

# MONITORING OF RUSSIA'S ECONOMIC OUTLOOK:

## TRENDS AND CHALLENGES OF SOCIO-ECONOMIC DEVELOPMENT

No. 3 (86) February 2019

TRENDS AND CHALLENGES OF SOCIO-ECONOMIC DEVELOPMENT .....	3
1. DECOMPOSITION OF RUSSIA'S ECONOMIC GROWTH RATES 2018-2019 S.Drobyshevsky, P.Pavlov .....	5
2. FEDERAL BUDGET IN 2018: GROWTH OF OIL AND GAS REVENUES, BUDGET SURPLUS T.Tischenko .....	8
3. RUSSIAN TOMATOES BECOME MORE COMPETITIVE N.Shagaida.....	12
4. RETIREMENT AGE INCREASE: DEMOGRAPHIC FACTS V.Lyashok .....	17
AUTHORS.....	19

## Monitoring of Russia's Economic Outlook

**Monitoring** has been written by experts of Gaidar Institute for Economic Policy (Gaidar Institute) and Russian Presidential Academy of National Economy and Public Administration (RANEPA).

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

**Editors:** Vladimir Gurevich and Andrei Kolesnikov



GAIDAR  
INSTITUTE  
FOR ECONOMIC  
POLICY



**RANEPA**  
THE RUSSIAN PRESIDENTIAL ACADEMY  
OF NATIONAL ECONOMY  
AND PUBLIC ADMINISTRATION

3(86) 2019

*Monitoring of Russia's Economic Outlook: trends and challenges of socio-economic development. 2019. No. 3 (86). February / Drobyshevsky S., Lyashok V., Pavlov P., Tischenko T., Shagaida N. Edited by: V. Gurevich, S. Drobyshevsky, P. Kadochnikov, A. Kolesnikov, V. Mau and S. Sinelnikov-Murylev. Gaidar Institute for Economic Policy, Russian Presidential Academy of National Economy and Public Administration. 19 p. URL: [http://www.iep.ru/files/text/crisis\\_monitoring/2019\\_3-86\\_February\\_eng.pdf](http://www.iep.ru/files/text/crisis_monitoring/2019_3-86_February_eng.pdf)*

*The reference to this publication is mandatory if you intend to use this material in whole or in part.*

## TRENDS AND CHALLENGES OF SOCIO-ECONOMIC DEVELOPMENT

Positive assessments of macroeconomic stability alongside negative assessments of business climate give a combined description of what has recently been seen in the Russian economy.

Recent rankings of international rating agencies that are favourable to Russia rely first of all on Russia's macroeconomic figures. It follows from the recent Presidential Address to the Federal Assembly that a critical task of avoiding deterioration of these figures still remains in place. However, a critical task of accelerating growth rates by, first of all, ramping up investment arises a whole lot of questions, including against a backdrop of weak investment activity on the business side. Therefore, business's overreaction to what is unfolding around Baring Vostok private equity fund does not seem to be odd or unusual.

The price of enhancing or degrading the quality of business climate in Russia climbs even higher as Russia's traditional external sources of revenues are now being increasingly subject to pressure due to objective reasons (markets, technologies) or subjective reasons (geopolitics). The European Union and the United States, for instance, have ultimately reached their goal, that is, the Nord Stream 2 project is to be subject to terms that are quite unfavourable to Gazprom, which will face more challenges while negotiating with Ukraine about gas transfer via Ukraine. Hydrocarbon revenues is no longer a "heaven rained manna".


Our experts performed a decomposition of Russia's GDP growth rates to assess the current state and the near-term prospects for the Russian economy. Respective forecasts of Russia's Ministry of Economic Development have been used as scenario-based cases.

An analysis of 2018 GDP growth components (Russia's 2018 GDP stood at 2.3%, according to initial data from Russia's office for national statistics Rosstat) shows that structural factors (labour, capital, total factor productivity) contributed 1.6 p.p. to the growth, foreign-trade factors (terms of trade) posted a negative contribution of -0.5 p.p. and cyclic factors (internal business cycle and random shocks) contributed 1.2 p.p. According to the experts, the decomposition findings provide no evidence that the 2018 growth was driven by a set of one-time internal factors; rather, the growth was led by an upturn in global commodity markets. Regarding 2019, the forecast of the Ministry of Economic Development (GDP is expected to rise 1.0–1.3%) indicates that a slowdown can only stem from a strong external and internal negative shock. Russia's GDP growth rates in 2019 would, barring negative shocks, vary within a range of 1.7–2.0%.

While analysing the 2018 federal budget outturns, our experts point to the fact that federal budget revenues rose 2.4 p.p.s of GDP (including oil and gas revenues that contributed 2.2 p.p.s of GDP) as federal budget expenditure were reduced by 1.7 p.p.s of GDP year-on-year. The increase in revenues amid spending cuts under fiscal rules led to a budget surplus of 2.7% of GDP (compared to a deficit of 1.4% of GDP in 2017). The sovereign debt was reduced from 12.6%

to 12.1% of GDP. The federal budget dynamics and structure are adequate for ensuring financial stability, the experts conclude.

An expert analysis of the competition between Russian tomatoes and imported tomatoes was made due to the fact that imports of vegetables represent one third of overall imports in Russia, way ahead of any other type of agricultural produce. Imports of vegetables have tumbled (36% down from 2013) in recent 5 years, with minor changes to the proportion of tomatoes. The trend towards narrowing of the gap between imported and Russian tomatoes was borne out by events in last winter. However, prices for Russian tomatoes grown under protected agriculture are still higher than that for imported tomatoes despite new projects, a weakening rouble and a good crop. Private subsidiary farms are the major contributors to lower prices for Russian tomatoes in summer and in autumn.

Our experts analysed once again demographic factors of the retirement-age increase that took place in 2018. The experts note that the ratio of the working-age population to the old aged population in Russia is much higher than in nations with a comparable per capita GDP. Furthermore, Russia will see the ratio continue to grow at an accelerated pace in favour of the old aged population. The experts also pay attention to studies that include the youngest aged people in the ratio, in which case the measure of the so-called overall demographic burden turns out somewhat different: the overall proportion of children and old aged people relative to the working-age population in Russia turns out even lower than in many other countries. The experts, however, believe – and they advance a few arguments in favor of their position – that young people and old-aged people should not be put in the same group of dependants when analyzing the demographic burden on the working-age population. 

