98.0	95.5	-2.5
Environment protection	0.1	0.1	26.9	0.0	99.4	99.6	+0.2
Education	0.7	0.7	-2.1	0.0	99.2	99.1	-0.1
Culture and cinematography	0.1	0.1	-2.9	0.0	99.8	96.3	-3.5
Healthcare	0.6	0.6	-1.9	0.0	97.8	97.6	-0.2
Social policy	5.1	5.3	7.6	0.2	99.6	99.7	+0.1
Physical culture and sports	0.1	0.1	-18.3	0.0	97.8	88.7	-9.1
Mass media	0.1	0.1	-6.7	0.0	99.9	99.9	0.0
Government debt servicing	0.6	0.7	19.8	0.1	87.5	97.1	+9.6
Interbudgetary transfers	0.8	0.8	-1.5	0.0	99.7	99.8	+0.1

Source: RF Federal Treasury, own calculations.

***

The role of the 2016 federal budget in the achievement of the planned socioeconomic policy goals is rather controversial. It cannot be called a *development budget*, because its 'productive' functions related to human capital and infrastructure were underfunded (in line with the stable trend observable over recent years). At the same time, the budget for 2016 could hardly be called a stabilization budget, either, because of the presence of a stable deficit (both total and primary deficit); to cover it, a substantial portion of the Reserve Fund was spent; the expenditures related to public debt servicing likewise notably increased. However, it should be understood that there are no simple recipes for dealing with that problem – given, moreover, the less than optimal structure of the previously assumed government spending obligations coupled with the currently unfavorable economic situation.

2. FOREIGN TRADE IN 2016: STABILIZATION OF EXPORTS AND IMPORTS

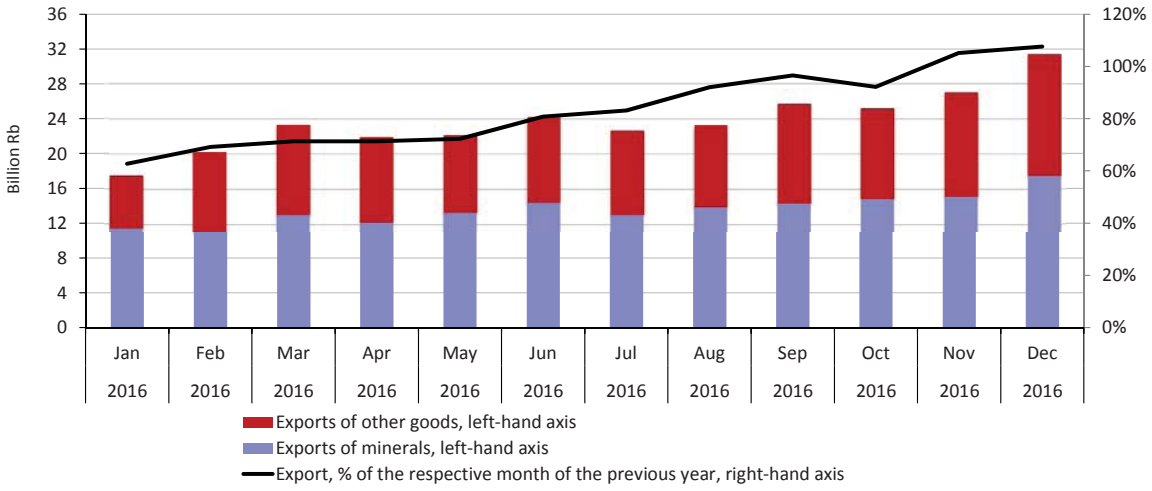
A.Knobel, A.Firanchuyk

Generally, according to the 2016 results fuel exports dramatically fell, non-fuel exports decreased somewhat, while imports stopped falling. However, H2 2016 (as compared to the similar period of 2015) showed slightly different results. Exports virtually stopped falling, while imports even began to grow. In 2016, in the geographic pattern of trade turnover the dynamics of the previous years prevailed: the share of the EU countries and Ukraine was diminishing, while that of the Eurasian Economic Union, China and the US was growing.

In 2016, exports kept falling as compared to the 2015 level (*Fig. 1*). In monetary terms, they fell to $285.5bn (83.1% and 57.3% against the levels of 2015 and 2014, respectively). The main contribution to the negative dynamics was made by fuel (FEACN code: 27) which accounted for about 90% of the total monetary decrease in exports ($50.6bn out of $58.1bn). Concurrently, the monetary volumes of exports of mid- and highly processed non-primary products decreased: exports of goods which were not related to mineral fuel, oil and gas fell to $120bn (94.2% and 79.1% against the levels of 2015 and 2014, respectively). According to the 2016 results, the share of fuel exports in the aggregate exports amounted to 58% against 63% and 70% in 2015 and 2014, respectively.

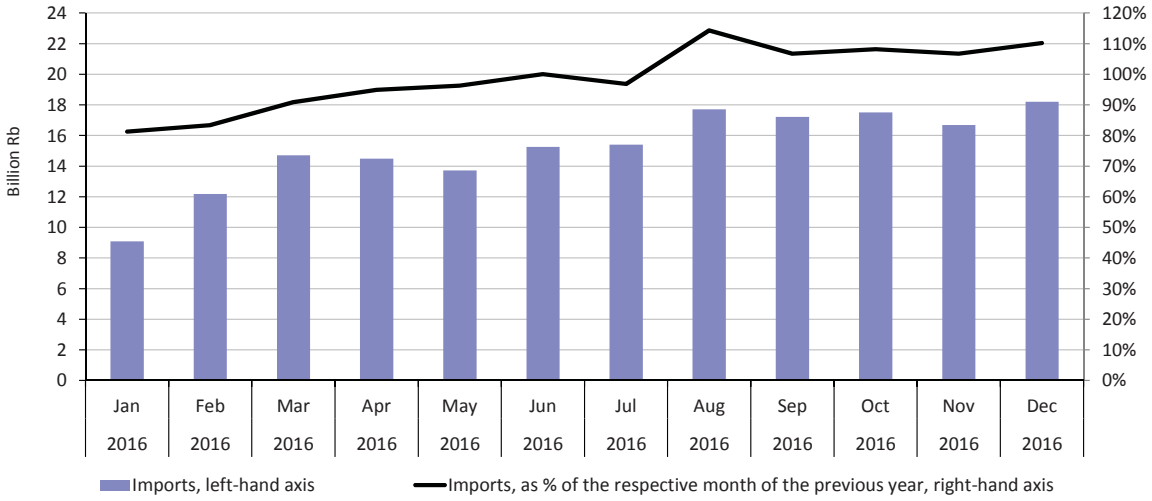
In H2 2016, exports virtually stabilized having amounted to 96% as compared to H2 2015. As compared to H2 2015, fuel exports and non-fuel exports amounted to 91% and 104%, respectively.

