



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

TRENDS AND CHALLENGES OF SOCIO-ECONOMIC DEVELOPMENT

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## TRENDS AND CHALLENGES OF SOCIO-ECONOMIC DEVELOPMENT

The three quarters of 2018 saw mixed trends in Russia's socio-economic development. According to our experts' analysis, on one side, in three-fourth of the regions industrial growth continued, the rate of consumption increased and the rate of unemployment, which was low in most regions, remained virtually unchanged, while, on the other side, in a half of the regions the rate of commissioning of new housing decreased and in nearly three-fourth of the regions households' real incomes kept falling.

Experts point to vague differences in the Russian dynamics of growth in households' incomes in January-August (2.1%) and across federal districts, which dynamics are weaker everywhere than the national average: incomes increased only in the Southern Federal District (1.7%), while in other federal districts they kept falling.

Problems with evaluation of the statistics were found in the agrarian sector. According to the Rosstat's data, the agrarian sector was growing at a high rate in the past few years. However, based on the results of the 2016 All-Russian Agricultural Census the statistics was seriously adjusted. The earlier published data on the output of agricultural products turned out to be overstated. Now it is revised downwards. The most substantial errors were found in the estimates of the gross output of potatoes, vegetables, gourds, fruits, berries and milk. Experts conclude that the utilized methods of statistical observation do not necessarily permit to make reliable judgments about ongoing processes in rural areas: in evaluating the growth rates of development of the agriculture it is necessary to take into account and analyze the data adjusted by the Rosstat.

Though according to the data of the three quarters of 2018 the output volume increased by 3% in the industry, demand limitations are still a serious problem. In the course of monthly surveys of the industry carried out by the Gaidar Institute since 1992, Russian industrial enterprises are asked on a quarterly basis about hindrances to output growth. Insufficient domestic demand has been the main problem for the industry since the period of the 2008-2009 crisis. In 2018, the share of enterprises which referred to insufficient domestic demand as a factor affecting the output increased from 43% to 50%. The second place in enterprises' rating is occupied by "the uncertainty of the current economic situation and its prospects", while the 3<sup>rd</sup> place, by low export demand.

The statistics on bank lending to households looks quite optimistic. In 2018, a bank loan regained its role in stimulating growth in households' expenditures. Based on the results of the three quarters of 2018, the net contribution of bank lending to households' disposable cash resources can be estimated at 1.5% of their cash incomes. Those additional resources were spent by households on underpinning of ultimate consumption and investments in housing taking into account the fact that the importance of home loans in the overall volume of the loan market has greatly increased. In either case, it can be stated that a bank loan has a stimulating role to play in promotion of economic growth.

# **1. DEVELOPMENT OF RUSSIAN REGIONS: AUTUMN TRENDS IN 2018**

**N.Zubarevich**

*Multidirectional trends were relevant for development of regions during three quarters of 2018. On one hand, industrial growth continued in ¾ of regions, consumption increased practically everywhere, unemployment did not experience any visible changes. On the other hand, new housing supply decreased in half of regions and decline of real households incomes continued in ¾ of regions. Regional budgets improved while number of territories demonstrating deficit reduced by half.*

Positive trends for three quarters of 2018 were more evident in industry with the increase of the volume of production by 3%. Positions of leading regions and outsiders compared to summer period have not practically changed. The faster growth rate was notable in major industrial regions, such as Yamal-Nenets Autonomous okrug (15%), Tyumen region, Sakha Republic (Yakutia) (10%), Astrakhan region (20%) based on growth of extraction and refining of oil resources as well as Sverdlovsk region, Rostov region, Tver region, Moscow region and Moscow (8–10%) at the expense of processing industries.

One fourth of Central regions demonstrated negative dynamics with regions among them maintaining semi-depressive state, i.e. Ivanovo, Kostroma, Orel, Smolensk regions, while Tula region, Republic of Udmurtia and Khabarovsk region had this dynamic due to reduction of state defense procurement and Samara and Ulyanovsk regions due to commencing decline of demand for car industry products. Industry did not practically grow in North Caucasian Federal okrug due to negative dynamics in most of republics.

On the whole, growth of investment in January-September exceeded 4% in Russia. However, decline remained in construction with -0.7% and over half of the territories, including Moscow, Rostov region, most of regions of Prиволжский and Siberian Federal okrugs including the largest Republics of Tatarstan and Bashkortostan, Krasnoyarsk and Irkutsk regions, half of North-West and Far East regions continued to demonstrate negative dynamics.