# 1. DECOMPOSITION OF RUSSIA'S ECONOMIC GROWTH RATES 2018-2019

S.Drobyshevsky, P.Pavlov

*We have performed a decomposition of Russia's GDP growth rates to assess the current state of the Russian economy. Basic production factors (labour, capital, total factor productivity) in 2018 contributed to the growth around 1.6 p.p.. Global crude oil prices posted a negative contribution of around -0.5 p.p., while the business cycle and random shocks components altogether contributed around 1.2 p.p. End-of-year growth for 2019 might stay at 1.7–2.0%, barring negative shocks.*

Russia's 2018 GDP stood at 2.3%, with GDP annual growth notching the highest point on record since 2012, according to initial assessment from Russia's office for national statistics Rosstat). The above figure is way above the expectations of the majority of international financial institutions (IMF, World Bank, OECD) as well as Russian bank analysts and experts. Russia's GDP in nominal terms topped Rb 100 trillion (Rb 103.626.6bn, approximately \$1657bn at the rouble average annual exchange rate).

Growth was recorded for the majority of key macroeconomic indicators. For instance, the 2018 industrial production index was up 2.9%, freight turnover increased 2.9%, retail turnover gained 2.6%. The dynamics of fixed investment deserves a special emphasis, however, Rosstat is yet to release end of year data for 2018. It follows from the available information that past year's fixed investment increased not less than 5%. In particular, the fixed investment index stood at 4.1% in the first nine months 2018 (versus 3.0% recorded in the same period 2017, with 4.8% at the 2017 year end). Peak values, however, are commonly seen in the fourth quarter every year due to the seasonal factor and accounting specifics applied to fixed investment. In addition, Rosstat announced that data for the first three quarters will be revised upward. Therefore, one can say that 2018 saw explosive growth in investment, however, major contributors to the growth were either public investment (completed construction projects designed for the FIFA World Cup 2018 hosted by Russia, the construction of the Crimean Bridge, Sabetta airport and seaport, Moscow's infrastructure) or investment relating to state-run companies (the construction of Nord Stream 2 pipeline project, Yamal LNG Project, etc.).

However, Russia's Ministry of Economic Development argues that the 2018 GDP growth was driven by "one-time factors"<sup>1</sup> and continues to predict a 1.0–1.3% slowdown in fall 2019 (depending on the scenario).

We have analyzed components of Russia's GDP end-of-year growth rates for 2018 in order to assess the current state of the Russian economy and to see into opportunities for attaining economic performance targets. The assessment has been performed using a decomposition method for GDP growth rates that is adapted to the Russian context<sup>2,3</sup>, in which the analyzed growth rates constitute an aggregate of structural, foreign-trade and cyclical

1 URL: <https://www.rbc.ru/economics/13/02/2019/5c6378929a79471f926430ef>

2 S. Drobyshevsky, G. Idrisov, A. Kaukin, P. Pavlov, S. Sinelnikov-Murylev. Decomposition of Russia's economic growth rates in 2007–2017 and a forecast for 2018–2020 // Voprosy Ekonomiki. 2018. No. 9. P. 5–31.

3 The said method is based on the OECD's GDP decomposition method, see Giorno C., Richardson P., Roseveare D. and van den Noord P. 1995. Estimating Potential Output, Output Gaps and

components. The structural component represents GDP long-term growth rates and is governed by the dynamics of basic production factors, namely labour, capital, total factor productivity. The foreign-trade component is led by swings in country's terms of trade and, for our purposes, correlates closely with global prices for tradable raw commodities such as crude oil, natural gas, metals, etc. The cyclical component is represented by a sum of internal business cycle and random shocks.

Since the said method of decomposing GDP growth rates is sensible to a period selected for assessment, and assessments regarding recent years' observations that are of our main interest may be incorrect and usually have to be adjusted when extending time series of macroeconomic indicators,<sup>1</sup> some economic development scenarios for a few years down the line are needed. For our calculations we have drawn on a socio-economic forecast for Russia until 2024 that was presented by The Ministry of Economic Development in a package of documents attached to the federal draft law "Concerning the Federal Budget for 2019 and the 2020 and 2021 Planning Period".

There are two versions of the forecast, including a baseline scenario and a conservative scenario. In the baseline scenario, as noted above, 2019 economic growth rates would stay at 1.3%. However, the economic downturn would be temporary, and the implementation of national projects and investment promotion policies would subsequently put GDP growth rates in a higher trajectory, thereby creating conditions suitable for achieving the main objectives set forth in Executive Order of the President No. 204 dd. 7 May 2018 "Concerning national goals and strategic objectives for the development of the Russian Federation until 2024". For instance, Russia's GDP in 2020 is expected to gain 2%, with 3%+ growth rates from 2021, reaching 3.3% by 2024.

The conservative scenario would take place against a backdrop of substantial deceleration in the global economic growth stemmed from China's "hard landing" and therefore a slim demand for energy commodities and other raw commodities, including, consequently, prices for such commodities. In particular, crude prices are projected to fall to \$45.9 per barrel by 2024 versus \$53.5 (in the baseline scenario). As noted in the forecast, the ongoing macroeconomic policy maintains a small enough reliance of internal economic parameters upon volatility in crude prices, however, if the conservative scenario takes place, then a negative effect on the Russian economy would come from a weak external demand for domestic export commodities.

A decomposition of GDP growth rates for 2007–2024 has been performed using the above scenarios. *Fig. 1* shows the dynamics of the structural, foreign-trade and cyclic components for the baseline scenario of The Ministry of Economic Development because the variation of values for both scenarios is small and the latter scenario has no strong effect on analysis findings.