In 2016, imports in monetary terms did not virtually change as compared to the previous year, having amounted to $182.3bn. (99.7% and 63.6% against the levels of 2015 and 2014, respectively). In H2 2016, imports showed growth up to 107% against the level of July–December 2015 (*Fig. 2*).



Source: own calculations on the basis of the data of the Federal Customs Service of the Russian Federation.

Fig. 1. Dynamics of Russia's exports in 2016

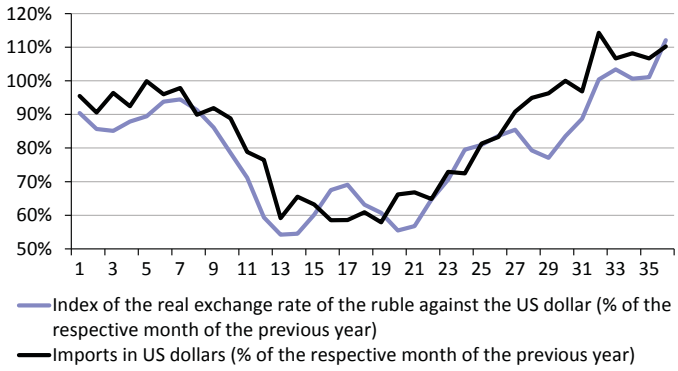


Source: own calculations on the basis of the data of the Federal Customs Service of the Russian Federation.

Fig. 2. Dynamics of Russia's imports in 2016

The Ruble Exchange Rate

The ruble exchange rate still largely determined Russia's import volumes[1]. In 2014-2016 period, correlation of the index of the imports' monetary volumes (as % of the respective month of the previous year) with the index of the real exchange rate of ruble against the US dollar (as % of the respective month of the previous year) amounted to 0.87, while the correlation with the index of the nominal exchange rate of the ruble against the US dollar, to 0.91. The only instance of significant differences in the dynamics of the ruble exchange rate and imports took place in spring 2015 when imports did not react to a short-term appreciation of the ruble exchange rate (*Fig. Fig. 3. Dynamics of imports and the ruble real exchange rate in the 2014–2016 period*).



Note: The Central Bank of the Russian Federation: The Main Derived Indices of the Ruble Exchange Rate Dynamics.

Source: own calculations on the basis of the data of the Federal Customs Service of the Russian Federation and the Central Bank of Russia.

Fig. 3. Dynamics of imports and the ruble real exchange rate in the 2014–2016 period

A similar trend prevailed in January 2017, too. So, in January 2017 the index of the real exchange rate of the ruble against the US dollar rose by 31% as compared to January 2016, while the volume of imports from far-abroad countries increased by 36% as compared to January 2016.

Comparison of the dynamics of monetary (USD) volumes of exports, except for fuel, and the index of the real exchange rate of the ruble against the US dollar in the 2014-2016 period is shown in *Fig.4*. The data point to the positive correlation of those values: 0.6 (a similar correlation for exports of machinery,

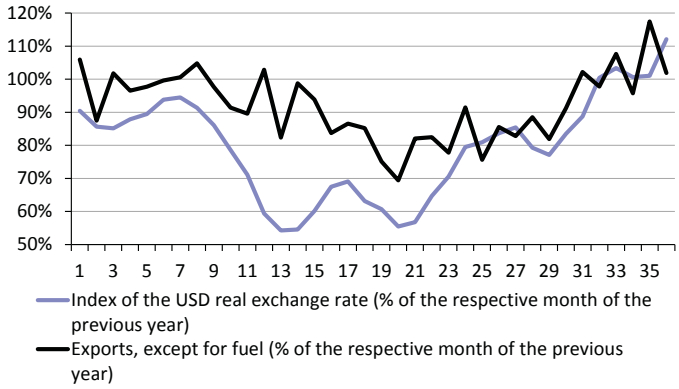
1 To compare the dynamics of imports from far-abroad countries with the dynamics of the ruble nominal exchange rate, see: A. Knobel. The Foreign Trade: A Drop in Exports is Justified by a Decrease in Trade Surplus // Economic Development of Russia. 2016. No.5. pp. 16–18.

equipment and transport vehicles (FEACN codes 84-92) is equal to 0.3). Such a result takes place due to prevalence of the negative effect of the price over the positive effect of the quantity (*Table 1*).

Export Prices

As seen from *Table 1,* as regards the majority of large export commodity groups growth in exports' physical volumes failed to make up completely for the decrease in export prices.

A 23.2% decrease in fuel commodity exports can be explained by a dramatic drop (14–44%) in export prices with growth (except petrochemicals) of 4%-13% in physical volumes. Supplies of petrochemicals fell by 9% (*Table 1*) with the pattern of that commodity group modified: exports of light petrochemicals grew, while residual oil exports decreased[1].



Note: The Central Bank of the Russian Federation : The Main Derived Indices of the Ruble Exchange Rate Dynamics.

Source: own calculations on the basis of the data of the Federal Customs Service of Russia and the Central Bank of Russia.

Fig. 4. Dynamics of non-fuel exports and the real exchange rate of the ruble in the 2014–2016 period

In 2016, despite a reduction in grain and meslin prices (-10%) growth in the physical volumes of exports (19%) permitted to increase by 7% exports' monetary volumes. Generally, in monetary terms exports of the *food and agricultural primary products* commodity group rose by 5.3%.

The main factor behind negative dynamics of chemical produce exports (a 18% decrease) was a drop in export prices on all the types of mineral fertilizers (22–26%), petrochemicals and gas chemical products (artificial rubber: a 11% drop). In addition to the above, there was a decrease (-15%) in physical volumes of exports of potassic fertilizers.

The effect caused by a drop in prices on wood and paper products exceeded somewhat growth in physical volumes of exports of timber, plywood and chemical wood pulp. As a result, the monetary volumes of that commodity group's exports did not virtually change (-0.5%).