Housing construction demonstrated decline by almost 2% against January-September 2017, though, new housing supply increased in H1 2018. Data for three current quarters prove negative dynamics in 47 regions, however, new housing supply increased in H1 in 2/3 of regions. The largest decline in January-September 2018 was observed in North-West Federal okrug (-9%) resulted from St. Petersburg (-35%) and Far East (-8%) though new housing supply significantly increased in Primorsky region, a leader of households' demand.

Moscow and Moscow region showed the best growth dynamics as far as regions with large volumes of housing construction were concerned, that is, 28% and 18% respectively. Share of the latter achieved 14% and almost 18% together with the capital city in the total new housing supply: concentration of housing market improved in major agglomeration. Growth rate of new housing supply in Leningrad region slowed down compared to summer period, however, volumes of housing supplied in the region exceeded

## 1. Development of Russian regions: autumn trends in 2018

St. Petersburg index by 1.5 times due to an acute decline in the latter. Currently, both regions being external areas of two major agglomerations outpace federal cities in housing supply by 3.5 times including Moscow region. Crisis decline of incomes push households to buy cheaper housing outside of major agglomerations.

Vast majority of regions demonstrated growth of retail trade by 2.7% excluding Ivanovo region, Republic of Dagestan and Republic of Ingushetia. Regional differentiation is not high with growth rate fluctuating between 1–4%. Republic of Crimea showed a faster growth rate of retail trade in January-September (9%) attributed to the influx of tourists in the holiday season, Moscow and Tyumen regions demonstrated growth over 7% and they were more successful according to other parameters of development.

Unemployment level has not practically changed for several years despite crisis and stagnation. Impact of seasonality is evident. Thus, level of unemployment decreased to a record minimum of 4.6% in summer of 2018. Regional differences have not changed either, from minimum figures in federal cities (1.2–1.3% in July-September 2018) and Moscow region (2.6%) to maximum ones in underdeveloped republics under high demographic pressure and little offer of labor supply in the labor market, i.e. Republic of Ingushetia – 26%, Tyva Republic and Republic of Chechnya – 14–16%). An increased level of unemployment is maintained in the same problematic regions, that is, Republics of North Caucasus and Altay Republic (9–12%), semi-depressive regions of developed area, i.e. Republic of Karelia, Kurgan and Astrakhan regions – 7–8%, northern and eastern regions with industry-based towns and reduced mobility of households due to long distances between local labor markets: Nenets AO, Komi Republic, Republic of Buryatia, Zabaikalsky region, Irkutsk region – 8–10%. Problems of labor market deteriorated only in Tomsk region where level of unemployment significantly increased in spring – summer 2018 and remained increased by autumn, i.e. over 7%.

Longstanding decline of households' incomes stopped only in the beginning of 2018, in January-April they increased by 3% against the same period of the previous year including lump sum payment to pensioners in 2017. Growth rate slowed down by 1% in January-September due to decline of real incomes in August and September taking into consideration payment of a lump sum amount. According January-August 2018 data, decline of households' incomes continued in most of the regions, i.e. in 61 out of 85 with most significant decline taking place in Novgorod, Vologda, Yaroslavl, Ivanovo, Kostroma, Magadan regions and in Chukotka Autonomous okrug by 6–9%. It is rather difficult to explain reasons of evident decline in these regions as regional statistics of incomes is not perfect. The fastest growth of households' incomes was observed in Sevastopol (17%) and Republic of Crimea (5%) resulted from significant increase of transfers in 2018. Vast growth of incomes in the Republic of Adygea by 7% is determined by methods of Rosstat calculations with reevaluation of retail trade turnover, i.e. the largest shopping malls providing services to Krasnodar households are located on the outskirts of the city, on the territory of the Republic of Adygea. Multidirectional tendencies in major agglomerations are within statistical error: incomes reduced in Moscow by 0.2% while they slightly grew in St. Petersburg by 0.5% and in Moscow region growth was more evident, i.e. 2.0%.

It is most difficult to explain different dynamics of the households growth of incomes in January-August by 2.1% and dynamics per federal okrugs which

is worse than average everywhere in the country: incomes increased only in Southern Federal okrug by 1.7%, in all other regions they decreased either insignificantly, i.e. Central Federal okrug by 0.1%, Far East Federal okrug by 0.4%, Volga Federal okrug by 0.6%, or evidently: Siberian and North-West Federal okrugs by 1.2–1.3%, Ural Federal okrug by 1.6%, North Caucasian Federal okrug by 1.9%).

