MONITORING OF RUSSIA'S ECONOMIC OUTLOOK:

TRENDS AND CHALLENGES OF SOCIO-ECONOMIC DEVELOPMENT

No. 7(45) April 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.

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Monitoring of Russia's Economic Outlook: trends and challenges of socio-economic development. 2017. No (45). April / V. Averkiev, S. Drobyshevsky, E. Grishina, V. Gurevich, A. Knobel, M. Turuntseva, A. Firanchuk, M. Khromov, N. Shagaida. Edited by: V. Gurevich, S. Drobyshevsky, P. Kadochnikov, A. Koles-nikov, V. Mau, and S. Sinelnikov-Murylev; Gaidar Institute for Economic Policy, Russian Presidential Academy for National Economy and Public Administration, Russian Foreign Trade Academy. 26 p. URL: http://www.iep.ru/files/text/crisis_monitoring/2017_7-45_April_eng.pdf

MAIN TRENDS AND CONCLUSIONS

V.Gurevich

The increasing supplies to China of US shale oil represent a situation that no more than a year ago could have seemed a piece of fiction in the fantasy genre. But now, as of April 2017, this has become an accomplished fact, which is giving rise to forecasts that US oil can soon be competing with Saudi and Russian crude (similar forecasts concerning US shale gas became reality as early as 2015).

Poor predictability has become the modern hydrocarbon market's most stable distinctive feature. It is largely thanks to the US oilmen that it has deprived of their meaning, for an indefinite period of time, the terms 'equilibrium price' or 'fundamentally substantiated price'. Now, no Faust would be able to say: 'Stay awhile, you are in equilibrium at $60 per barrel'. Tomorrow, $40 may also become possible (the RF Central Bank ascertained this possibility a few days ago), and thus only yesterday's prices can be fundamentally substantiated.

As far as one can conclude by witnessing the ongoing discussions in the government circles and the expert community, the understanding of 'equilibrium' is by no means so simple when applied to the official forex exchange rates against the ruble, either. The desire to replenish the budget and boost GDP growth, and in order to achieve this to weaken the ruble, is being increasingly transformed into a system-forming idea.

So today we have found at least one common point with President Trump. He likewise desires a weaker national currency, and for the sake of achieving this goal, he would like to see monetary policy easing by the US Federal Reserve. According to him, strong American dollar may be too strong for its own good. There may be indeed some truth in these words, because the slogan Weak Dollar for Strong America is no good at all.

This slogan in Russia, only 'recalculated in rubles', has become a kind of refrain. And this is the special focus of attention of our experts, who are presenting their macroeconomic forecast for 2017–2018.

They precede their forecast with a note that the revision, by Rosstat, of its data for 2015–2016 and the unrevised data for the previous years may adversely influence the quality of forecasts. Besides, the reduction, by the statistics service, of the scale of slump observed over the two past years also translates into a more modest forecast of the recovery growth in 2017–2018.

Their basic development scenario for the next two years relies on price of oil amounting to $50 per barrel this year, and to $60 per barrel next year. Given the known terms of trade, the continuing policy of a freely floating ruble, and the minimum presence of the RF Ministry of Finance in the forex market, the average annual USD-to-ruble exchange rate will amount to Rb 59.2 for 2017 and Rb 57.7 for 2018. The real effective exchange rate will also increase.

However, experts emphasize that some of the currently suggested development programs for Russia rely on policies oriented to the ruble's weakening, which is expected to trigger economic growth, improve the competitive capacity of Russian producers, and promote import substitution. In order to assess the consequences of this course, an alternative scenario is also presented, which envisages that over the next two years, the ruble will weaken,

and its nominal exchange rate will plunge to Rb 64.8 per USD this year, and move to Rb 70 per USD next year. The external economic situation in both cases is assumed to be unchanging.

In the basic scenario, Russia's GDP growth in 2017 is estimated to be 1.2%, a year later it is to climb 1.8%. In the scenario oriented to a low exchange rate of the ruble against major world currencies, GDP is expected at first to grow at a faster rate – by 1.4%, but in 2018 its growth rate (1.5%) it to begin to fall behind that plotted in the basic scenario. The reliance on a low exchange rate of the ruble will preclude any notable growth rate acceleration, and from the second year onwards the negative side effects of that policy will begin to push down the growth rate, as compared with its behavior under the floating exchange rate regime.

Among these adverse effects, we may point to the impossibility to simultaneously maintain a lower nominal exchange rate of the ruble, inflation under 4%, the population's confidence in the national currency, and a low key interest rate of the RF Central Bank.

The Bank of Russia will be forced to abandon not only its goal of keeping inflation at a low level, but also its entire inflation targeting policy, because it is the exchange rate that will need to be targeted. From the point of view of the forecast's authors, this monetary policy change will be fraught with serious threats both to the RF Central Bank's reputation and to Russia's nationwide economic policy.

Indeed, the initially only implicit, and then increasingly stronger orientation to the ruble's weakening may turn out to be an unpleasant surprise, in many respects. Although there can also be some more pleasant surprises – for example, for Russia's balance of trade.

The experts, while looking at the behavior and structure of Russia's exports to the EU, have noted their positive movement early this year. The factor behind this phenomenon (and likewise behind many other developments) has been the fuel exports. However, it appears to be positive only when set against last year's negative indices. In 2016, EU imports from Russia hit their ten-year low (€ 119bn), and Russia's share in EU imports plunged to 7% (vs. 11.5% in 2010–2014). For some items (fuels aside), that index was higher – about 30–40% for some types of mineral fertilizers, and 15–20% for ferrous and non-ferrous metals. Russia's share in EU imports of wheat (and meslin seed) even somewhat increased (to 8.9%), although their value in money terms is not very impressive (€ 112m).

More significant is the volume of Russia's wheat exports to Turkey, the latter, meanwhile, having introduced prohibitive import duties on that item. Experts have viewed this move on the part of Turkey as the response to Russia's refusal to lift the previously introduced restrictions on imports of Turkish tomatoes, which represents the most sensitive issue for that country. The tomato war, they believe, has created a niche for Russian producers of tomatoes and cucumbers to the total value of $ 0.5bn, but simultaneously created problems for Russia's agricultural exports to Turkey to the value of $ 1.3–1.5bn (overall, Turkey accounts for more than 10% of RF agricultural exports).

For Russia's domestic consumers, the relatively low prices of Turkish products were a good thing; after the ban had been imposed (following the halt in certain food supplies from Europe), prices in the Russian domestic market immediately began to soar. Russian authorities were prompt in delivering their support to the greenhouse vegetable production sector (in 2016). The

estimated total costs incurred by the government and businesses exceeded Rb 34bn. But the experts argue that the question has remained open as to whether the domestic producers will really be able to fill the niche left by Turkey and to offer selling prices that their customers may find reasonable.

Nevertheless, the prices of many food commodities are no longer growing as rapidly as they used to. And the prices of some fruit and vegetable products even declined, thus translating, in Q4 2016, into subsistence level decline by 2% (relative to the previous quarter). However, experts note that real personal income has continued its plunge, the start of real wage growth since August 2016 notwithstanding. In February 2017, real disposable income amounted to 95.9% relative to February 2016 (and the size of real pension – to 99.4% respectively). Overall across Russia, in Q4 2016 (relative to Q4 2015), the average per capita money income to subsistence minimum level ratio also dropped, from 382% to 371%. One positive development is that the population's expectations have become slightly less negative: in Q4 2016, 23% of respondents expected their material status to worsen over the next year, while now the relative share of such responses is 20%. Against the backdrop of the incomes that are still staying at the same low level, this may indeed be treated as a sign of optimism.