The monetary volume of exports of metals fell considerably (-12%). In 2016, export prices on ferrous metals were 6–12% lower than a year before. Prices on copper, nickel and aluminum fell by 14–19%. Also, there was a drop in volumes of nickel and copper export supplies.

So, a decrease in monetary volumes of exports of energy commodities and chemical produce (FEACN codes: 25−40) is related to deterioration of the pricing situation. Other mid-processed commodities (wood, rawhide, base metals and articles manufactured thereof) demonstrated negative dynamics caused by falling export prices. There was a drop in physical volumes of exports of paper, cast iron, copper and nickel.

The monetary volumes of exports of machinery, equipment and transport vehicles (FEACN codes: 84–90) fell by $1.09bn (or 4.3%) to $24.3bn. Exports of the *other commodities* group (FEACN codes: 91–97) did not virtually change (+0.2%). The scope of exports of the classified commodity groups

1 For more details on changes in the pattern of exports of petrochemicals, see A. Kaukin, A. Knobel and A. Firanchyuk. The Consequences of Implementation of the Tax Maneuver: Production of Oil and Petrochemicals // Economic Development of Russia. 2016. No. 12. Pp. 48–52.

(arms and flying vehicles) cannot be estimated: those exports are partially included in the *machinery and equipment* commodity group and the *other commodity* group.

In the machinery and equipment group, as regards all the commodity groups under review (fuel elements, LCD TV-sets, combustion turbines, carriages and cars), except for household washing machines there was a drop in the monetary volumes of exports both due to a decrease in prices (except for cars) and exports' physical volumes.

Amid general drop in exports, there was fast growth of 62% in exports of household washing machines (up to $181.4m) mainly to Poland (21%), Kazakhstan (21%), Ukraine (15%) and Belarus (10%).

Import Prices

As seen from *Table 2,* there is no common dynamics for large import commodity groups.

Among commodity groups included in the food and agricultural primary products group, multidirectional changes without a specific trend being formed were observed. An aggregate drop (-5.9%) in monetary volumes amounted to $24.9bn. There was sudden growth (52%) in the monetary volumes of imports of cigarettes and a decrease (28%) in the monetary volumes of imports of meat.

The aggregate monetary volume of imports of medicines and chemical produce (FEACN codes: 28–40) did not virtually change, having amounted to $33.8bn (-0.5%).

Imports of ferrous metals fell, while those of steel pipes grew.

There was moderate growth (5.5%) in the monetary volumes of imports of machinery, equipment and transport vehicles (FEACN codes: 84–90). It is to be noted that there was substantial growth in import prices on trucks and cars and a decrease in the physical volumes of car imports.

The Geographical Pattern of Trade Turnover

In 2016, a trend of reduction of the share of the EU (and the European Free Trade Association) and Ukraine in Russia's trade turnover – that trend prevailed over the past few years – continued, while the share of member-state of the Asia-Pacific Economic Cooperation and the Eurasian Economic Union increased (*Table 3*).

The most substantial drop took place in the share of the EU since 2013 (6.8 p.p.) which situation is largely related to the dynamics of prices on energy resources which account for a greater portion of the trade turnover. It is to be noted that as compared to 2013 the share of the EU fell in Russia's non-fuel sector and imports by 2.8 p.p. and 4.0 p.p., respectively.

The share of Ukraine in Russia's trade turnover fell by more than 50%: from 4.7% in 2013 to 2.2% in 2016. It decreased almost simultaneously in imports (-2.8 p.p.), fuel exports (-2.4 p.p.) and other exports (-2.9 p.p.).

The positive dynamics of member-states of the Asia-Pacific Economic Cooperation (+5.2 p.p.) in the trade turnover can be explained by growth in the share of China (+3.7 p.p.) and the US (+1.0 p.p.). It is to be noted that the shares of China and the US rose as well in fuel imports and exports and non-fuel exports.

The dynamics of trade turnover with the Eurasian Economic Union (+0.9 p.p.) can be entirely explained by growth in the share of Belarus (+0.9 p.p.).

In October 2016, a free-trade agreement between the Eurasian Economic Union and Vietnam came into effect[1]. In 2016, the share of Vietnam rose to 0.8% (+0.3 p.p. and +0.08 as compared to 2013 and 2015, respectively). If in 2014 and 2015 exports to Vietnam rose by 6% and 26%, respectively (amid general reduction of Russia's exports), in 2016 there was a substantial drop in exports (25%). Growth in Vietnam's share in 2015 can be explained by substantial growth of 20% in imports from that country. The trade balance with Vietnam got worse from -$210m in 2015 to -$1,092bn in 2016.

In 2016, the British imports and exports fell by 7.8% and 7.1%, respectively. As regards imports, their index is below the average one (a 0.3% decrease), while as regards exports, their index is above the average value (-16.9%). As the Brexit procedure has not begun, yet, it is premature to speculate on its effect on the trade with Russia. The trade turnover could have been affected by substantial depreciation of the GBP exchange rate against euro due to the results of the referendum on Britain's exit from the EU[2].

As regards Russia's major trade partners, in the export pattern the following changes took place: non-fuel exports to the Netherlands fell by 46% (a decrease of $3.98bn mainly at the expense of "copper" group 74 and "nickel" group 75), non-fuel exports to Britain rose by 63% (growth of $750m at the expense of "precious metals" group 71) and non-fuel exports to Algeria increased by 88% (+$1.58bn mainly at the expense of arms shipments, including T-90 tanks). As regards imports, it is to be noted that import volumes from Turkey fell twofold (a decrease of $9.86bn), while import supplies from Japan and Ukraine dropped dramatically by 42% (-$4.97bn) and 63% (-%2.67bn), respectively.