Three quarters of 2018 demonstrated multidirectional tendencies of the socio-economic development. On one hand, industrial growth was going on in ¾ of the regions, consumption increased practically everywhere, there were no visible changes observed in the level of unemployment, which was low in most of the regions. On the other hand, new housing supply reduced in half of the regions and decline of real households' incomes continued in almost ¼ of the regions.

Regional differences in budget sphere manifested ultimately in revenues from taxes and levies to the federal budget from territories of the regions. The main reason is exemption of commodity rents (MET) and VAT. In January-August 2018, Khanty-Mansiysk Autonomous okrug provided over 25% of all tax revenues to the federal budget with another 10% by Yamal-Nenets Autonomous okrug. Moscow being the major consumption market provided over 12% of revenues while St. Petersburg contributed 6%. As a result, four subjects of the Russian Federation provided over half of tax revenues to the federal budget compared to only 2% provided by Far East.

Position of consolidated budgets improved in January-September as a result of PIT, transfers and profit tax double-digit growth of revenues. Incomes of those regional budgets with more transfers showed the fastest growth: Sevastopol by 54% due to growth of transfers by 2.2 times, Republic of Khakassia by 44% due to growth of transfers by 41% and profit tax by over one quarter, Kabardino-Balkaria and Republic of Karelia by 29–31% with growth of transfers by 37–41%. Growth of revenues by one third in Khanty-Mansiysk AO and Tyumen region resulted from significant increase of profit tax owing to increased

Table 1

DYNAMICS OF INCOMES AND EXPENDITURES OF REGIONAL CONSOLIDATED BUDGETS,  
% IN JANUARY-SEPTEMBER 2018

	Dynamics by January-September 2017, %			Share, %		
	All regions	Regions excluding Moscow	Moscow	All regions	Regions excluding Moscow	Moscow
Incomes	112	112	110	100	100	100
Including profit tax	115	119	106	25.8	24.1	33.2
PIT	112	111	115	30.0	27.6	39.8
Excises	103	104	100	5.5	6.5	1.2
Property tax	113	114	111	10.8	11.5	8.0
Lump sum tax	117	115	124	4.6	4.6	4.8
Transfers	112	112	103	15.8	19.1	2.1
Expenditures	109	108	115	100	100	100
Including national economy	106	103	112	18.8	16.9	26.9
Housing and communal sector	104	93	126	8.4	6.2	18.0
Education	112	111	120	26.7	29.3	15.6
Healthcare	113	114	108	8.2	8.0	9.0
Social policy	108	107	118	22.3	23.1	19.1

Source: estimation per data of the Federal Treasury.

## 1. Development of Russian regions: autumn trends in 2018

oil prices and low base of 2017 had its impact. Incomes of consolidated budget reduced only in two regions: Republics of Mordovia and Mari El by 4–9% resulted from reduction and transfers and profit tax.

Budget expenditures increased by 9% in January–September 2018, these rates were not observed since 2012, it was the impact of elective period. Expenditures of the Moscow budget increased by 15% while dynamics was twice as slow in other regions (*Table 1*). Certain territories where governors' elections took place in September were leaders of expenditures growth, i.e. Tyumen region by 23%, Republic of Khakassia by 19%, Khabarovsk region by 16%, Moscow by 15%, as well as regions with many added transfers, i.e. Sevastopol, Altay Republic and Karachaev-Cherkassia by 18–20%, though growth of transfers was so high in the latter region. Two republics: Mordovia and Mari El reduced their expenditures by 3–4% resulted from reduction of budget incomes.

Dynamics of expenditures is different in Moscow and other regions. The capital city possesses a huge budget and has the possibility to increase all kinds of expenditures commitments. Expenditures on national economy and housing – communal sector grew fast here with two thirds of the housing-communal sector expenditures spent on municipal improvement. Other regions saved on housing – communal sector in order to find money to fulfill obligations to pay wages and salaries.