1. MACROECONOMIC FORECAST FOR 2017–2018: THE BET ON A WEAK RUBLE HAS FAILED

V.Averkiev, S.Drobyshevsky, M.Turuntseva, M.Khromov

The lower scale of GDP decline in 2015–2016 that resulted from the revision, by the Russian Federal State Statistics Service (Rosstat), of its previously released data produced a 'base effect' which, in its turn, scaled down the existing forecasts for 2017–2018: the reported recovery growth rate likewise became more modest. Under the basic scenario, we expect economic growth of 1.2–1.8% in 2017–2018, and inflation to be below its target value of 4% by the end of 2018. Our estimations demonstrate that the policy oriented to a weaker exchange rate of the ruble, as suggested by some experts, if pursued under similar external conditions, can produce only a short-lived positive effect in terms of economic growth, while immediately undermining confidence in the Russian national currency and pushing down its purchasing power. Over the next two years, better macroeconomic indices can be achieved by the RF Central Bank's policy of inflation targeting and a freely floating ruble.

The release, by *Rosstat*, of its second (revised) GDP index for 2016 and updated data for the three fist quarters of 2016, as well as the initial GDP index for Q4 2016, have seriously altered the current view of economic developments in Russia over the course of 2016. Thus, the rate of GDP decline in 2016 now amounts to only 0.2% relative to 2015, while in Q4 2016, for the first time in two years, the GDP index in terms of physical volume increased on the corresponding period of the previous year (by 0.3%). Changes for the better (albeit in face of overall negative dynamics) were also demonstrated by some other main macroeconomic indices.

Bearing in mind the recent 'upward' revision of the economic results of 2015, such a change in the values of the main macroeconomic variables can have a negative impact on the quality of forthcoming forecasts. Unfortunately, as *Rosstat* does not renew its data series 'backwards' by more than one or two years, there are no uniform time series of the main indices of Russia's socio-economic development for at least 15 previous years. The restoration of the 'historic' series of macroeconomic data, based on a single methodology, will also be of crucial importance for carrying out a reliable analysis of the current situation, as well as for developing justified forecasts of economic development of the Russian Federation.

When developing our basic scenario of Russia's economic development for the next two years, we proceeded from the assumption that the annual average price of oil will amount to $ 50 per barrel in 2017 (while the actual monthly average of Q1 2017 was $ 53 per barrel), and will rise to $ 60 per barrel in 2018. This assumption is similar to that made in our previous forecast[1], which means that the foreign trade situation over the next two years will be more favorable for the Russian economy than in 2016.

1 *Averkiev, V., Drobyshevsky, S., Turuntseva, M., Khromov, M.* Macroeconomic Forecast for 2017–2018. Russian Economic Developments, No. 1, 2016, pp. 3–9 [in Russian].

For the basic development scenario, we plotted the movement of the ruble's exchange rate relative to the given terms of trade, the continuing policy of a freely floating ruble, and the minimum possible presence of the RF Ministry of Finance on the forex market. If that should indeed be the case, according to our estimations, the average annual USD-to-ruble exchange rate will amount to Rb 59.2 for 2017 and Rb 57.7 for 2018. The real effective exchange rate will also increase, by 6.6 and 5.3% respectively.

It is suggested, in a number of programs of Russia's economic development that are currently being designed, that Russia should embrace a weak ruble policy aimed at bolstering the competitive ability of Russian producers, giving an impetus to imports substitution, and launching the mechanism of economic growth during. This policy should be pursued during the first phase, until the effects of investment, increased labor productivity and reduced administrative pressure on businesses fully manifest themselves[1]. In order to assess the consequences of such a kind of economic policy, we have developed an alternative scenario which envisages that, over the next two years, Russia would pursue a currency-weakening policy designed to result in a decline of the nominal exchange rate of the ruble against the US dollar to Rb 64.8 per USD in 2017 and to Rb 70 per USD in 2018.

Under this scenario, Russia's national currency would be weakening not only in nominal, but also in real terms. In 2017, the real effective exchange rate of the ruble would amount to 2.5%. However, as soon as 2018, the real effective exchange rate of the ruble, despite the nominal drop, would increase by 3.5% due to a higher rate of inflation in the Russian Federation. We have assumed that the external environment would remain unchanged under both forecast scenarios.

Both scenarios forecast that, in 2017–2018, the real volume of output in the Russian economy would increase. Under the basic scenario, Russia's real GDP would increase by about 1.2% in 2017, and by 1.8% in 2018. It should be noted that by comparison with the January forecast, the pace of real GDP growth is reduced by 0.2–0.4 p.p., which can be explained, first of all, by the 'base effect' associated with the upward reassessment of data for 2015–2016 and, correspondingly, with a smaller scale of economic recovery during the economy's exit from recession. At the same time, the difference between these two forecasts lies within the limits of accuracy of the applied methods, and in any case one may reasonably expect the Russian economy to grow by between 1 and 2 percent in 2017–2018.

Under the scenario with a low exchange rate of the ruble, Russia's GDP would grow by 1.4% in 2017 (that is, more considerably than under the basic

1 See, for example, The P. A. Stolypin Institute of Economic Growth (2017). The medium-term program of the country's economic development until 2025 'Economic Growth Strategy' (In Russian) // URL: http://институтроста.рф/upload/iblock/aff/strategiya-rosta-28.02.2017.pdf; The Institute of Economic Forecasting, Russian Academy of Sciences (2016). 'The recovery of economic growth in Russia'. Presentation (in Russian) URL: http://ecfor.ru/publication/vosstanovlenie-ekonomicheskogo-rosta-v-rossii-doklad/; Eskindarov, M., Abramova, M., Maslennikov, V., Goncharenko, L., Zvonova, E., Krasavina, L., Lavrushin, O., Larionova, I., Rubtsov, B., Solyannikova, S., Fedorova, M. (2016). The sustainable development of the Russian economy: the improvement of monetary, foreign exchange and fiscal policies [in Russian] // The Financial University Herald [in Russian], V. 20, No 6 (96), pp. 6-18; Glaz'ev, S. (2015). On the urgent measures designed to strengthen the economic security of Russia and to transit the Russian economy onto an accelerated development trajectory [in Russian] http://www.glazev.ru/upload/iblock/797/79731df31c8d8e5ca59f491ec43d5191.pdf.

scenario); however, in 2018, the pace of real GDP growth would amount to a mere 1.5% – that is, it would be smaller than under the basic scenario. In other words, firstly, the resort to a low exchange rate of the ruble would not permit to achieve a noticeable gradual year-on-year acceleration of the pace of economic growth, and, secondly, as early as the second year of implementation of such a policy, the negative collateral effects thereof would slow down the pace of economic growth by comparison with a free float exchange rate regime.

In our view, such negative effects would include the impossibility to simultaneously maintain a lower nominal exchange rate of the ruble, to keep the annual inflation rate not higher than 4%, and to sustain the population's confidence in the national currency (which manifests itself, among other things, in the loss of the former penchant for saving and investing in forex, which is giving way to increased consumer activity), and a low key interest rate (in this case, the key interest rate should be high enough to make unprofitable any speculative forex-market operations with the rubles borrowed from the RF CB).

As far as most of the other forecasted macroeconomic variables are concerned, their movement under both scenarios will proceed in accordance with the already discussed conclusions. The basic scenario shows their year-on-year positive dynamics, although the absolute figures of economic growth are slightly lower than in the January forecast. Under the scenario with a low exchange rate of the ruble, the macroeconomic indices display a better behavior in 2017 than under the basic scenario; nevertheless, in 2018, these indices will gradually decrease and slide down below the levels predicted in the basic scenario.

The forecast of the Consumer Price Index in the basic scenario amounts to 4.1% and 3.7% in 2017 and 2018 respectively. Under the scenario with a low exchange rate of the ruble, it will amount in 2017 and 2018 to 6.1% and 5.7% respectively. Thus, under the scenario with a low exchange rate of the ruble, we expect that the Bank of Russia will be forced to abandon its target of 4% inflation, as well as inflation targeting in general, because it is the exchange rate of the ruble that will be targeted.