As shown in the diagram in *Fig. 1*, the major contributor to 2018 GDP growth rates was the structural component which has been estimated by us at 1.6–1.8 p.p. in annual growth and remains stable enough throughout the 2016–2024 period. Our estimates show that TFP lows were seen in 2015–2016. In 2018, TFP stood at a level almost equal to that seen in 2013 (when the economy started

---

Structural Budget Balances. OECD Economics Department Working Papers. No. 152. OECD Publishing, Paris.

1 Turner, D. et al. (2016), "An investigation into improving the real-time reliability of OECD output gap estimates", OECD Economics Department Working Papers, No. 1294, OECD Publishing, Paris.

## 1. Decomposition of Russia's economic growth rates 2018-2019

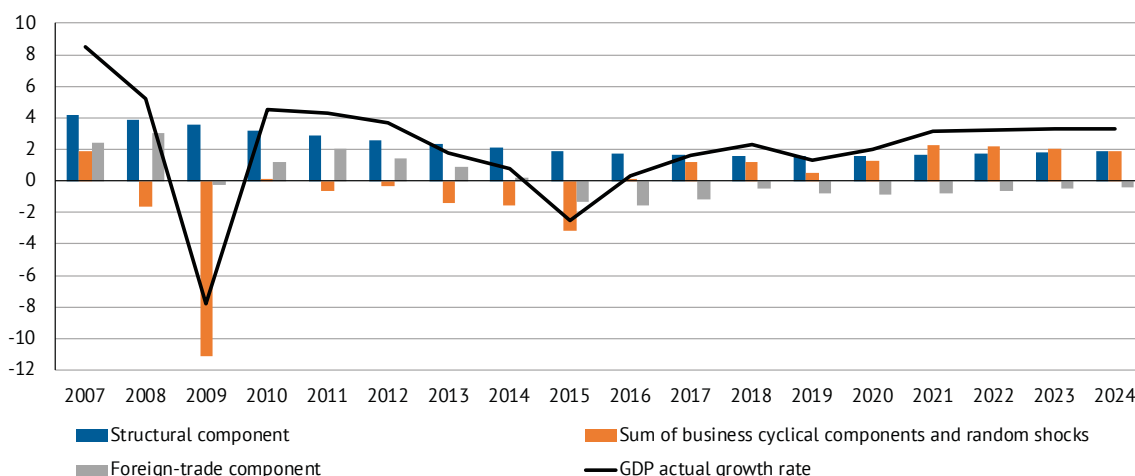


Fig. 1. Decomposition of GDP growth rates 2007–2024 (baseline scenario)

Sources: Rosstat, Russia's Ministry of Economic Development, own calculations.

slowing noticeably despite high crude prices). The total factor productivity by 2024 would not, even in the baseline scenario, top the TFP seen in 2008–2009. The contribution of investment and capital stock increase to structural growth rates is almost fully offset by the contraction in the economically active population.

Crude prices are still below the past periods' long-term average annual despite the 2018 rise from \$53 to \$69.6 per barrel (of Urals crude). The contribution of the foreign-trade component to 2018 GDP growth was negative, around -0.5 p.p., with a noticeably much weaker negative effect than that in 2015–2017. Also, note that the cyclical component remained unchanged, about 1.2 p.p., in 2018 compared to that in 2017, suggesting that the trend towards smooth cyclical economic growth continues.

Thus, the decomposition findings provide no evidence that the 2018 growth was driven by a set of one-time internal factors (which should have spurred acceleration in the cyclical component or, due to imperfect method, TFP). The growth was most likely led by an upturn in global commodity markets. The dynamics of the structural and cyclical components of GDP is smooth enough and in line with the hypothesis that Russia has been slowly, albeit steadily, recovering from the 2014–2015 crisis and adapting its economy to sanctions and new, lower prices for crude hydrocarbons.

Since the forecast of The Ministry of Economic Development provides for a decline in crude prices in 2019, and today's prices are indeed marginally below the 2018 average, the negative contribution of the foreign-trade component to GDP growth rates appears to be logical. However, an economic contraction to 1.0–1.3%, as shown in Fig. 1, can be caused by a very strong contraction of the cyclical component. Since the cyclical growth can be regarded as a stable enough growth, the contraction can otherwise result from either a serious external and internal negative shock or a reversal trend in the dynamics of the structural component (namely, TFP, because the process is sluggish enough from the perspective of capital and labour force dynamics). According to our estimates, Russia's GDP growth rates in 2019 would, barring negative shocks for the cyclical or structural components, vary within a range of 1.7–2.0%. ▀

## 2. FEDERAL BUDGET IN 2018: GROWTH OF OIL AND GAS REVENUES, BUDGET SURPLUS

T.Tischenko

In 2018, the federal budget revenues moved up by 2.4 p.p. of GDP against 2017 not least because of the oil and gas revenues which grew by 2.2 p.p. of GDP and the expenditures contracted by 1.7 p.p. of GDP compared to the previous year. The federal budget limitation due to the budgetary rules has ensured surplus in the amount of 2.7% of GDP.

According to recent reports released by the Federal treasury fiscal revenue in 2018 increased by 18.8% of DP (Rb 19,457.9bn) up 2.4 p.p. of GDP or by Rb 4,369.0bn compared to the same period of 2017 (Table 1). The revenue growth was triggered by the increase of both oil and gas component by 2.2 p.p. of GDP and by non-oil and gas receipts by 0.2 p.p. of GDP.

The federal budget expenditure for 2018 have come to 16.1% of GDP (Rb 16,664.7bn) down 1.7 p.p. of GDP against the last year. In absolute terms they have grown by Rb 244.4bn. The budget surplus has come to 2.7% of GDP (Rb 2,793.2bn) against the deficit of 1.4% of GDP registered in 2017 (Rb 1,331.4bn), non-oil and gas deficit has shrunk by 1.9 p.p. of GDP down to 6.0% of GDP.

According to the data released by the Finance Ministry, additional oil and gas revenue in 2018 due to the crude oil price growth<sup>1</sup> against the base price<sup>2</sup> are estimated at Rb 4,261.4bn. Thus, the margin between the revenue without the additional oil and gas revenue (Rb 15,196.5bn) and the federal budget expenditure (imputed deficit) makes up Rb 1,468.2bn or 1.4% of GDP<sup>3</sup>.