Social expenditures had priority everywhere in the elective year but Moscow was also different according to their dynamics. Expenditures on social policy, i.e. social protection of households, grew much faster in the capital city: subsidies to households under system of social protection increased by 29%. In other regions, growth rate of expenditures on social protection was significantly lower and subsidies increased less than 5% due to insufficient budget means for households support. Moscow has tremendously increased expenditures on education while they were under economy policy in 2014–2016 and their dynamics was almost twice higher than growth rate of expenditures for these goals in other regions.

Budget balance improved due to expenditures growth while only 15 regions showed deficit after three quarters compared to double figures in the same period of 2017. In most of the regions, there was a slight deficit, i.e. 1–4% in Orel region, Tambov region, Yaroslavl region, Murmansk region, Pskov region, Amur region, Adygea Republic, Karachaev-Cherkassia, Republic of Mari El, Krasnoyarsk region. Deficit was higher, i.e. 7% in Magadan region, 9% in the Republic of Kalmykia and 11% in the Jewish Autonomous region while in the Republic of Mordovia it was extraordinary high, i.e. 23% and this became a "norm". There will be more problematic regions by the end of the year due to growth of budget expenditures in December.

Aggregated debt of regions and municipalities reduced by 8% from the 1<sup>st</sup> of January to the 1<sup>st</sup> of October 2018, however, it increased in 19 regions. Among regions with high debt load, the fastest growth was observed in the Republic of Kalmykia (by 27%), Republic of Mordovia (by 11%), Magadan region (by 16%) and in Jewish Autonomous region (by 9%). It will be clear by the end of the year, how challenging the burden of additional social expenditures was for regions in the elective year and whether they managed to reimburse expenditures by increased incomes. For the time being, it is assumed that regional budgets improved according to data embracing three quarters of 2018.

## 2. AGRARIAN STATISTICS: CORRECTION AFTER AGRARIAN CENSUS

### V.Uzun

*Methods of statistical survey do not always allow to objectively estimate agrarian activities. Corrected Rosstat data have to be taken into consideration for evaluation of the agricultural development.*

According to Rosstat, agriculture grew at high rate in the recent years. Thus, in 2013 it grew by 5.8%, in 2014 by 3.5%, in 2015 by 2.6%, in 2016 by 4.8%, in 2017 by 2.5%. On the whole, growth amounted to 20.7% in the last 5 years.

However, according to the 2016 All-Russia agricultural census (AAC) statistics was considerably corrected. Previously published data on production of agricultural goods were exaggerated (*Table 1*). This time, they were amended downward. Evaluation of gross output of potatoes, vegetables and cucurbits, fruit and berries, milk, demonstrated major errors. However, data on grain crop were no amended.

*Table 1*

DATA CORRECTION FOR 2017 PER AAC 2016  
(PER 31.05.2018 PRIOR TO CORRECTION ACCORDING TO CENSUS RESULTS,  
PER 26.09.2018 AFTER CORRECTION ACCORDING TO CENSUS RESULTS 2016)

	Production in 2017, thousand tons		Correction of primary data	
	per 31.05.2018	per 26.09.2018	Thousand tons	%
Grain	135393	135393	-1	0.0
Meat and meat products	10384	10323	-61	-0.6
Milk and dairy products	31184	30164	-1020	-3.4
Eggs and egg products (mln pcs)	44891	44790	-101	-0.2
Potatoes	29590	21769	-7821	-35.9
Vegetables and cucurbits	18089	15431	-2658	-17.2
Fruit and berries (including grapes)	3480	3212	-268	-8.3

Sources: as per 31.05.2018 preliminary corrected Rosstat data [http://www.gks.ru/wps/wcm/connect/rosstat\\_main/rosstat/ru/statistics/enterprise/economy/](http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/enterprise/economy/); per 26.09.2018: balances of food resources: [http://www.gks.ru/wps/wcm/connect/rosstat\\_main/rosstat/ru/statistics/enterprise/economy/#](http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/enterprise/economy/#).

Evaluation of agrarian gross output production reduced on the whole from 5654 billion Rb to 5111.8 billion Rb, i.e. by 542 billion Rb (10.6%) (*Fig. 1*).

Data for households, private plots, gardens and farms, dachas, vegetable gardens, etc. as well as for agricultural enterprises and farms were not completely accurate (*Table 2*).