In our view, the change of monetary policy at a time when the RF CB has come close to fulfilling its self-imposed obligations (by early April 2017 inflation had practically reached 4%) can be fraught with serious reputational risks for the Bank of Russia and for Russia's economic policy as a whole. The relatively low inflation rates (not higher than 6.5%) predicted by us in the scenario with a low exchange rate of the ruble will be possible in this situation only if the current rigid interest rate policy is continued – the key interest rate of the RF CB should be kept at a level not lower than 12% per annum. Otherwise there will be a significant rise in the risk of a speculative attack on the exchange rate of the ruble, as well as a higher risk of the exchange rate pass-through effect that will boost consumer prices, and so it would become impossible to maintain the ruble's exchange rate within the target band of Rb65–70 per USD. Yet another consequence of such a change in the monetary policy will be the preservation of high interest rates for final borrowers and a weak investment activity.

Under the basic scenario, the interest rates on credits issued to the non-financial sector would be reduced to 9.9% in 2017 and to 8.3% in 2018, while under the scenario with a low exchange rate of the ruble they would remain

at 11.9% and 12.8% respectively. At the same time, despite higher inflation under the second scenario, real rates on credits would also be higher, by 1–2 p.p., than those under the basic scenario.

According to both scenarios, 2017 will see a rise in exports and imports relative to 2016. Under the basic scenario, exports will increase to $ 313.7bn in 2017, and to $ 358.4bn in 2018. Under the scenario with a low exchange rate of the ruble exports will increase to $ 313.5bn in 2017 and to $ 357.8bn in 2018, which means that under this scenario, non-raw material exports will not grow faster than under the basic scenario. Under the basic scenario, imports will rise to $ 221.1bn in 2017, while under the scenario with a low exchange rate of the ruble their index will increase to $ 214.7bn. In 2018, imports will grow to $ 241.6bn under the basic scenario, and will decline to $209.6bn under the second scenario.

It is obvious that, in order to achieve such a low nominal exchange rate of the ruble at a time when Russia has a current-account surplus under the second scenario, capital outflows from the Russian Federation should increase, including in the form of de-dollarization of internal assets.

Thus, the scenario oriented to a low exchange rate of the ruble against major world currencies may produce only a short (one-year-long) period of economic activity intensification, and even that short period is likely to see a waning confidence in the ruble and a restart of the economy's dollarization, inflation growth, and persistently high interest rates (both in nominal and real terms) on loans issued to the non-financial sector. From the second year onwards, the movement trajectories of all macroeconomic indices under that scenario would become worse than those plotted in the scenario oriented to the policy of a freely floating ruble and inflation targeting.

Table

Basic scenario	2016					2017					2018
	Q1 *actual*	Q2 *actual*	Q3 *actual*	Q4 *actual*	**year-end** *actual*	Q1 *forecasted*	Q2 *forecasted*	Q3 *forecasted*	Q4 *forecasted*	**year-end** *forecasted*	**year-end** forecasted
Urals, USD per barrel	32.6	44.4	46.1	48.9	43.0	53.0	47.0	50.0	50.0	50.0	60.0
GDP											
bn Rb	18,816	20,430	22,721	24,077	86,043.6	19,597	21,337	23,856	25,150	89,940	94,073
physical volume index, as % of corresponding period of previous year	99.6	99.5	99.6	100.3	99.8	100.7	101.0	101.3	101.5	101.2	101.8
deflator	101.8	103.4	103.8	105.1	103.6	103.4	103.4	103.7	102.9	103.3	102.8
Investment in fixed assets											
physical volume index	98.8	98.5	100.5	98.7	99.1	100.3	101.1	101.9	102.6	101.7	102.5
Retail turnover											
as % of corresponding period of previous year	94.2	94.1	95.5	95.2	94.8	98.1	98.3	100.3	100.9	99.4	101.1
Real disposable money income											
as % of corresponding period of previous year	95.8	93.7	93.5	94.0	94.1	98.6	99.8	100.5	101.5	100.1	101.5
Exports											
bn USD	70.7	80.5	84.9	93.1	329.2	86.5	88.6	89.8	94.7	359.7	405.5
Including											
exports of goods	60.3	67.8	71.1	80.0	279.2	76.1	77.1	77.6	82.9	313.7	358.4
oil and gas exports	32.2	36.8	38.0	43.8	150.8	45.1	41.0	40.1	42.2	168.4	201.9
other exports	28.1	31.0	33.1	36.2	128.4	31.1	36.0	37.5	40.7	145.3	156.5
exports of services	10.4	12.7	13.8	13.1	50.0	10.4	11.5	12.3	11.8	45.9	47.1
Imports											
bn USD	53.4	64.4	73.7	74.3	265.8	62.4	70.9	80.9	84.8	298.9	323.1
Including											
imports of goods	38.1	45.7	52.6	55.1	191.5	46.5	52.2	59.7	63.8	222.1	241.6
imports of services	15.3	18.7	21.1	19.2	74.3	15.8	18.7	21.2	21.0	76.7	81.5
CPI											
as % of previous period	102.1	101.2	100.7	101.3	105.4	101.1	100.9	101.0	101.0	104.1	103.7
Average interest rate on ruble-denominated loans over given period, as % per annum											
real	5.7	5.1	5.5	6.1	5.6	5.9	5.6	5.3	4.9	5.5	4.6
nominal	13.3	12.9	12.2	11.9	12.6	10.6	9.9	9.9	9.2	9.9	8.3

Basic scenario	2016					2017					2018
	Q1 *actual*	Q2 *actual*	Q3 *actual*	Q4 *actual*	**year-end** *actual*	Q1 *forecasted*	Q2 *forecasted*	Q3 *forecasted*	Q4 *forecasted*	**year-end** *forecasted*	**year-end** forecasted
Ruble-to-USD exchange rate											
average nominal, for period	74.6	65.9	64.6	63.1	67.0	59.2	58.4	59.3	59.9	59.2	57.7
Ruble's real effective exchange rate											
period-end value, as % of previous period-end value	-8.3	11.3	3.4	5.8	11.7	7.1	-0.2	-0.3	0.0	6.6	5.3
Money base											
trillion Rb	11.0	10.8	11.5	11.9	11.9	11.6	11.7	12.0	12.9	12.9	13.9
Money supply (M_2)											
period-end value, trillion Rb	34.7	35.9	36.1	38.4	38.4	38.3	38.5	39.9	41.4	41.4	44.0
growth, as % of previous period	-1.4	3.4	0.8	6.3	9.2	-0.3	0.4	3.8	3.7	7.8	6.2
IPI											
as % of corresponding period of previous year	101.1	101.5	101.0	101.7	101.3	100.6	101.2	101.9	102.2	101.5	102.0
Unemployment											
% of economically active population	5.9	5.7	5.3	5.4	5.5	5.6	5.3	4.8	4.9	5.1	4.7