Table 1

### Main federal budget parameters in 2017–2018

	2017			2018			Change in 2018 against 2017	
	Rb bn	% of GDP	Deviation from planned volume in %	Rb by	% of GDP	Deviation from planned volume in %*	Rb bn	p.p. of GDP
Revenues of which:	15 088.9	16.4	102.7	19457.9	18.8	102.7	4369.0	2.4
oil and gas	5971.9	6.5	102.3	9017.8	8.7	102.3	3045.9	2.2
non-oil and gas	9117.0	9.9	103.0	10440.1	10.1	103.0	1323.1	0.2
Expenditure of which:	16 420.3	17.8	96.5	16 664.7	16.1	95.5	244.4	-1.7
Interest expense	709.1	0.8	97.1	781.0	0.8	99.0	71.9	0.0
Non-interest expense	15711.2	17.0	97.6	15883.7	15.3	95.5	172.5	-1.7
Surplus/Deficit	-1331.4	-1.4		2793.2	2.7		4124.6	4.1
Non-oil and gas deficit	-7303.3	-7.9		-6224.6	-6.0		1078.7	1.9
Reference: GDP (in current prices, Rb bn.)	92 089			103 627**				

Sources: Ministry of Finance, Rosstat, Federal Treasury, own calculations.

\* By the data released by the Federal Treasury as of 07.02.2019

\*\* By the data released by the Federal Treasury as of 07.02.2019

1 \$70.01 per bbl.

2 \$40.8 per bbl.

3 Imputed deficit demonstrates that in case of base oil price \$40.8 per bbl the federal budget remains unbalanced by 1.4% of GDP.



## 2. Federal Budget in 2018: growth of oil and gas revenues, budget surplus

Table 2

### The main tax revenues to the federal budget in 2017–2018

	2017			2018			Change in 2018 against 2017	
	Rb bn	% of GDP	% of the annual forecast volume	Rb bn	% of GDP	% of the annual actual volume	Rb bn	p.p. of GDP
Total tax revenues, including	13551.4	14.6		17738.2	17.0		4186.8	2.4
Corporate profit tax	762.4	0.8	105.2	995.5	1.0	105.9	233.1	0.2
VAT on goods sold in the Russian Federation	3069.9	3.3	100.6	3574.6	3.4	102.8	504.7	0.1
VAT on goods exported from the Russian Federation	2067.2	2.2	101.4	2442.1	2.3	100.8	374.9	0.1
Excises on goods manufactured in the Russian Federation	909.6	1.0	100.8	860.7	0.8	101.8	-48.9	-0.2
Excises on commodities imported to the territory of the Russian Federation	78.2	0.1	101.3	96.3	0.1	100.9	18.1	0
Mineral extraction tax (MET)	4061.4	4.4	104.7	6060.3	5.8	103.1	1998.9	1.4
Revenues from foreign economic activities	2602.7	2.8	105.3	3708.7	3.6	102.0	1106	0.8

Sources: Federal Treasury (current data), own calculations.

On the whole, for January-December 2018, tax receipts (*Table 2*) moved up by Rb 4,186.8bn or by 2.4 p.p. of GDP against 2017. Improved dynamics in nominal terms and in shares of GDP are been registered across all types of fiscal revenue other than domestic excises which shrank by 0.2 p.p. of GDP or by Rb 48.9bn mainly due to the reduction of receipts from excises on ethanol, petrol and tobacco products by 4.6%, 23.0%, and 1.6%, respectively. Federal budget receipts from MET and from the foreign economic activity moved up in 2018 by 1.4% and 0.8% of GDP, respectively which is due to the Urals price growth (oil price averaged at 2017-end made up \$53.03 per bbl against \$70.01 per bbl in 2018) and the ruble-dollar exchange rate (Rb 58.3 per USD in 2017 against \$62.7 per USD in 2018).

Other tax revenues saw growth in 2018 against the previous year by 0.2 p.p. of GDP—corporate profit tax and by 0.1 p.p. of GDP on domestic and import VAT. Receipts from the profit tax credited by the budgets at corresponding rates moved up by 0.1 p.p. of GDP or by 29.8% in the nominal terms.

The federal budget expenditure in 2018 made up 16.1 of GDP down 1.7 p.p. against 2017 in the context of growth by Rb 244.4bn or by 1.5% in the nominal terms (*Table 3*).

The following items of budget expenditures saw contraction in shares of GDP in 2018 against 2017:

- “Social policy” down 0.9 p.p. of GDP due to reduction of budget expenses on the item “pension maintenance” from 3.9% to 3.0% of GDP;
- “National economy” down 0.4 p.p. of GDP along the items “transportation” and “other issues in the sphere of national economy”;
- “National defense” down 0.4 p.p. of GDP due to the contraction of spending by 0.3 p.p. of GDP on the item “Armed forces of the Russian Federation”;
- “National defense and law enforcement” and “Federal issues” down 0.2 and 0.1 p.p. of GDP, respectively.

The growth of budgetary appropriations of the federal budget in 2018 against 2017 was posted solely in the budget heading “Interbudgetary transfers” by 0.3 p.p. of GDP mainly owing to an increase of budgetary appropriations along the line “other subsidies”.