Table 1

CHANGES IN PRICES AND VOLUMES OF THE MAIN EXPORT COMMODITY SUPPLIES IN 2016

FEACN Code	Position name	Price		Price change, %	Change in physical volumes, %	Change in monetary volumes, %	Share in exports in 2016, %
		2015	2016				
Food products							
1001	Wheat and meslin, USD per ton	186	166	-10	19	7	1.5
Fuel:							
2701	Fossil coal, USD per ton	62	54	-14	9	-6	3.1
2709	Crude oil, USD per ton	366	289	-21	4	-18	25.6
2710	Petrochemicals, USD per ton	393	295	-25	-9	-32	16.0
2711110000	Natural condensed gas, USD per cubic meter	212	120	-44	13	-36	1.0
2711210000	Natural gas, USD per thousand cubic meters	226	157	-30	7	-25	10.9
Chemical produce							
3102	Mineral nitrogen fertilizers, USD per ton	230	170	-26	10	-19	0.8
3104	Mineral potassic fertilizers, USD per ton	264	196	-26	-15	-37	0.6
3105	Mixed mineral fertilizers, USD per ton	364	282	-22	4	-19	0.9

1 For more information on the analysis of the pattern and dynamics of trade turnover between Russia and Vietnam, see: N. Volovik. The Start of Functioning of the Free-Trade Zone of the Eurasian Economic Union and the Socialist Republic of Vietnam. // Economic Development of Russia. 2016. No. 10. Pp. 23–27.

2 On the dynamics of the GBP exchange rate and its relation to the voting results, see, for example: E. Goryunov, A. Kiyutsevskaya and P. Trunin. The Brexit Results: Macroeconomic Risks // Economic Development of Russia. 2016. No. 7. Pp. 47–49.

Table 1, cont'd

FEACN Code	Position name	Price		Price change, %	Change in physical volumes, %	Change in monetary volumes, %	Share in exports in 2016, %
		2015	2016				
2814100000	Liquid ammonia, USD per ton	378	226	-40	2	-39	0.3
4002	Artificial rubber , USD a ton	1471	1314	-11	5	-6	0.4
Timber and articles made of wood							
4403	Unprocessed timber, USD per cubic meter	69	67	-2	3	1	0.5
4407	Processed timber, USD per ton	215	197	-8	13	4	1.1
4412	Plywood, USD per cubic meter	449	385	-14	11	-5	0.3
4702–4704	Wood pulp, USD per ton	506	464	-8	4	-5	0.3
4801	Newsprint, USD per ton	401	403	0	-4	-4	0.1
Metals and metal fabricated goods							
72	Ferrous metals, USD per ton	361	326	-10	3	-7	4.9
72 (кроме 7201–7204)	Ferrous metals (except for cast iron, ferro-alloys, waste products and wrenching iron), USD per ton	384	347	-10	5	-6	3.6
7201	Cast iron, USD per ton	259	228	-12	-4	-15	0.4
7202	Ferro-alloys, USD per ton	1696	1595	-6	1	-5	0.4
7207	Carbon steel semi-products, USD per ton	317	295	-7	4	-4	1.6
7208–7212	Carbon steel flat rolled stock, USD per ton	417	371	-11	12	0	1.2
7403	Refined copper, USD per ton	5477	4703	-14	-9	-22	0.8
7502	Unfinished nickel, USD per ton	11391	9173	-19	-18	-34	0.6
7601	Unfinished aluminum, USD per ton	1755	1433	-18	1	-18	1.7
Machinery, equipment and transport vehicles							
840130	Heat-producing unexposed units (fuel elements), USD per unit	583	470	-19	13	-9	0.41
8411123009	Other combustion turbines, with draught of over 44 кN, but max. 132 кN, thousand USD per unit	4210	3535	-16	-13	-27	0.32
8450111100	Household washing machines, USD per unit	173	163	-6	72	62	0.06
85287240	LCD TV sets, USD per unit	328	299	-9	-9	-17	0.06
860692	Open railway cars, thousand USD per unit	17.8	17.4	-2	-22	-23	0.02
8703231910	Car with effective engine cylinder capacity of over 1500 cm^3, but max. 1800 cm^3, thousand USD per unit	7.35	7.46	1	-45	-45	0.10
8704229108	Other trucks with gross weight of 5 tons–20 tons, thousand USD per unit	30.45	32.02	5	-15	-10	0.05

Source: own calculations on the basis of the data of the Federal Customs Service of the Russian Federation.

Table 2

CHANGES IN PRICES AND VOLUMES OF THE MAIN IMPORT COMMODITY SUPPLIES IN 2016

FEACN Code	Position name	Price		Price change, %	Change in physical volumes, %	Change in monetary volumes, %	Share in imports in 2016, %
		2015	2016				
Food products:							
0201–0204	Fresh and frozen meat, USD per ton	3321	2822	-15	-16	-28	0,96
0207	Fresh and frozen poultry meat, USD per ton	1430	1413	-1	-12	-13	0,17

Table 2, cont'd

FEACN **Code**	**Position name**	Price		Price change, %	Change in physical volumes, %	Change in monetary volumes, %	**Share in imports in 2016, %**
		2015	**2016**				
0302–0304	Fresh and frozen fish, USD per ton	2562	2734	7	-11	-5	0.53
0402	Milk and concentrated cream, USD per ton	2059	2160	5	15	21	0.27
0405	Butter, USD per ton	3252	3794	17	8	26	0.21
0805	Citrus fruit, USD per ton	774	760	-2	-1	-3	0.63
0901	Coffee, USD per ton	3262	3012	-8	9	1	0.28
0902	Tea, USD per ton	3685	3335	-9	-5	-14	0.30
170112–170114	Raw sugar, USD per ton	377	425	13	-49	-42	0.06
1701991000	White sugar, USD per ton	364	533	46	-39	-11	0.08
1801	Cacao bean, USD per ton	3457	3318	-4	6	1	0.09
1806	Cacao products, USD per ton	4838	4580	-5	5	-1	0.19
22	Alcohol and alcohol-free beverages	–	–	–	–	2	0.99
2402	Cigarettes and cigars	–	–	–	–	52	0.09
	Medicines and chemical products:						
2941	Antibiotics	–	–	–	–	28	0.06
3003–3004	Medicines	–	–	–	–	3	3.85
3808	Chemical weed and pest killers, USD per ton	5782	6406	11	20	33	0.41
4001–4002	Natural and artificial rubber, USD per ton	1998	1759	–12	11	–2	0.18
	Garments and footwear:						
61–62	Garments	–	–	–	–	3	2.87
6403	Leather footwear, USD per pair	23.9	24.5	2	–7	–5	0.60
	Metals and metal fabricated goods:						
72	Ferrous metals, USD per ton	722	650	-10	2	-8	1.65
72 (except 7201–7204)	Ferrous metals (except for cast iron, ferro-alloys, waste products and wrenching iron), USD per ton	698	673	-4	-2	-6	1.43
7304–7306	Steel pipes, USD per ton	1629	1546	-5	17	11	0.40
	Machinery, equipment and transport vehicles:						
84–90	Machinery and equipment	–	–	–	–	6	47.01
8703	Cars, thousand USD per unit	18.5	22.6	22	-24	-7	3.28
8704	Trucks, thousand USD per unit	39.1	50.8	30	-10	17	0.56
9401–9403	Furniture	–	–	–	–	-22	0.74

Source: own calculations on the basis of the data of the Federal Customs Service.