Scenario with low exchange rate	2016					2017					2018
	Q1 *actual*	Q2 *actual*	Q3 *actual*	Q4 *Actual*	**year-end** *Actual*	Q1 *forecasted*	Q2 *forecasted*	Q3 *forecasted*	Q4 *forecasted*	**year-end** *forecasted*	**year-end** *forecasted*
Urals, USD per barrel	32.6	44.4	46.1	48.9	43.0	53.0	47.0	50.0	50.0	50.0	60.0
GDP											
bn Rb	18,816	20,430	22,721	24,077	86,043.6	19,597	21,871	24,922	26,263	92,653	99,610
physical volume index, as % of corresponding period of previous year	99.6	99.5	99.6	100.3	99.8	100.7	101.1	102.3	101.4	101.4	101.5
deflator	101.8	103.4	103.8	105.1	103.6	103.4	105.9	107.3	107.6	106.2	105.9
Investment in fixed assets											
physical volume index	98.8	98.5	100.5	98.7	99.1	100.3	100.0	100.5	100.7	100.4	100.9
Retail turnover											
as % of corresponding period of previous year	94.2	94.1	95.5	95.2	94.8	98.1	98.3	100.3	100.2	99.2	99.9
Real disposable money income											
as % of corresponding period of previous year	95.8	93.7	93.5	94.0	94.1	98.6	98.2	98.0	97.9	98.2	99.3
Exports											
bn USD	70.7	80.5	84.9	93.1	329.2	86.5	88.6	89.8	94.6	359.5	404.8
Including											
Exports of goods	60.3	67.8	71.1	80.0	279.2	76.1	77.0	77.5	82.9	313.5	357.8
Oil and gas exports	32.2	36.8	38.0	43.8	150.8	45.1	41.0	40.1	42.2	168.4	201.9
Other exports	28.1	31.0	33.1	36.2	128.4	31.1	36.0	37.4	40.6	145.1	155.9
Exports of services	10.4	12.7	13.8	13.1	50.0	10.4	11.5	12.3	11.8	45.9	47.1
Imports											
bn USD	53.4	64.4	73.7	74.3	265.8	62.4	69.2	78.6	78.5	288.6	281.7
Including											
Imports of goods	38.1	45.7	52.6	55.1	191.5	46.5	51.1	58.1	59.0	214.7	209.6
Imports of services	15.3	18.7	21.1	19.2	74.3	15.8	18.1	20.5	19.5	74.0	72.1
CPI											
as % of previous period	102.1	101.2	100.7	101.3	105.4	101.1	101.7	101.3	101.7	106.1	105.7
Average interest rate on loans over given period, as % per annum											
real	5.7	5.1	5.5	6.1	5.6	5.9	6.2	6.6	6.6	6.3	6.7
nominal	13.3	12.9	12.2	11.9	12.6	10.6	11.5	12.6	13.0	11.9	12.8
Ruble-to-USD exchange rate											
average nominal, for period	74.6	65.9	64.6	63.1	67.0	59.2	65.0	65.0	70.0	64.8	70.0

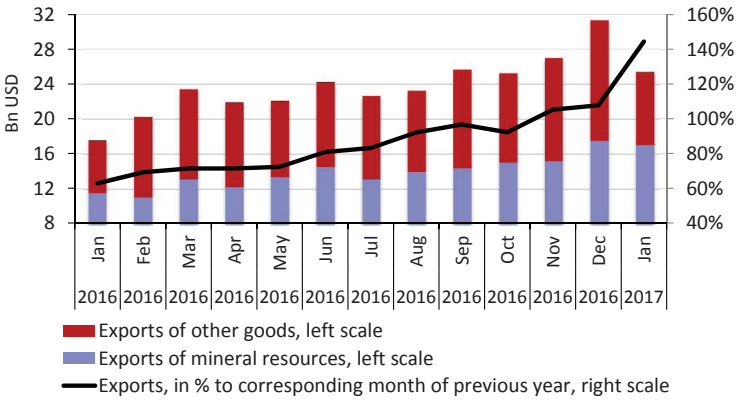
Scenario with low exchange rate	2016					2017					2018
	Q1 *actual*	Q2 *actual*	Q3 *actual*	Q4 *Actual*	**year-end** *Actual*	Q1 *forecasted*	Q2 *forecasted*	Q3 *forecasted*	Q4 *forecasted*	**year-end** *forecasted*	**year-end** *forecasted*
Ruble's real effective exchange rate											
Period-end value, as % of previous period-end value	-8.3	11.3	3.4	5.8	11.7	7.1	-6.4	0.9	-3.6	-2.5	3.6
Money base											
trillion Rb	11.0	10.8	11.5	11.9	11.9	11.6	11.7	12.0	12.9	12.9	13.9
Money supply (M_2)											
Period-end value, trillion Rb	34.7	35.9	36.1	38.4	38.4	38.3	38.5	40.1	41.7	41.7	44.8
growth, as % of previous period	-1.4	3.4	0.8	6.3	9.2	-0.3	0.5	4.0	4.2	8.6	7.3
IPI											
as % of corresponding period of previous year	101.1	101.5	101.0	101.7	101.3	100.6	101.3	103.6	101.5	101.8	101.7
Unemployment											
%, of economically active population	5.9	5.7	5.3	5.4	5.5	5.6	5.2	4.7	4.6	5.0	5.0

2. RUSSIAN EXPORTS TO EU IN 2016

A.Knobel, A.Firanchuk

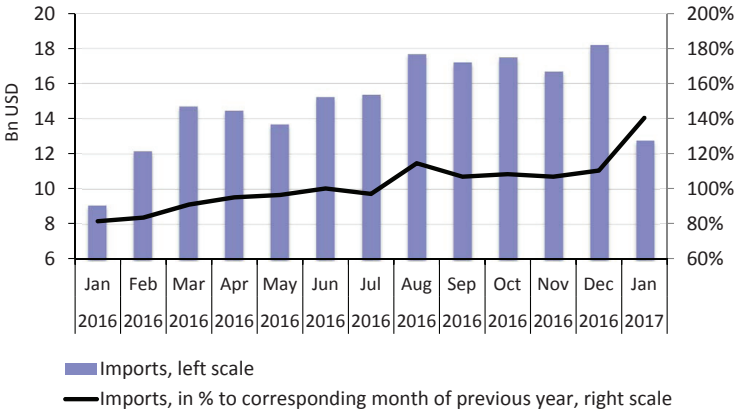
In 2016, Russian exports contracted to EUR 119 billion, which is its lowest level for the last decade (-12.9% to the 2015 level). The share of Russia in the total EU imports declined to 7.0% (-0.9 percentage point). At the same time, Russian share in EU imports across six main types of goods remained flat. Thus, the reduction of the total Russian share reflected low prices on principal products of Russian export – mineral resources. Growth of the physical volumes of natural gas (by 17%) and crude oil (by 6.3%) did not offset negative price effect.

In January 2017, exports increased significantly compared to January of the previous year (Fig. 1). In monetary terms, in January 2017, it totaled to $25.47bn (144% of January 2016 and 90.7% of January 2015).Positive dynamics of aggregate export (in value terms) reflected growth both of exports of fuel and other products. Exports of fuel (Harmonized System Codes 27) totaled to $ 17.12bn (148% against January 2016 and 85.1% of January 2015). Thus, relative growth of fuel exports was due, first, to record low indicators of January 2016. Total exports, expect fuel, went up to $ 8.35bn (138% of January 2016 and 104.7% of January 2015). The share of fuel exports in total exports in January came to 67.2%.



Source: own calculations based on data released by FCS of Russia.

Fig. 1. Dynamics of Russian exports in 2016–2017



Source: own calculations on the basis of data released by FCS of Russia.

Fig. 2. Dynamics of Russian imports in 2016–2017

Imports in January 2017 went up significantly as well against January last year (*Fig. 2*) constituting $ 12.78bn. (140% against January 2016 and 114.1% against January 2015). This growth of imports reflects a significant appreciation of the ruble against major currencies[1]. We should expect imports growth by the outcome of Q1 2017[2].

1 Correlation of dynamics of Russian imports and real ruble rate, see A. Knobel, A. Firanchuk. Foreign trade in 2016. Russian Economic Developments. 2017. No. 3, pp. 8–17.

2 FCS data on imports is available solely for January.

Commodity pattern and Russian share in import of European Union

Low energy prices significantly negatively affected the value of EU imports from Russia, which in 2016 amounted to Euro 118.78bn[1]. This is the lowest value for the last ten years. Moreover, in 2016, Russia ranked 4th in terms of export volume on the EU market one position down from its traditional 3rd place (after the US and China). Share of Russia in total EU imports declined to 7.0% in 2016 (compared to 7.9% in 2015 and 11.5% in 2010–2014).