Table 3

## Federal budget expenditures in 2017–2018

	2017			2018			Change in 2018 against 2017	
	Rb bn	% of GDP	Cash execution, %	Rb bn	% of GDP	Cash execution, %	Rb bn	p.p. of GDP
Total expenditures, including:	16 420.3	17.8	96.5	16 664.7	16.1	95.5	244.4	-1.7
General state issues	1162.4	1.3	93.1	1235.8	1.2	88.9	73.4	-0.1
National defense	2852.3	3.1	93.2	2826.3	2.7	92.3	-26.0	-0.4
National security and law enforcement activities	1918.0	2.1	97.8	1971.0	1.9	96.2	53.0	-0.2
National economy	2460.0	2.7	95.3	2401.8	2.3	93.5	-58.2	-0.4
Housing and utilities sector	119.5	0.1	95.6	148.4	0.1	88.1	28.9	0.0
Environmental conservation	92.3	0.1	99.2	116.0	0.1	98.8	23.7	0.0
Education	615.0	0.7	98.7	722.6	0.7	95.9	107.6	0.0
Culture, cinematography	89.7	0.1	91.1	94.5	0.1	84.3	4.8	0.0
Healthcare	439.8	0.5	97.3	537.3	0.5	96.3	97.5	0.0
Social policy	4992.0	5.4	99.2	4582.1	4.5	99.4	-409.9	-0.9
Physical fitness and sports	96.1	0.1	93.8	63.9	0.1	86.8	-32.2	0.0
Mass media	83.2	0.1	99.9	88.4	0.1	99.9	5.2	0.0
Servicing state and municipal debt	709.1	0.8	97.1	781.0	0.8	99.0	71.9	0.0
Inter-budget general transfers	790.7	0.8	95.3	1095.4	1.1	99.7	304.7	0.3

Sources: Federal Treasury, own calculations.

According to amendments introduced in the Budget Code in 2017<sup>1</sup>, the total volume of the federal budget expenditures in 2018 should not exceed the amount of the federal budget revenues less oil and gas revenues imputed from forecast oil price<sup>2</sup>, oil and gas revenues imputed from the base oil price forecast spending on public debt servicing increased by 1.0% of GDP<sup>3</sup>. Thus, the federal budget expenditures in 2018 can not exceed Rb 16,952.1bn<sup>4</sup>. Taking into account the fact that the cash execution of the federal budget at 2018-end amounted to Rb 16,664.7bn, the base surplus<sup>5</sup> is estimated in the amount of Rb 287.4bn or 1.7% of the overall volume of the federal budget expenditures<sup>6</sup>.

As of 31 December 2018 public debt amounted to Rb 12,581bn (12.1% of GDP against 12.6% of GDP in 2017) including internal debt Rb 9,170bn (up Rb 500bn), and external Rb 49.1bn (down 0.7bn).

The National Wealth Fund (NWF) at the year-end hit Rb 4,036.0bn (up Rb 283.1bn) or 3.9% of GDP. The exchange rate difference from the revaluation of the NWF resources in 2018 amounted to Rb 489.7bn. Throughout 2018 the following transactions with the NWF resources took place:

1 Federal Law of 29.07.2017 No. 262-FZ "On Introduction of Changes in the Budget Code of the Russian Federation regarding the use of oil and gas revenues of the federal budget".

2 Export price on natural gas and forecast USD RUB exchange rate.

3 Forecast for 2018 on the basis of socio-economic development of the Russian Federation forecast (Rb 97,462bn).


4 Computation: revenues less additional oil and gas revenues (Rb 15,196.5bn), expenses on sovereign debt servicing (Rb 781.0bn), and 1.0% of forecast GDP (Rb 974.6bn).

5 Difference between marginal expenses of the federal budget calculated on the basis of the budgetary rule and the volume of real expenses measures flexibility/level of correspondence of the financing volumes to the objectives, tasks, and obligations of the government against the constraints set by the budget laws.

6 Positive value of basic deficit means that the government can increase federal budget spending by Rb 287.4bn without bending the budget rule; negative value (basic deficit) demonstrates that the budget rule is not observed.

## 2. Federal Budget in 2018: growth of oil and gas revenues, budget surplus

- disposal in the amount of Rb 5.1bn for financing of pension savings of ensured persons who paid additional contributions into the savings pension;
- disposal in the amount of Rb 1,108.2bn for ensuring budget balance (covering the deficit) of the RF Pension Fund;
- revenues to the tune of Rb 906.7bn to the extent of additional oil and gas revenues of the federal budget in 2017.

Dynamics and structure of the federal budget parameters in 2018 compared to the previous year show the development number of positive trends: growth of tax revenues, sustaining expenses, the volume of the state debt and NWF at the acceptable sustainable for servicing level. 

### 3. RUSSIAN TOMATOES BECOME MORE COMPETITIVE

N.Shagaida

*In 2019, it has become apparent that the gap in prices of imported tomatoes and Russian ones is narrowing. However, Russian glass-grown tomatoes are still more expensive than the imported ones despite new projects, depreciation of the rouble and good output yield.*

The agrarian market segment of tomatoes drew attention particularly amid sanctions and it was justified by a number of objective factors. Tomatoes account for over one-third of the content of the imported vegetable basket leaving much behind other vegetables. Though in the past five years imports of tomatoes to the Russian Federation fell dramatically (by 36% as compared to 2013), the share of tomatoes decreased only somewhat from 38% to 34% in 2018. Note that tomatoes are the main glass-grown vegetables in Russia: the share of tomatoes in agricultural producers' revenues from sales of glass-grown vegetables exceeded 24% (2017).

January 2019 saw high fluctuations in prices of Russian glass-grown tomatoes. Some experts stated that in 2018 prices of domestic tomatoes (based on the results of 9 months) turned out for the first time to be lower than those of the imported ones; it was justified among other things by depreciation of the rouble, good output yield of tomatoes and the investment boom in vegetable production. Other experts claimed that Russian glass-grown tomatoes were more expensive than the imported ones due to unfavorable climate conditions and, consequently, higher production costs. The dynamics of the indicator calculated as the ratio of the difference between the prices of Russian and imported tomatoes (prices of Russian agrarian producers at the threshold of their farm minus prices of the imported tomatoes at the Russian border) to prices of imported tomatoes is shown in Fig. 1. As seen from the Fig.1, the price difference was getting smaller from year to year. However, in all the years and winter months the prices of the imported tomatoes were lower at the Russian border than those of domestic tomatoes at the border of the agrarian producer's farm. From 2015, prices of Russian tomatoes in individual autumn months were even lower than those of the imported ones.