Table 3

THE GEOGRAPHIC PATTERN OF RUSSIA'S TRADE TURNOVER IN THE 2013 –2016 PERIOD

Region/ country	Share in Russian's trade turnover (%)				Change (p.p.) 2016 on 2015
	2013	2014	2015	2016	
EU	49.6	48.1	44.8	42.8	-1.97
Ukraine	4.7	3.5	2.8	2.2	-0.66
Turkey	3.9	4.0	4.4	3.4	-1.05
Norway	0.3	0.3	0.3	0.3	0.04
Switzerland	1.4	0.9	0.9	1.1	0.21
Member-states of the Asian-Pacific Economic Cooperation, including :	24.8	26.9	28.1	30.0	1.95
China	10.5	11.3	12.1	14.1	2.06

Table 2, cont'd

Region/ country	Share in Russian's trade turnover (%)				Change (p.p.) 2016 on 2015
	2013	2014	2015	2016	
The US	3.3	3.7	4.0	4.3	0.36
Japan	3.9	3.9	4.1	3.4	-0.61
Republic of Korea	3.0	3.5	3.4	3.2	-0.19
Vietnam	0.5	0.5	0.7	0.8	0.08
CIS, including:	13.4	12.3	12.5	12.1	-0.43
Member-states of the Eurasian Economic Union , including:	7.4	7.2	7.9	8.3	0.29
Armenia	0.2	0.2	0.2	0.3	0.05
Belarus	4.1	4.1	4.5	5.0	0.41
Kazakhstan	2.8	2.7	2.9	2.8	-0.17
Kirgizia	0.3	0.2	0.3	0.3	-0.01

Source: calculations on the basis of the data of the Federal Customs Service of the Russian Federation.

3. POSITIVE EXPECTATIONS: RUSSIAN INDUSTRY IN FEBRUARY 2017

S.Tsukhlo

February data on Russian industry demonstrates upward dynamics of the majority of actual indexes and preparedness of businesses to come out of a recession. Demand, output, stocks of finished products, and investment plans – all these indexes seem unexpectedly positive for the outsiders.

Demand, output, stocks of finished products

February data regarding demand on industrial products points to obvious positive expectations: regarding both starting data and seasonally adjusted one. Initial balance hit values that previously were registered in February solely during inter-crisis (and even then not all) years. When seasonally and calendar adjusted the index hit the level of the best inter-crisis values (in specified intervals in 2010–2011 and at the turn of 2013). The February 2017 result does not look like an accidental "outbreak". During previous months, the balance of sales demonstrated an upward trend reaching +7 points. A year ago (in February 2016), this index constituted -12 points and its crisis minimum (probably it already was overrun) equaled -20 points and accounted for June 2015.

However, obvious positive shifts in demand have not so far brought sales to a required industrial level. Satisfaction with their volumes sharply declined (by 8 points!). General reduction following the crisis maximum registered in November 2016 (59%) have already hit 11 points. Industry needs large sales volumes in order to secure statistically unquestionable output growth. It seems that enterprises recon on precisely this scenario during spring months of 2017. February forecasts of demand have reached the best inter-crisis values. And again – not as a result of accidental outbreak as it happened at the turn of 2013 but in the course of steady decline of the pessimism level since mid-2016.

Inventories also demonstrate preparedness of industry for positive developments during months to come. Balance of stocks assessment, which stayed most often in minus than in plus since mid-2016 reached in February its 8 months maximum of +4 points. Of course, the value is a moderate one, but it is a positive one. Industry is prepared to maintain surplus of stocks of finished products as it used to happen amid a sustainable demand growth.

Survey data related to output dynamics shows the ongoing certain positive rates of industrial production in February. The IEP surveys register this pattern since May 2016. Thus, Russian industrial output has been growing more or less steadily, although by not very high (in comparison with the best inter-crisis or prior to default years) rates.

It is unreasonable to focus on solely this indicator in the assessment of the state of Russian industry as we often underlined in our previous business surveys for 2015–2016. Revised upwards data released by Rosstat confirmed this thesis.

Further course of events will preserve upward trends in industrial production dynamics. Plans of enterprises, which went up in January accompanied

by actual output preserved their high values in February. At present, this indicator remains at 14 months maximum. In other words, by late 2015, industry boasted more confidence in the wake of promises of upcoming "bottom out". However, at the turn of 2017, industry, it seems, demonstrates that positive expectations are on the rise. Provided that the turn of the year expectations do not turn out to be "Monday effect" when positive changes are related to the beginning of a familiar calendar period.

Prices, costs and businesses' investment plans

Pricing policy conducted by industry demonstrates readiness of enterprises to return to a moderate price growth in the context of restrained costs increment. As was projected by enterprises, traditional outbreak of the indicator registered at the turn of the year turned out to be short-lived but a little bit more significant than the one posted in 2016. Already in February, the actual balance returned to the December level and has all chances for a downward trend during the spring months. Pricing plans designed by businesses are in favor of this scenario: following the December upsurge by 15 points, they declined by 17 points over two months. A year ago, balance of plans retained a local maximum during entire three winter months.

Sufficiently soft pricing policy conducted by enterprises is based on a highly moderate growth of costs, which is registered by surveys for the fourth quarter in a row. The maximum cost development during this period accounted for Q4 2016 and enterprises assessed it at +16 points. In Q4 2015, this indicator came to +31 points, and in Q1 2015 reached +53 points. Last twenty year record comes to +68 points and was registered in Q1 1999.

Industrial investment plans continue gaining confidence. In February 2017, balance of the indicator added another 10 points, and since December 2016, it went up by 25 points already and hit 5-year maximum. Last time the same level of the Investor Confidence Index was registered in Russian industry in non-crisis year of 2012. The pre-crisis maximum was registered in August 2014, following which businesses began demonstrating drastic and sustained decline of investment intentions reaching bottom in February 2015.

Industrial growth constraints

Quarterly surveys reveal a new structure of growth constraints in Russian industry (according to enterprises). It seems that it is also true for the period of recovery from slow-rolling crisis of 2015–2016.