EU imports from Russia of commodity groups SITC0 and 1 – "**food products, live animals, beverages and tobacco"** – in 2016 edged up to EUR 1.59bn surpassing peak indexes of 2015 by EUR 1.55bn. The Russian share came to 1.5% of the total EU imports of these commodities (1.4% in 2015).

EU imports from Russia of commodity groups SITC2 and 4 – ***"nonfood raw materials, minus fuel; animals and vegetable oils, fats and waxes"*** – in 2016 increased to EUR 3.51bn against Euro 3.40bn in 2015, and the share of Russia went up by 0.5 percentage point to 5.2%

EU imports from Russia of commodity group SITC5 – ***"chemicals and similar products"*** – in 2016 declined to EUR 4.44bn (from EUR 5.44bn in 2015). The Russian share declined to the lowest values (2.4%) during last ten years.

EU imports of commodity groups SITC6 and 8 – ***manufactured goods; various finished goods"*** – in 2016 came to EUR 15.22bn (14.37bn in 2015). Share of Russia amounted to 3.4% (3.2% in 2015).

EU imports from Russia of commodity group SITC7 – ***"machinery and means of transport"*** – in 2016 contracted to Euro 2.30bn (from EUR 2.36bn in 2015). Share of Russia is negligible.

EU imports from Russia of the most important commodity group SITC3 (Harmonized System Codes 27) – "***mineral fuel, lubricants and similar materials"*** – down to EUR 78.14bn in 2016 (EUR 92.39bn in 2015 and EUR136.78bn in 2014), meanwhile the share of Russia increased to 29.6%. In the course of last ten years, Russian share in EU imports of this commodity group varied in the range of 27.4% (2008) to 31.5% (2010). Thus, a reduction in value terms of deliveries of Russian fuel on the European market reflects decline of prices on energy resources and not a fall of Russia's presence on the market.

Commodities markets

In terms of volume, deliveries of ***natural (pipe) gas*** from Russia to EU in 2016 up 17%[2] according to Gazprom, gas deliveries to EU countries amounted to 12.5%[3]). It should be noted that total deliveries of natural gas to EU went up by 12%. Aggregate share of Russia in natural gas imports by EU (minus trade inside EU) increased to 42% (against 40% in 2015). This shift towards Russian gas reflected long-term contracts to crude price. Decline of crude oil prices in early 2016 resulted in a situation where prices of Russian natural gas tied to average crude oil prices in the previous quarters by late 2016 were below the EU hub quotations.

Main growth of natural gas deliveries from Russia happened in Q4 2016 (+22%). In 2016, these supplied went through Ukraine – 43% of the overall

1 Hereinafter data released by Eurostat is used (given in euro). http://ec.europa.eu/eurostat/web/international-trade/data/database

2 DG Energy, European Commission "Quarterly report on European gas market"// Q4 2015 https://ec.europa.eu/energy/sites/ener/files/documents/quarterly_report_on_european_gas_markets_q4_2015-q1_2016.pdf

3 http://www.gazprom.ru/about/marketing/europe/

Table 1

DYNAMICS OF EU IMPORTS FROM RUSSIA ACROSS MAJOR COMMODITY GROUPS

Major commodity group – code of Standard International Trade Classification (SITC)	Value volumes of EU imports from Russia, EUR bn		2016 to 2015, %	Russia's share in EU imports, %		
	2015	2016		Avetrage 2010–2014	2015	2016
Food products, live animals, beverages and tobacco – 0 и and 1	1.55	1.59	+2.9	1.3	1.4	1.5
Non-food resources, minus fuel; animal and vegetable oils, fats and waxes – 2 and 4	3.40	3.51	+3.4	5.4	4.7	5.2
Mineral fuel, lubricants and similar materials – 3	92.39	78.14	-15.4	31.1	28.1	29.6
Chemicals and similar products – 5	5.44	4.44	-18.3	3.8	2.9	2.4
Manufactured goods; Various finished products – 6 and 8	14.37	15.22	+5.9	3.6	3.2	3.4
Machinery and means of transport – 7	2.36	2.33	-1.1	0.4	0.4	0.4
TOTAL (including group 9)	136.41	118.78	-12.9	11.5	7.9	7.0

Source: data released by Eurostat (http://ec.europa.eu/eurostat/web/international-trade/data/database)

Table 2

DYNAMICS OF EU IMPORTS FROM RUSSIA ACROSS CERTAIN COMMODITY GROUPS

Commodity group – HS code	EU imports from Russia in value terms (EUR m)		Volume change 2016 to 2015, %	Physical volume change 2016 to 2015, %	Change in average Euro price in 2016 to 2015, %	Russian share in EU imports, %	
	2015	2016				2015	2016
Wheat and meslin – 1001	120	112	-7	10	-15	7.5	8.9
Mineral nitrogen fertilizers – 3102	608	498	-18	10	-26	30.5	28.8
Mineral potash fertilizers – 3104	316	239	-24	-15	-11	46.2	38.8
Mineral mixed fertilizers – 3105	669	548	-18	5	-22	38.9	39.2
Ferrous metals – 72	4167	3600	-14	1	-14	16.1	15.2
Copper – 74	1709	1719	1	20	-16	17.1	18.6
Nickel – 75	675	741	10	63	-33	16.1	20.6
Aluminum – 76	2673	2613	-2	13	-13	13.5	13.9
Lead – 78	65	82	26	21	4	10.1	11.6
Other non-precious metals – 81	324	362	12	15	-3	9.6	10.8

Source: own calculations on data released by Eurostat (http://ec.europa.eu/eurostat/web/international-trade/data/database)

deliveries in volume terms to EU (up 5 percentage points on 2015), Nord Stream – 28%, and Belorussia – 26%. Deliveries through Ukraine up 30% (compared to 2015) – mainly due to gas pipeline to Slovakia. Nord Stream deliveries up 17% and via Belorussia – up 29%.

According to data released by the European Commission[1] (DGofEnergy), deliveries of **crude oil** from Russia into EU in 2016 increased to 1,198.9 m/bbl (or by 6.3% compared to 2015). Russian share went up in 2016 to 31.8% (by 2.4 percentage points in comparison with 2015) of total deliveries of crude oil into EU (minus intra-EU trade).

Dynamics of deliveries of grain, fertilizers and metals is provided in *Table 2*. We should note growth of grain deliveries in volume terms (wheat and meslin) by 10%, fertilizers (less potash) by 5–10%, and metals – by 63% (nickel). In certain cases, such dynamics does not coincide with the dynamics of total

1 DG Energy, European Commission "Registration of crude oil imports and deliveries in EU" https://ec.europa.eu/energy/en/data-analysis/eu-crude-oil-imports

Russian exports[1]: aggregate volumes of Russian exports of nickel and copper (to all countries) in 2016 declined, and EU imports from Russia – increased.

Prices (in Euro) on all mentioned commodities (less lead) declined, which in the majority of cases exceeded positive effect of deliveries growth in volume terms. Nickel is an exception: Russian share in EU imports of nickel surpassed 2013 indicators[2].

1 Analysis of dynamics of Russian main commodities exports in 2016 see A. Knobel, A. Firanchuk. Merchandize trade in 201. Russian Economic Developments. 2017. No. 3, pp. 8–17.

2 Russian share in EU imports during previous years see: A. Knobel. Merchandize trade: exports decline determined trade balance contraction. Russian Economic Developments. Moscow. 2016, No. 5, pp. 16–18.

3. "TOMATO WAR" WITH TURKEY: INTERIM RESULTS

N.Shagaida

On 15 March, 2017 Russia was barred from importing products with zero duty rates, including grain[1], to Turkey, which became the next episode of "tomato war" with this country[2]. This "war" vacated the niche of $0.5 billion in Russia for local tomato and cucumber producers, but also created problems for Russia's exports of grain, vegetable oil, and food industry waste for fodder to Turkey amounting to $1.3–1.5 billion.