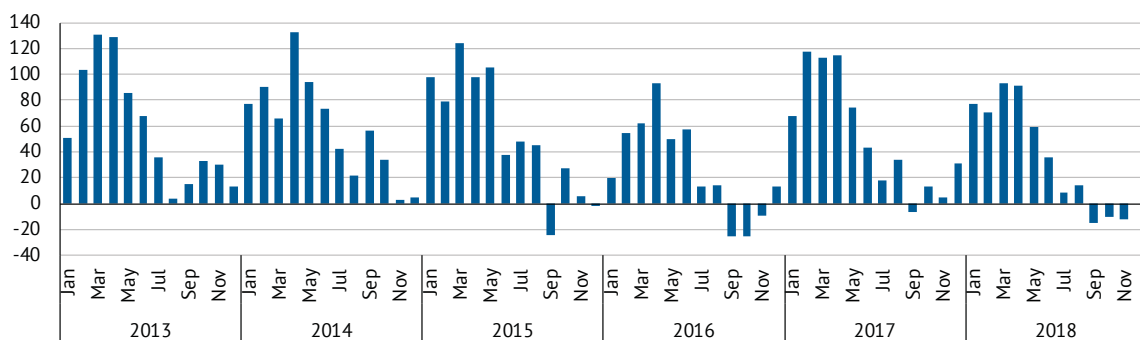


Fig. 1. The balance of agrarian producers' and importers' prices to importers' prices, %

Source: Comtrade, the Customs Service of the Russian Federation and the Rosstat.

3(86) 2019

### 3. Russian Tomatoes Become More Competitive

A high level of prices of Russian products is limited by Russian buyers' solvent demand. Note that if it is believed that the selling price at a Russian glass-house is not overstated, suppliers of imported products have an advantage: the difference in prices of imported tomatoes at the border and consumer prices is much higher than that between the selling prices at Russian glass-houses and consumer prices. Import prices and domestic prices of agricultural producers are the same only in individual cases (Fig. 2). With high consumer prices prevailing, consumers are in disadvantage, while the main beneficiaries are suppliers of imported tomatoes followed by Russian agrarian producers.

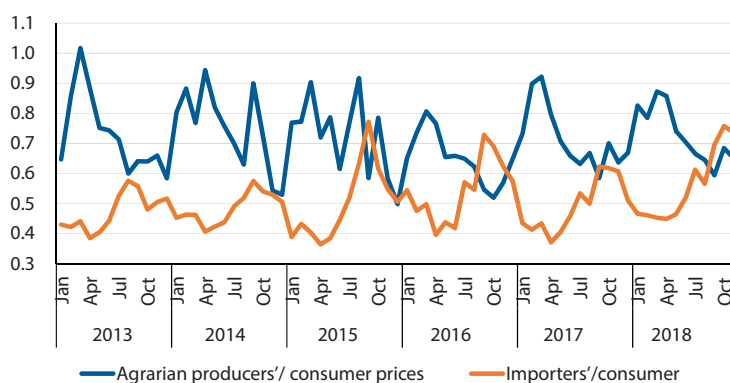


Fig. 2. Prices of agricultural producers and importers as compared to consumer prices

Source: Comtrade, the Customs Service of the Russian Federation and the Rosstat.

But it is explicit that Russian summer tomatoes grown in the field have always been competitive with imported ones as regards the price (Fig. 1 and 2).

The highest discrepancies in prices of glass-grown products and those grown in the field can be found in August-September. In this period, they harvest cheap Russian tomatoes grown in the field and their price is several times lower than that of glass-grown ones (Table 1).

Table 1

#### Prices of field grown tomatoes to prices of glass-grown ones, %

	2016	2017	2018		2016	2017	2018
January	0	0	0	July	45.7	0	0
February	0	0	0	August	39.7	33.7	32.9
March	0	0	0	September	25.8	26.9	34.5
April	0	0	0	October	13.9	21.6	35
May	0	0	0	November	13.8	17.4	0
June	0	0	0	December	0	0	n. a.

Source: The Rosstat.

The average market price is even lower than that specified in the official data on agrarian producers. This idea is based on the pattern of tomato production: despite the support of production of vegetables at agrarian producers' glass-houses, households continue to cultivate tomatoes on their subsidiary plots. The shares of field and glass-house production of tomatoes amount 78% and 52%, respectively (Fig. 3). Certainly, households use simple glass-houses which extend the harvesting period in subsidiary farming from the end of May till November. It is numerous individuals engaging in subsidiary farming and farmers (whose share in vegetable production is constantly growing) who facilitate reduction of prices of domestic tomatoes in the summer-autumn period.

As a larger share of field-grown tomatoes is cultivated on households' subsidiary plots, prices of tomatoes go down in summer-autumn either through formation of supply (a portion of products goes to the market) or demand

## Monitoring of Russia's Economic Outlook

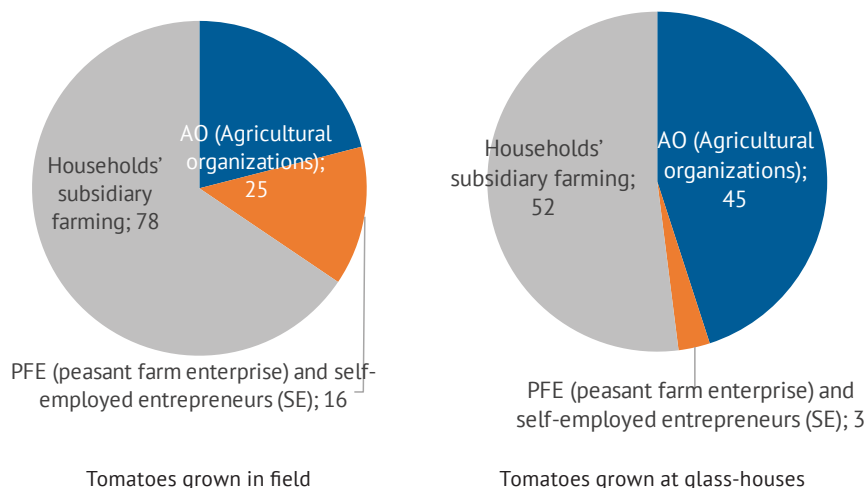


Fig. 3. The pattern of production of tomatoes by the category of enterprise in 2017, %

Source: The Rosstat.