Accounting of households' production is a complex task: they do not submit any reports and current statistics estimate the volume of their production based on data of selective survey. Any gaps in the selective data, even insignificant ones, may result in significant errors in the evaluation of entire activities of more than three dozen million households. It is far more difficult to explain exaggerated data on those agrarian enterprises and farms who systematically submit reports on their overall activity to Rosstat. Some of these households

## 2. Agrarian statistics: correction after agrarian census

fail to produce any reporting documents and therefore data of the current accounting can be underestimated rather than overestimated. A question arises as to why these errors always result in the overestimation of indices?<sup>1</sup> In the Soviet time, additions were stimulated by the intention of households' executives to report on fulfilment or over-f fulfilment of the plan. Their salary, bonuses and maintenance of their positions depended on this condition. However, what is the nature of the phenomenon to overestimate data in the conditions of market economy? Executives and owners of these households hardly have any personal interest

to do it. On the opposite, high indices may result in the increase of taxes and other payments. However, chief executives of a higher rank still possess such an interest. Regional executives have to report on fulfillment of state program, which is the factor to determine the amount of state support. Reports

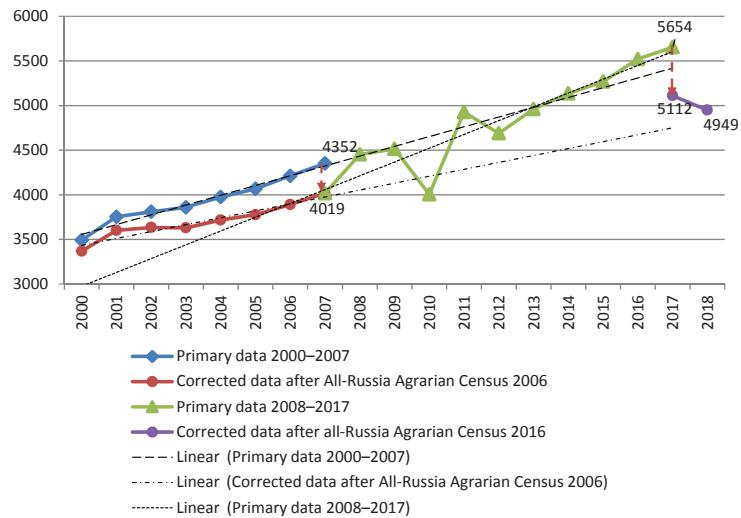


Fig. 1. Dynamics of agrarian gross output production, billion Rb in comparable prices of 2017

Sources: evaluation based on Rosstat data on the cost of gross output production in 2017 and indices of its growth in the previous years.

Table 2

GROSS OUTPUT AGRARIAN PRODUCTION IN 2017  
(ROSSTAT DATA PER 25.04.2018 PRIOR TO CORRECTION AS A FOLLOW UP  
OF CENSUS; PER 31.10.2018 AFTER CORRECTION  
AS A FOLLOW UP OF CENSUS 2016)

	Structure of gross output production according to categories of households, %		Cost of gross output production, billion Rb			
	per 25.04.2018	per 31.10.2018	per 25.04.2018	per 31.10.2018	Difference	
					Billion Rb	%
Households of all categories	100	100	5654	5111.8	-542	-10.6
including: agrarian enterprises	52.7	55.1	2980	2817	-163	-5.8
Households	34.6	32.4	1956	1656	-300	-18.1
Farms and individual enterprises	12.7	12.5	718	639	-79	-12.4

Sources: Rosstat's data.

1 Having analyzed data of the first agrarian census of 2006, Rosstat found out that current statistical data are overstated with regard to volume of production compared to the results of census. Gross output production of 2007 was overstated by 168 million Rb, i.e. 8.7%. However, major error, i.e. 167 billion Rb, that is, 19.5% against pre-census level was attributed to households. Corrections related to agricultural enterprises and farms were insignificant. Gross value added cost of agriculture, hunting and forestry was significantly corrected: in 2007 it amounted to 1350 billion Rb prior to correction according to Statistical yearbook 2009 while after correction it was 1195 billion Rb as per statistical yearbook 2010, i.e. it reduced by 13%. The share of agriculture in GDP reduced from 4.1% to 3.5%.

on the results of their activity are also of critical value. Moreover, it is easier to produce it at the expense of households as it is more complicated to make sense of the indices validity.

Thus, volumes of production were significantly lower than in 2016, i.e. 5111.8 billion Rb according to corrected statistics (5521 billion Rb in comparable prices of 2017). After the first census, Rosstat reduced data on volumes of agricultural production not only for 2007 but also for previous 11 years from 1996 to 2006. After correction growth rate of agriculture was way below the previous level (Figure 1). Statistical series looked updated in the Russian annual statistical yearbook for 2010.