Businesses consider insufficient domestic demand as the principal growth constraint. This factor takes first place during 14 years of our 25 years of business surveys. However, at the turn of 2017, its negative impact on output fell to the inter-crisis minimum. In the crisis year of 2015, insufficient domestic demand mentioned in responses was below than during the non-crisis years of 2012–2014.

Positive dynamics was registered in the assessments of "vagueness of the current situation and its prospects." Following the crisis maximum of 2015–2016, domestic demand has sharply decreased its negative influence on Russian industry in 2017. Developments in the economy during recent months have raised confidence in Russian industry.

Slack demand for exports curbs the output growth with regard to one fourth of Russian industrial producers. This indicator takes the 3rd place in the rating of 17 factors. During the current recession's peak, responses of insuffi-

cient demand for exports declined only by 10 points to 17% owing to the December ruble's devaluation of 2014. At present, everything is back to square one. Including owing to the obvious strengthening of the ruble.

It is commonly believed now that overvalued ruble rate for industry relative to April, July and October 2014 held down output growth on average of only 3% of enterprises and shared (together with lack of credits) the last (!) place in the rating of 17 constraints of output growth (to note, according to enterprises). After the December 2014 devaluation, overvalued ruble rate increased its negative impact on Russian industry output 3-fold and hit 9% of responses. However, ruble's weakness seen in 2014–2017 alarmed a greater number of enterprises.

Between 10% and 17% of enterprises indicated weak ruble as a limitation for production growth in business surveys conducted prior to ruble's devaluation in 2014. In other words, obviously more than 3% who suffered from strong ruble. A growing number of enterprises highlighted expensive imported equipment and raw materials as an impediment to growth following devaluation and ruble's weakness. Negative influence of the weak ruble on Russian industrial output peaked in Q1 2016. Then 36% of businesses highlighted this factor, which occupied 3rd place in the rating of 17 factors, behind two constant problems of the Russian economy of 2012–2017: low domestic demand (55%) and vagueness of the current economic situation and its prospects (49%). Subsequent ruble's strengthening has struck Russian industry's fancy: the impact of a weak ruble began steadily declining and reached prior to devaluation 10% in Q1 2017. At the same time, downward pressure on Russian industry related to competition with imports remains a consistently low level (14%) during last year and a half, which is half of what it was prior to the 2014 devaluation.

Enterprises start assessing financial constraints in the context of a feasible economic recovery and increase in the investment activity. Three factors have increased their downward pressure on the Russian industry output amid feasible industrial production growth. Lack of working capital, which in Q4 2016 fell to the all-time minimum in the responses throughout 1993–2016, at the turn of 2017 added 5 points. Similar situation is unfolding with respect to high cost of credits and lack of credits. However, both factors remain in the bottom part of the rating: on the 9th and the 13th places, respectively.

Headcount shortfall at the onset of a feasible economic recovery is also curbing the output growth together with a shortage of working capital (mentioned in 21% of responses). This indicator remains stable in the course of 6 recent quarters. Only 11% of Russian enterprises suffer from the shortage of production capacities, in other words, less than from headcount shortfall.

4. RETAIL LENDING IN 2016: GROWTH OWING TO MORTGAGE

M.Khromov

At year-end of 2016, upward trend of retail credit exposure on bank loans resumed. Growth was entirely due to residential loans segment in the context of consumer lending shrinking. Shift in the debt structure in favor of cheaper and long-term credits issued for residential purchases secured debt burden stability of households' income in spite of growth of consumer debt value.

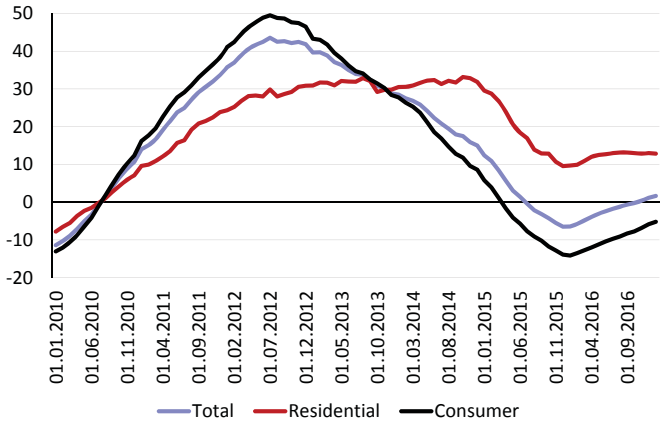
In January 2017, retail debt volume on bank debt declined by 0.3%[1] or by Rb37bn. As of 1 February 2017, retail bank debt constituted Rb10.7 trillion[2].

Contraction of the retail bank debt, which has seasonal character happened for the first time since March last year. Major part of 2016, the retail lending market was recovering following a major recession that took place in 2015. As a result, at first month-end of 2017, credit exposure growth rate in the annual terms hit 1.9% or around Rb200bn (in 2016, increment came to 1.7% following a decline by 6.4% in 2015).

Recovery of the upward trend of the credit portfolio in 2016 was ensured by residential lending segment. Households' residential loans debt was not decreasing during a single month starting with 2011. Although in 2015, growth rates in this segment also declined from maximum value of 33% in annual terms reported in autumn 2014 to a minimum of 9.7% by year-end of 2015. In 2016, retail residential loan debt went up by 12.9%[3].

Entirely different picture is observed in relation to other retail consumer loans. This segment of the lending market sees debt contraction for a second year in a row, although contraction rates slowed down from 14% in 2015 to 5% in 2016. In certain months of 2016, insignificant retail debt exposure on consumer credits was observed. However, there was no return to a sustainable growth so far.

On the whole, the structure of retail credit exposure is shifting towards long-term and cheaper credits for residential purchase. As of 1 January 2017, the share of residential mortgage loans in the overall volume of retail debt hit record 42%, which increased during 2016 by 4 p.p. (from 38% as of 1 January 2016). Minimal share of residential loans (in the wake of consumer lending boom of 2011–2013 when growth rates of consumer debt reached 50% in annual terms) constituted 27% in late 2013.



Sources: Bank of Russia, IEP's estimates.