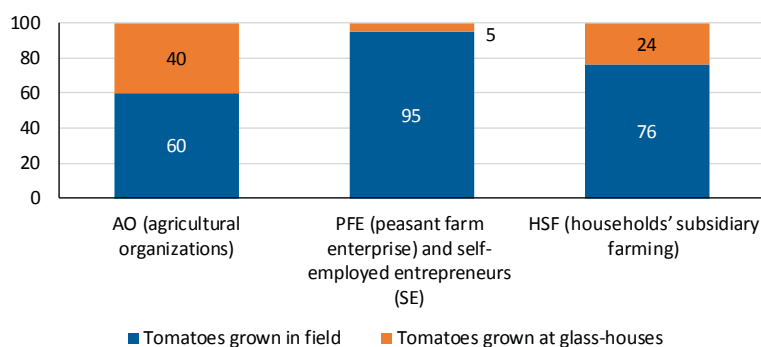


Fig. 4. The pattern of production: tomatoes grown in field and at glass-houses by the category of enterprise in 2017, %

Source: The Rosstat.

(households produce a substantial amount of products for their own needs). In either case, prices depreciate in the summer-autumn period.

In comparing prices with such a big difference between winter and summer prices of tomatoes taken into account, it is important to select correctly the time period. If average prices in January-May are taken into account, it is glass-grown tomatoes that are meant here; prices of such tomatoes are higher than those of the imported ones brought from countries with a warm climate. If the period from January to September is taken into account, it is to be remembered that a large volume of inexpensive tomatoes is supplied to the market and their prices are much below those of the imported ones.

The comparison of prices of 2018 and 2017 shows that they tend to go down. The same situation can be observed at agricultural organizations. Importers changed prices: +/-10% (Table 3). Different strategies are related to the fact that suppliers' price proportions were not determined by the exchange rate unlike domestic prices denominated in roubles.

However, import prices in winter months remained lower than Russian producers' selling prices after depreciation of the rouble (Fig. 5).

So, the statistics does not prove that Russian glass-grown tomatoes have become cheaper than the imported ones, particularly, in a situation where Turkey – the supplier of the most inexpensive products – is seriously limited

### 3. Russian Tomatoes Become More Competitive

Table 2

Average price of tomatoes, Rb/kg

	At the border of the Russian Federation (imported)						At the border of the agrarian producer's farm					
	2013	2014	2015	2016	2017	2018	2013	2014	2015	2016	2017	2018
January-May	42.6	46.9	62.4	80.1	65.4	68.9	80.2	88.9	110.9	117.8	120.7	120.2
January-June	41.3	45.2	58.6	75.5	62.8	66.3	69.6	78.2	74.4	105.3	100.7	103.1
January-September	40.4	44.3	59.1	71.2	61.2	66.3	49.9	58.3	60.0	66.1	68.9	72.8
January-December	41.1	47.4	61.9	71.0	63.1	n.a.	50.6	58.0	63.2	62.3	71.0	71.2

Source: Comtrade, the Customs Service of the Russian Federation and the Rosstat.

Table 3

Growth rates of producers', importers' and consumer prices of tomatoes in 2018 as compared to the previous year

	Prices of agricultural organizations*	Importers' prices at the border	Consumer prices
January	1.06	1.1	0.94
February	0.80	1.1	0.92
March	0.90	1.0	0.95
April	1.02	1.1	0.94
May	1.01	1.0	0.96
June	1.01	1.0	0.94
July	0.84	0.9	0.80
August	0.94	1.0	0.97
September	1.02	1.0	1.00
October	0.85	0.9	0.87
November	0.91	1.0	0.89
December	n.a.		0.90

Source: calculations are based on the data of the Comtrade, the Customs Service of the Russian Federation and the Rosstat.

\* In calculation of indices, producers' prices and consumer prices were estimated in roubles, while importers' prices, in USD.

in its supplies to the Russian market. Note that the gap in the prices of import supplies and selling prices of agricultural organizations is narrowing.

The Russian agrarian sector is undoubtedly able to produce field grown and glass-grown tomatoes at competitive prices. It will become feasible to do so upon completion of the cycle of state and private investments made in the past five years provided that instruments of state support to agrarian producers become more available. The effect will be sufficient enough even in case of removal of technological limitations, including provision of access either to free or relatively inexpensive resources: hot springs, hot-water supply

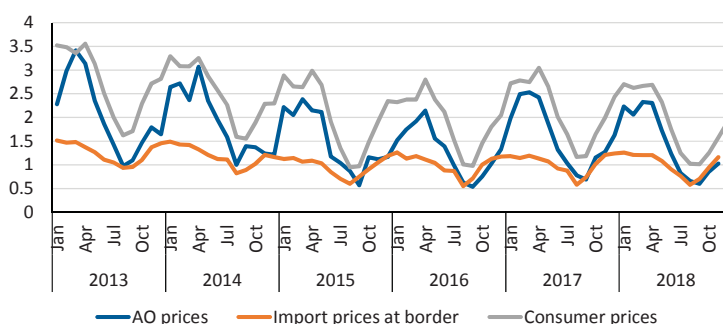


Fig. 5. Dynamics of prices of tomatoes, USD/kg

Source: Comtrade, the Customs Service of the Russian Federation and the Rosstat\*. \* Calculation into USD based on the average nominal rate. URL: <https://fedstat.ru/indicator/42108#>

## Monitoring of Russia's Economic Outlook

from large industrial plants, accompanying gas burnt at gas producing plants, services of resource-supplying entities and other. It is to be remembered that Russia's EEU partners, such as Kazakhstan, Kirgizia and Armenia lack only investments to step up production of cheap tomatoes for exports to Russia. Introduction of protectionist measures alone ranging from the food embargo to the Rosselkhoznadzor's "targeted" sanctions is able to produce, as in case of depreciation of the rouble, only a short-term effect on promotion of the competitiveness of vegetable production in Russia. ▀



## 4. RETIREMENT AGE INCREASE: DEMOGRAPHIC FACTS

V.Lyashok

*Growth in the share of the elderly people cannot but lead to a higher burden on the able-bodied population. In the meantime, families' expenditures per child are increasing. In such a situation, it is inevitable either to increase insurance contributions or the retirement age.*

Despite the fact that the decision to increase the retirement age in Russia has already been taken and the process started this January, the debates are still going on. In particular, the demographic aspect needs further elaboration.