The grain issue

In response to the refusal to import goods with zero duty rates, representatives of the Russian Ministry of Agriculture stated that the Russian Federation does not accept pressure and can stop supplying agricultural products to Turkey[3]. However, new duty rates will stop Russian exports anyway. For example, the import duty for Russian wheat and corn is 130%, for rice – 45%, for sunflower meal – 13.5%, and for beans – 9.7%.

Russian officials point out that Turkey has become the largest flour exporter in the world thanks to our wheat, and that happened in violation of WTO rules. The Republic of Turkey has indeed shortly become the largest exporter of flour, using the mechanism of import duties to limit the import of flour, on the one hand, and to encourage the import of wheat for its production, on the other hand. Introducing a differentiated approach to exports led to the situation when Russian supplies did not have a negative impact on the prices of Turkish grain producers. At the same time, flour-milling industry has actively developed on imported grains, producing jobs in Turkey and gaining export positions without expanding wheat production within the country.

Russia is not the only large exporter geographically close to Turkey. It is obvious that suppliers can be easily replaced: Ukraine produces less grain and vegetable oil than Russia, but per capita it is 2–2.7 times more. The resulting surplus has to be exported. On the export market, there is no shortage of food, but there is a shortage of solvent purchasers, as evidenced by the fall in grain and vegetable oil prices[4]. The Ministry of Agriculture understands it, considering the possibility of selling products while reorienting to new markets with a discount[5]. However, it is not clear at the expense of whom this discount will be received. If it is received at the expense of exporters or agricultural producers, then this is not a discount but a loss. If the state pays, the question of the rationality of such payments for the country arises.

Losing the importer

The reason for the Turkish government to restrict Russian imports is clear: Russia has not fully restored the terms of cooperation with Turkey that had

1 http://tass.ru/ekonomika/4115085, http://www.interfax.ru/world/553939 [in Russian].
2 See Monitoring of Russia's Economic Outlook No. 1 and 10, 2016.
3 http://tass.ru/ekonomika/4117559 [in Russian].
4 http://www.fao.org/worldfoodsituation/foodpricesindex/ru/ [in Russian].
5 https://rns.online/articles/Rossiya-ischet-zamenu-Turtsii-2017-03-23/ [in Russian].

operated until 2016. Before Russia banned the import of a wide range of products from Turkey, Russia's share in Turkish exports had been 16% (2012–2014) to 8.3% (2015)[1]. Since 1 January, 2016, approximately 60% of food imported to Russia from the Turkish Republic have been banned[2]. Turkey managed to reorient the flows of tomatoes and lost only 10% of exports. Turkey's tomato export has increased manifold to countries that have special trade regimes with Russia – Belarus, Azerbaijan, Kazakhstan (*Table 1*).

Table 1

REDISTRIBUTION OF TOMATO EXPORTS FROM TURKEY

Importers	Tons					2016/2015
	2012	2013	2014	2015	2016	
Azerbaijan	8 050	1 909	351	247	13 372	54,1
Belarus	6 472	6 816	16 966	11 918	86 880	7,3
Georgia	6 238	9 885	20 433	16 521	56 911	3,4
Kazakhstan	419	131	291	631	7 720	12,2
Russian Federation	341 462	317 855	352 738	337 426	0	0,0
Serbia	3 764	3 854	4 741	3 982	6 587	1,7
Ukraine	35 270	37 801	37 627	11 720	33 489	2,9
Total for selected countries	401 675	378 251	433 147	382 445	204 959	0,5
Other countries	158 616	104 768	152 055	158 910	281 069	1,8
World	560 291	483 019	585 202	541 355	486 028	0,9

Source: ComTrade.

Gradually, as the relations became warmer, the list of prohibited products got shorter: first, citrus fruits and stone fruits returned[3]. Then – onions, cauliflower, carnations and broccoli[4]. However, some products still remain under the ban, the main one being tomatoes. The Russian Ministry of Agriculture recognizes this, pointing out that the import authorization only concerns products that do not play a significant role in the country's food market[5].

Turkey's ban as a counter measure looks more painful for Russia than Russia's ban on Turkish products for Turkey. The matter is that Russia is a net food exporter to Turkey (*Table 2*), this country accounted for 9.9 to 13.6% of Russia's exports.

Table 2

FOREIGN TRADE TURNOVER BETWEEN RUSSIA AND TURKEY, THOUSAND DOLLARS

	2014	2015	2016	January 2017
Imports from Turkey	2352580	1823476	652593,8	68865,67
Exports to Turkey	2479683	1971698	1860511	113736,3
Import-export balance	-127103	-148222	-1207917	-44870,7
Foreign trade turnover	4832263	3795174	2513105	182602
Share of Russian exports in foreign trade turnover, %	51,3	52,0	74,0	62,3

Source: Federal Customs Service.

1 Federal Customs Service, 2016.

2 Monitoring of Russia's Economic Outlook. The Trends and Challenges of Social and Economic Development, No. 1(19), January 2016, p. 25, https://www.iep.ru/ru/publikatcii/publication/7816.html [in Russian].

3 http://www.rbc.ru/politics/10/10/2016/57fbd4779a794712cf546329 [in Russian].

4 http://government.ru/docs/26720/ [in Russian].

5 http://www.rbc.ru/politics/14/03/2017/58c7d50b9a79471046f1fc8c [in Russian].

Table 3

THE MAIN COMMODITY GROUPS OF FOOD EXPORTS FROM RUSSIA TO TURKEY

	2014		2015		2016		January 2017	
	Thousand dollars	%	Thousand dollars	%	Thousand dollars	%	Thousand dollars	%
Total for FEACN groups 1–24	2479683	100	1971698	100	1860511	100	113736	100
10 – cereals	1327106	53,5	826878	41,9	592538	31,8	36551	32,1
15 – fats and oils of animal or vegetable origin and products of their processing	499547	20,1	466547	23,7	431034	23,2	35290	31,0
23 – leftovers and waste products of the food industry; ready-made animal feeds	229601	9,3	196395	10,0	227983	12,3	22402	19,7
Total for the three main groups	2056254	83	1489820	76	1251556	67	94243	83

Source: Federal Customs Service.

Table 4

MAIN COMMODITY GROUPS OF FOOD IMPORTS TO RUSSIA FROM TURKEY

FEACN (2 digits)	2014		2015		2016		2017*	
	Thousand dollars	%	Thousand dollars	%	Thousand dollars	%	Thousand dollars	%
1–24	2352580	100	1823476	100	652594	100	68866	100
07 – vegetables and some edible roots and tubers	597367	25,4	432352	23,7	29100	4,5	323	0,5
0702 – fresh or chilled tomatoes	436501	18,6	330455	18,1	0	0,0	0	0,0
0703 – onions, shallots, garlic, leeks and other bulbous vegetables	32196	1,4	17217	0,9	15	0,0	0	0,0
0705 – lettuce (lactuca sativa) and chicory (cichorium spp.), fresh or chilled	5452	0,2	3717	0,2	456	0,1	0	0,0
0707 – cucumbers and gherkins, fresh or chilled	71764	3,1	35092	1,9	0	0,0	0	0,0
0709 – other vegetables, fresh or chilled	47228	2,0	40251	2,2	25081	3,8	0	0,0
0713 – dried beans	2300	0,1	2716	0,1	2025	0,3	215	0,3
08 – edible fruits and nuts; peel of citrus fruits or melon crusts	825706	35,1	748325	41,0	423183	64,8	54610	79,3
24 – tobacco and industrial tobacco substitutes	50703	2,2	49880	2,7	52735	8,1	894	1,3

Source: Federal Customs Service.

Against the background of bilateral reduction in trade, Turkey lost $1.7 billion in 2016 relative to 2014. It could hardly be assumed that they would tolerate this, having an instrument to limit Russian exports as a counter measure.