Fig. 1. Dynamics of retail credit exposure, % for 12 months

1 Adjusted to exchange rate revaluation of credit exposure denominated in foreign currency.

2 Minus loans extended to individual businessmen.

3 January 2017 data was not released as of the date of preparing this material.

Change in the structure of debt exposure can be considered as a favorable factor for the households' financial state. This factor directly affects the level of debt burden and on their disposable income. Increased share of residential lending in the overall volume of retail credit exposure leads to longer average loan term and cost reduction of credit exposure servicing other things being equal. Long-term debt requires smaller repayments amid similar volume.

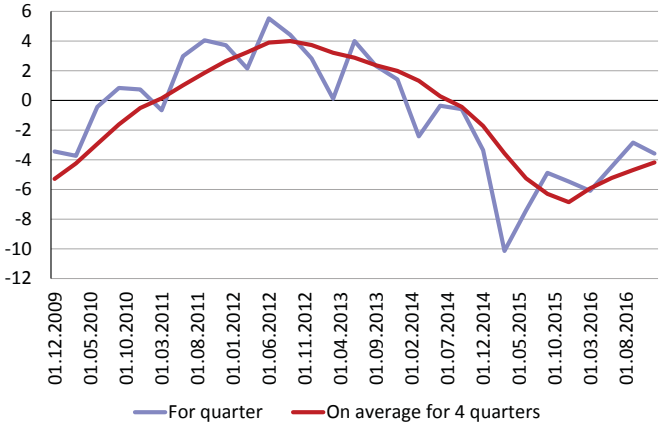
On the whole, however, at year-end of 2016, the weighted-average term of retail credit portfolio[1] moved down from 48 to 45 months. At the same time, the term of consumer lending plumbed new depth – from 37 to 32 months. The period of residential lending in 2016 did not practically change and remained at the level of 12 years, which curbed reduction of the period of the aggregate retail credit portfolio.

Actually, the cost of retail credit portfolio at the year-end of 2016 constituted 16.6% per annum. Annual change was minimal, meanwhile during previous two years easing of total population's debt was observed (in 2013 the cost of debt hit 18% per annum).

Dynamics of the cost of retail loan portfolio first of all is determined by the cost of consumer credits. Weighted average interest rate on residential loans[2] remained stable at around 12.5–12.7% per annum (although in December 2016 new loans were extended at an average rate of 11.6% and large banks announced its further decrease). At the same time, the cost of the consumer loans portfolio moved up from 18.7% per annum in 2015 to 19.2% per annum in 2016. Thus, stability of total value of credit exposure for the borrowers was secured by the growth of cheaper residential loans in the structure of consumer lending.

In 2016, in relation to households' disposable income the debt burden came to 9.6% (as in 2015). In 2016, nominal volume of households' disposable income hit Rb 50.0 trillion moving up in comparison with 2015 by 0.5%. The volume of compulsory payments on bank loans (maturity according to schedule and interest) constituted Rb 4.6 trillion, which corresponds 2015 level. As a matter of interest, there was an insignificant increase of the principal debt payment in 2016 compared to 2015 (by Rb 33bn) in the structure of debt servicing, which was offset by a reduction of interest payments (by Rb 32bn). This demonstrates that precisely growth of cheaper residential loans secured stability of debt burden on the population's income in 2016.

In spite of the fact that recovery of upward trend of credit exposure of the population in 2016, contribution of bank lending in the households' finances remains negative. This is due to significant interest payments, which noticeably surpass the increment of credit exposure. For example, in 2016,



Sources: Rosstat, Bank of Russia, IEP's estimates.

Fig. 2. Share of lending in households' disposable resources, % of consumer spending

1 Calculated on the basis of principal debt repayment schedule.

2 IEP's estimates regarding existing residential credits portfolio denominated in rubles in annual terms.

the population paid to banks a sum of Rb 1.8 trillion as the interest on obtained loans. Growth of credit exposure as was noted above constituted only Rb 0.2 trillion. Thus, bank lending became a reason for a reduction of an aggregate households' budget in 2016 by Rb 1.6 trillion (in 2015 – Rb 2.5 trillion). This is equal to 4.2% of total consumer spending of the population in 2016. On average for 2014–2016 negative contribution of the credit market in the households' budget can be estimated at -4.3% of consumer spending. Moreover, during the years of credit boom (2011–2013) positive contribution of bank lending constituted only 2.8% of consumer spending.

5. PUBLIC PERCEPTIONS OF ECONOMIC CHANGES: THE MILITARY, STATE SECURITY, AND GOVERNMENT OFFICIALS TURN OUT TO BE OPTIMISTS

E.Avraamova, D.Loginov

Individual differences in perceptions of the scale and duration of crisis phenomena are largely determined by the socio-professional status of a person and by his or her particular field of activity. The current economic situation is most negatively perceived by those engaged in industry and the construction sector, while members of the security or military services (the so-called "siloviki") perceive it much more positively and than other categories of employees. Their assessments of the economy's prospects are noticeably more optimistic than those voiced by the latter.

The regular monitoring of the social feelings of the population carried out by the ISAF[1] gives us an idea of how the current economic situation is perceived by professional people from various walks of life. According to the latest round of social feelings monitoring (November 2016), more than half of respondents (53%) noted a worsening in the state of the economy (either slight or considerable), 40.9% believed that the situation was stable, while a mere 3.3% saw some improvements.

The respondents engaged in the economy were slightly more optimistic than pensioners, 28% of whom considered that the economic situation had noticeably worsened, compared to 22% of the former. Among the respondents engaged in the economy, the most pessimistic views of the current economic situation were aired by workers, one fourth of whom considered that it had noticeably worsened, compared to one fifth of higher level specialists.

The respondents from the ranks of the security and military services and those working in the field of state and municipal government institutions were more positive than others with regard to the current economic situation. These two groups of respondents had the highest percentage of those who had noticed improvements in the state of the economy and those who considered that the economic situation had already become stable (*Table 1*).

16% of the respondents could not assess the Russian economy's prospects for exiting the crisis, which reflected their uncertain perception of economic reality. The opinions of those who gave their answers were divided, among other things, along professional lines: the number of respondents engaged in industry who believed that the crisis would last for yet another two years or more exceeded 1.5 times the combined number of respondents from the ranks of the security and military services and those engaged in the field of state and municipal government institutions. At the same time, workers were more pessimistic in their assessments of the national economy's prospects than higher level specialists (*Fig. 1*).