At present, in Russia the ratio between the number of the population at the age of 65 years old and older and people at the age of 15–64 years old exceeds much the similar indicator of countries with a comparable level of per capita GDP. By this indicator, Russia is closer to countries with a high level of income where the retirement age for men and women is on average at the age of 65 (Fig. 1). Note that in Russia the share of persons from whose incomes insurance contributions are not paid is much higher, while the retirement age is lower than in developed countries. Also, the problem is aggravated by the fact that under the UN demographic forecasts this ratio in Russia will keep growing at a quickened pace in favor of the elderly part of the population up to 2055.

However, some studies point to the fact that if a younger portion of the population is included in this ratio (below the age of 15 years old), the pattern looks quite differently<sup>1</sup>, that is, the burden on the able-bodied population is not that serious. This ratio in Russia and by groups of countries in the period from 1950 and with forecast till 2100 is presented in Fig. 2. Actually, the aggregate share of children and elderly people as compared to the number of the able-bodied population is lower in Russia than in most countries. Note that in the past 20 years, this indicator has been falling. In 2015, the so-called general demographic burden amounted to 43.5%, nearly twice as low as in developed countries. Is it possible to draw a conclusion that there was no need in increasing the retirement age in Russia? It appears not.

In analyzing the demographic burden on the able-bodied population, it is not advisable to unite children, the youth and elderly people in one group of dependents. Firstly, a formal reduction of the number of dependents

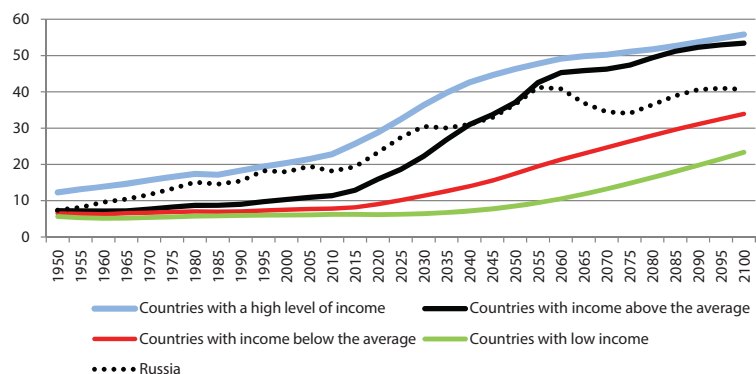


Fig. 1. Demographic burden on the part of the elderly people in Russia and other countries, %

Source: The United Nations. World Population Prospects: The 2017 Revision.

1 A. Vishnevsky. Retirement Age Increase: Demographic Case For and Against. Demoskop Weekly. 2018. URL: <http://www.demoscope.ru/weekly/2018/0775/expertise.php>

by means of reduction of the average number of children in Russian households does not mean a proportional reduction of expenditures on them. On the contrary, in such conditions there is growth in expenditures per child.

In addition, in the past few years the average age of entry to the labor market has increased because there is a large-scale trend among young people to receive higher education. The share of those who entered the labor market decreased from 84% in 1992 to 63% in 2017 for 20–24 years-old men and from 75% to 51% for women. So, in the past decades the period of the youth's dependency has increased.

It is noteworthy that in the modern society expenditures on education per child have largely increased. Various advanced studies point to correlation between the falling fertility rate and growth in private and public expenditures on development of human capital<sup>1</sup>.

Secondly, the differences in the institutes for support of various age groups of the population make it infeasible to unite them in a single group of dependents. Unlike the support of the elderly people, support of children is carried out in Russia as in the rest of the world by means of private transfers within a family.

With all the factors behind growth in the share of the elderly population taken into account, the burden on the able-bodied population will inevitably get higher. In such a situation it was logical either to increase insurance contributions or the retirement age. It was decided to choose the latter option. ▀

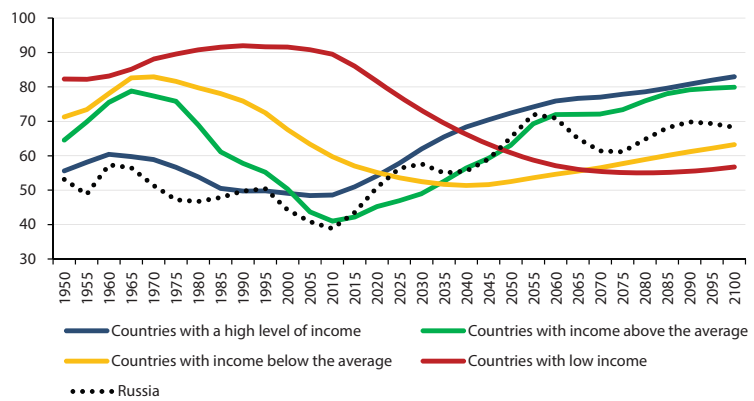


Fig. 2. General demographic burden in Russia and other counties, %

Source: The United Nations. World Population Prospects: The 2017 Revision.

1 Lee R., Donehower G. Private transfers in comparative perspective //Population Aging and the Generational Economy. 2011. P. 200.

## AUTHORS

**Sergey Drobyshevsky**, Scientific Director, Gaidar Institute; Head of Macroeconomic Studies Department, IAES, RANEPA

**Viktor Lyashok**, senior researcher, Pension Systems and Social Analysis and Forecasting, Institute of Social Analysis and Prediction, RANEPA

**Pavel Pavlov**, senior researcher, System Analysis of Sectoral Markets and Infrastructure Departments, Institute of Sectoral Markets and Infrastructure, IAES RANEPA

**Tatiana Tischenko**, senior researcher, Budget Policy Department, Gaidar Institute; Budget Policy Studies Department, IAES, RANEPA

**Natalia Shagaida**, Head of Agro-Food Policy Department, Gaidar Institute; Director of the Center for Agro-Food Policy, IAES, RANEPA