To envisage in respect of which products the mechanism of counter restriction could be introduced, it was sufficient to look at the structure of Russian exports. The main groups of Russian food exports (according to two-digit OKVED codes) are stably cereals, fats and oils, food processing waste products – *Table 3*. This is apparently what Turkish officials did: the decision on restrictions since 15 March, 2017 was taken by Turkey exactly in respect of these product groups. As a result, Russia lost one of the largest importers of these food groups, as Turkey ranked second in each of them in 2016[1].

1 Federal Customs Service, 2014–2017.

Limiting Turkey's imports according to the Presidential Executive Order No. 583 from 28.11.2015, Russia acted approximately the same (but less targeted) way. The products the import of which by estimate amounted to $1.8 billion were banned[1]. The Turkish food export shrinked in 2016 by exactly the same amount. Along with products that accounted for dozens of percent of imports (tomatoes, citrus fruits), the imports of frozen poultry and carnation were banned, the share of which in imports to Russia was extremely low. The main import groups can be seen in *Table 4*.

Disputing the protected ground issue

As can be seen from the list of the main products that remained banned, tomatoes occupied the main place. This product was important for the Russian consumer, as 43% of all imported tomatoes were Turkish[2], their prices influenced consumer prices as those of a consolidated and inexpensive supplier .

The state promptly provided support to the vegetable production under cover (2016), adding this item to the State Program for Support of Agriculture. Even before that – in December 2015 – 11 investment projects on the construction of greenhouse complexes were approved[3]. Other sources refer to the selection of 20 projects with an estimated volume of subsidies of 5.7 billion rubles[4].

Turkey asked insistently to cancel the ban, but the Russian Ministry of Agriculture, based on the fact that the import substitution program had already been financed by the government and business, rejected the request. The expenses of the state and business can easily be calculated: judging from the Ministry of Agriculture's protocol on project approval, subsidies amount to 20% of the estimated cost of the facilities. If we assume that 20 projects were selected, then it turns out that business expenses (without VAT) amount to 28.5 billion rubles, while total costs of the state and business amount to 34.2 billion rubles or about $570 million (calculating at the exchange rate of 60 rubles per dollar) against $508.3 million (estimated by the exports in 2014) of Turkish exports of tomatoes and cucumbers to Russia.

The issue of choosing a priority field of state agrarian policy – supporting vegetable production under cover – is a very controversial one. The decision was taken in the absence of a scientific discussion or careful study. First, the regions were not identified where greenhouses can produce tomatoes competitive in price with Turkish ones (the cheapest ones[5] from all those imported). Second, food safety criteria are not established for vegetables in

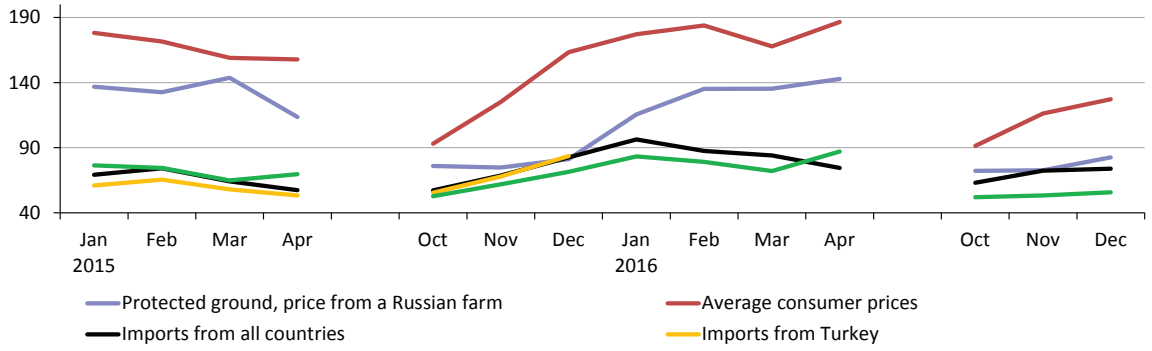
1 Monitoring of Russia's Economic Outlook. The Trends and Challenges of Social and Economic Development, No. 1(19) January 2016, p. 25, https://www.iep.ru/ru/publikatcii/publication/7816.html [in Russian].

2 Monitoring of Russia's Economic Outlook. The Trends and Challenges of Social and Economic Development, No. 1(19), January 2016, p. 25, https://www.iep.ru/ru/publikatcii/publication/7816.html [in Russian].

3 Minutes of the commission on the selection of investment projects aimed at the construction aand/or modernization of agroindustrial complex facilities, 30.12.2015 AT-17-107.

4 http://rusteplica.ru/публикации/официальная-информация/итоги-заседания-у-дворковича-15012016.html [in Russian].

5 See information on prices for Turkish and Russian tomatoes produced under cover: Monitoring of Russia's Economic Outlook. The Trends and Challenges of Social and Economic Development, No. 1(19), January 2016, p. 25, https://www.iep.ru/ru/publikatcii/publication/7816.html [in Russian].



Source: Rosstat.

Fig. 1. Average prices for tomatoes produced under cover in Russia, rubles/kg

general and for protected ground in particular, which reduces the range of reasons for using special measures. Third, the international division of labor remains in place for various reasons, one of the main of them being that the environmental conditions allow to produce a product cheaper in warmer climates. Fourth, closing the market for Turkish tomatoes, allocating government subsidies for Russian producers happen while the EAEU is functioning. Southern Kazakhstan, Kyrgyzstan, Armenia have more favorable conditions for greenhouse production. This fact, as well as the fact that Uzbekistan and Azerbaijan have facilitated access to the Russian market, increases the risks of investing in the Russian greenhouse industry. It can be said with a high degree of probability that producers of vegetables under cover will put pressure on the government in order to provide opportunities for greenhouses to function. To survive, they will demand preferences in energy, gas, closing the markets from the EAEU and CIS neighbors. The fact that the price for Russian tomatoes produced under cover is higher than that of the imported ones is reflected by the data shown in *Fig. 1*.

The figure shows that the Russian consumer is in a rather disadvantageous position. First, the price in stores exceeds the price at which tomatoes are imported to Russia by up to three times. Second, the selling price of Russian greenhouse facilities significantly exceeds the average import price of imported tomatoes, calculated for all importers. Third, if the import of Turkish tomatoes produced under cover continued, their price would be lower than that of supplies from other countries.

The Russian consumer pays an inflated price in a store because it is guided by the high price of Russian tomato supplies.

So the trade war over winter tomatoes with Turkey has sacrificed the exports of grain, oil, fat and sugar waste products in the amount of $1.3–1.5 billion. The fate of these exports in terms of reorienting to other markets is not clear. Those who suffer are Russian consumers who have lost the opportunity to buy cheap Turkish tomatoes. The Russian side's gain is the free niche worth $508 million for our own production achieved by banning the import of Turkish tomatoes and cucumbers. The question of whether Russian producers will be able to occupy it with a price that satisfies the buyer remains open.

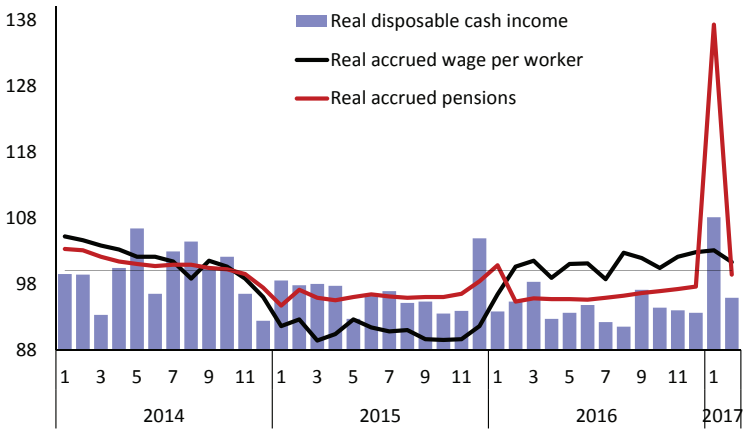
4. INCOMES AND POVERTY LINE: CURRENT TRENDS

E.Grishina

Despite real wages weak growth since August 2016, real disposable cash incomes are contracting and material situation is getting worse. In 2016, the poverty level increased compared to 2015 and came to 13.5% which is above the poverty level of 2007–2015.