While 53% of respondents believed that the economic situation had worsened either slightly or considerably, 78% of the respondents stated that

1 The RANEPA Institute for Social Analysis and Forecasting, has conducted, since 2015, a total of 8 annual rounds of their monitoring survey of the social feelings of the population, based on a representative sample of 1,400 adult respondents each.

Table 1

DISTRIBUTION OF THE ANSWERS GIVEN BY RESPONDENTS ENGAGED IN VARIOUS BRANCHES OF THE NATIONAL ECONOMY TO THE QUESTION 'HOW HAS THE ECONOMIC SITUATION IN THIS COUNTRY CHANGED OF LATE?', NOVEMBER 2016, % (EACH ROW TOTALS 100%)

Branch	Character of changes in economic situation					
	Improved	No changes	Slightly worsened	Noticeably worsened	Full-scale crisis	Hard to say
Industry	4.7	33.3	26.6	26.6	5.2	3.6
Building construction	4.4	43.7	20.0	23.0	5.9	3.0
Housing & utilities sector, transport, communications sphere	0.7	46.9	24.8	22.1	1.4	4.1
Trade, personal services, public catering	5.2	40.7	22.4	25.5	5.2	1.0
Education, medical care , culture, science	7.9	38.1	25.4	19.8	5.6	3.2
Army, Ministry of Internal Affairs, Federal Security Service	6.5	58.0	12.9	16.1	6.5	0.0
State and municipal government institutions	7.1	57.2	28.6	7.1	0.0	0.0

these negative changes had adversely affected them personally. The percentage of those who had not felt or even noticed the effects of the crisis amounted to a mere 8%, the same as a year earlier.

The assessments of the economic situation, given by professional people from various walks of life, concentrated around their mean, with only one exception: while the average number of respondents who stated that the crisis had had strong adverse effects on them personally was 25.6% in each of the professional groups, only 14% of respondents engaged in the field of state and municipal government institutions expressed the above pattern.

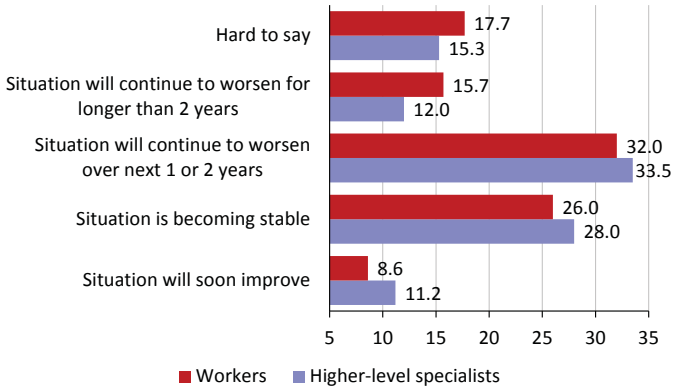


Fig. 1. The duration of negative economic phenomena, as expected by respondents of different socio-professional status, November 2016, %

Among the respondents directly affected by one or other specific manifestation of the crisis, those employed in the construction sector clearly stood apart, with 16.3% of them having become unemployed. Apart from that category of respondents, the largest percentage of those being afraid of losing their jobs was also seen among the respondents engaged in the communications sphere, transportation and the housing and utilities sector. According to the monitoring survey, the highest level of employment stability was in the budget-funded sectors, while the highest level of employment stability among the latter was noted by the employees of state and municipal government institutions (*Table 2*).

A significant part of respondents stated that their wages and salaries had been cut during the half-year prior to the survey. The most hard-hit in this respect were the respondents engaged in the housing and utilities sector, transport and communications, while those the least affected were *siloviki* (members of the military and security services) and government officials, more than 70% of whom have absolutely no misgivings in this respect (*Table 3*).

Table 2

THE ASSESSMENT, BY RESPONDENTS FROM VARIOUS WALKS OF LIFE, OF THEIR CHANCES OF LOSING THEIR JOB OVER THE COURSE OF THE PAST HALF-YEAR, NOVEMBER 2016, % (EACH ROW TOTALS 100%)

Branch	Chance of losing one's job		
	Has not happened and is unlikely to happen	Has not happened, but can happen in nearest future	Has already happened
Industry	63.1	29.3	7.6
Construction sector	52.0	31.7	16.3
Housing & utilities sector, transportation, communication sphere	55.0	37.1	7.9
Trade, personal services, public catering	60.6	34.1	5.3
Education, medical care, culture, science	70.3	24.6	5.1
Army, Ministry of Internal Affairs, Federal Security Service	69.0	27.6	3.4
State and municipal government institutions	71.4	28.6	0.0

Таблица 3

THE ASSESSMENT, BY RESPONDENTS FROM VARIOUS WALKS OF LIFE, OF THE POSSIBILITY OF A SALARY CUT, NOVEMBER 2016, %, (EACH ROW TOTALS 100%)

Branch	Possibility of salary cut		
	Has not happened and is unlikely to happen	Has not happened, but can happen in nearest future	Has already happened
Industry	50.3	27.5	22.2
Construction sector	38.7	38.0	23.3
Housing & utilities sector, transport, communications	48.6	19.7	31.7
Trade, personal services, public catering	41.9	30.1	28.0
Education, medical care, culture, science	60.0	19.2	20.8
Army, Ministry of Internal Affairs, Federal Security Service	71.0	22.5	6.5
State and municipal government institutions	71.5	21.4	7.1

Thus, the military and security services and the officialdom are the spheres least affected by crisis phenomena. This is the reason for them to be much more optimistic than all the others. According to statistics, the number of persons engaged in these two spheres was constantly on the rise (over the period 2006–2015, their numbers increased from 4.94m to 5.33m), while the number of persons engaged in processing industries steadily declined (from 12.44m to 10.34m)[1].

1 The Workforce, Employment and Unemployment in Russia. A Statistical Digest. Rosstat. 2016. [In Russian].

AUTHORS

Elena Avraamova, Head of Social Development Research Laboratory, INSAP, RANEPA

Vladimir Gurevich, counselor to the rector of RANEPA, editor of economytimes.ru

Alexander Knobel, Head of World Trade Department, Gaidar Institute

Dmitriy Loginov, senior researcher, Social Development Research Laboratory, INSAP, RANEPA

Arseny Mamedov, Head of Budget Policy Department, Gaidar Institute

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

Elena Fomina, researcher, Budget Policy Department, Gaidar Institute

Mikhail Khromov, Head of the Financial Research Department, Gaidar Institute

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