In February 2017, the real disposable cash income amounted to 95.9% of the level posted during the same period of last year, and the volume of real accrued wages – 99.4%.Meanhile, the real accrued wages went up compared to the same period of 2016 and constituted 101.3% (*Fig.1*).

Significant growth of cash income of the population and the real accrued pensions in January 2017 reflected lump sum payment of RUB 5,000 to pensioners. This was due to the fact that there was only partial indexation of pensions in 2016 – by 4% with inflation running at 12.9% in 2015.



Source: Rosstat.

Fig. 1. Dynamics of real disposable cash income, real accred wage and real accrued pensions in 2014–2017, in % to corresponding period of the previous year

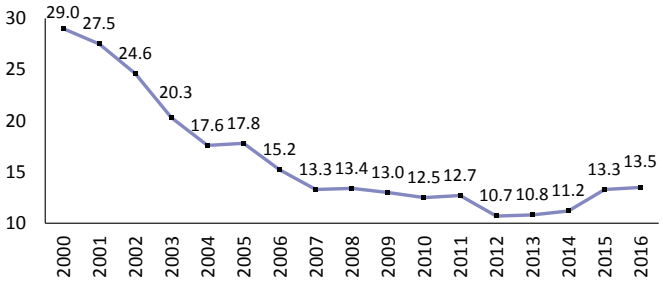
In 2016 as a whole, the real disposable cash income and the real accrued pensions amounted to 94.1% and 96.6% on the 2015 level. At the same time, the real wages remained flat and totaled to 100.7% against the level of the previous year. Compared to the 2014 level, the real disposable cash income came to 91.1% in 2016, the real accrued wages – 91.6%, and the real accrued pensions – 92.9%.

In February 2017 compared to February 2016, the spending structure of cash income changed in favor of increased share of spending on purchase of goods and services (from 70.0% to 71.5%) and payment for mandatory contributions (from 10.8% to 11.8%). The saving ratio went down by 4.0 p.p. (from 15.3 to 11.3%).

Subsistence minimum in Q4 2016 came to RUB 9,691 for the population as a whole, RUB 10,466 – for able-bodied population, RUB 8,000 – for pensioners, and RUB 9,434 – for children[1]. Compared to Q3 2016, subsistence minimum declined by 2% reflecting price fall on certain types of fruit and vegetable products, which form part of subsistence minimum.

1 Resolution of the RF Government of 30 March 2017, No.352 "On Determining Per Capita Subsistence Minimum and Across Main Socio-demographic Groups of Population in Russia as a Whole for Q4 2016".

Owing to cash income reduction, in 2016, poverty increased compared to 2015 and amounted to 13.5% surpassing the 2007–2015 level (*Fig. 2*).



Source: Rosstat.

Fig. 2. Poverty level in 2002–2016, %

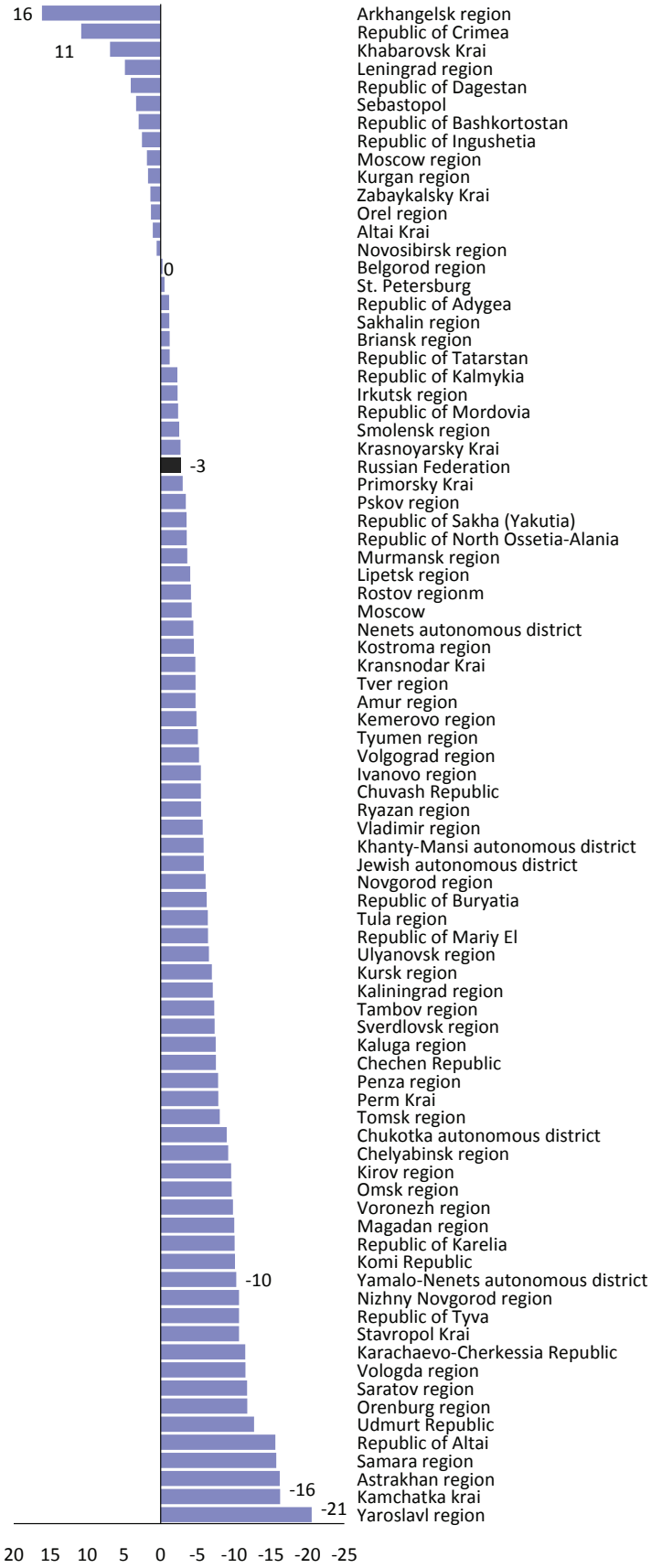
Thus, despite somewhat growth of real wages since August 2016, the real cash income are contracting and the material well-being of the population is deteriorating.

The majority of Russian regions registered higher than on average across the Russian Federation decline of the standard of living. If nationwide in Q4 2015, the ratio of per capita cash income to subsistence minimum came to 382%, and in Q4 2016 – only 371%. In 53 Russian regions per capita cash income against subsistence minimum declined by 4% and in more than 20 regions they declined (against subsistence minimum in Q4 2016 against the same period of last year) by 10% and more (*Fig. 3*).

The highest contraction per capita of income against subsistence minimum was observed in Yaroslavl region (by 21% from 397% in Q4 2015 to 316% in Q4 2016). At the same time, in 14 regions this ratio has improved. The highest growth was observed in Arkhangelsk region (by 16% from 261 to 303%).

Regarding estimates of the population of prospects of improvement of their material situation, then according to Rosstat data, in Q1 2017, the share of respondents expecting improvement of their material situation in the course of the nest year came to 11%, which was equal to the Q4 2016 level[1]. The share of respondents who expect deterioration of their material situation in the course of the next year came to 20%, which is below the Q4 2016 level (23%).

1 Rosstat. Consumer expectations in Russia in Q1 2017.



Source: own calculations based on data released by Rosstat.

Fig. 3. Change of ratio of per capita cash income to subsistence minimum, Q4 2016 against Q4 2016, %

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