A process is going on aimed at correcting data for 2016 and previous years. Rosstat indicate that after reduction of cost of gross output agricultural production for 2017 from 5654 billion Rb to 5111.8 billion Rb growth rate of this production not only reduced compared to 2016 but on the opposite slightly increased from 102.4% to 102.5%. It is obvious that this result can be achieved only if the cost of gross output of agricultural production in 2016 is lowered from 5521 billion Rb to approximately 4987 billion Rb. Rosstat has already done it. Then, the division of a new indicator for 2017, i.e. 5111.8 by a new indicator for 2016 will result in growth by 2.5% in 2017 compared to 2016.

How it will reflect on forthcoming statistics? Comparable data for 2017 and 2018 are included in the Rosstat operative information<sup>1</sup>. According to this data, corrected downward data for 2017 were selected for comparison and they were juxtaposed with understated data for 2016 and new indices for 2018. As this is almost a practice in agriculture, gross output production fall on the next year after record crops. There was a drought in 2010 after weather favorable 2008 and 2009, and gross output agricultural production collapsed by 11.3% with an explosive growth by 23% in 2011 and a new drop by 4.8% in 2012. After record year 2017, production lowered in 2018 and in January - September 2018 it constituted 3.3% compared to corrected data.

If initial data for 2017, i.e. Rb 5654 billion are compared with results of 2018, then one has to recognize that a heavy decline in the agricultural production, approximately by 11–14%, can be expected in 2018. According to the most probable hypothesis, the decline for the whole year will be approximately the same as in the period of 9 months.

Due to high dependence of agricultural achievements on climate conditions, as a rule, the average data for 3 or 5 years are selected for comparison of growth rate. In this particular case, gross output production of favorable 2017 was compared to unfavorable 2012. If growth were evaluated for a period of six years and compared to 2011, then, growth would amount to less than 15% not accounting post census correction and 4.4% accounting correction. i.e., about 0.7% per year. However, in 2018, taking into consideration the expected reduction of the cost of gross output production compared even with corrected index for 2017, growth will constitute about 0.5% compared to 2011, i.e. below 0.1% per year. At the same time, this conclusion is not correct because it was received based on comparison of indices relevant to selected years.

Analysis of growth rate related to certain products does not produce a clear picture.

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<sup>1</sup> Agriculture in September 2018.

## 2. Agrarian statistics: correction after agrarian census

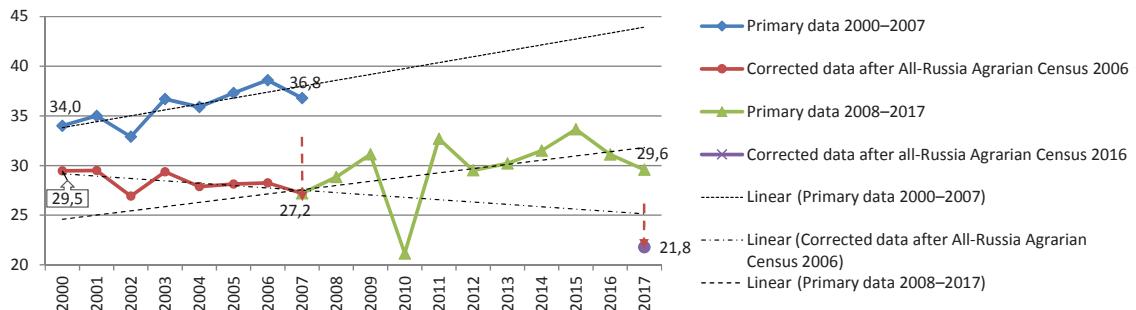


Fig. 2. Dynamics of gross output of potatoes, million tons per year

Source: Rosstat data on gross output production: initial data according to annual reference books, corrected for 2000–2007 according to UISIS.

Fig. 2 shows indices related to production of potatoes. According to benchmark data for 2000–2007, it increased from 34 million tons to 36.8 million tons with an average of 0.4 million tons per year. After census of 2006, data were corrected. It turned out that there was a decline up to 27.2 million tons, i.e. by 6.8 million tons compared to benchmark data, that is, by 230.000 tons per year, rather than growth in the mentioned years. According to Rosstat reports, there was growth again after 2007 by a mean of 240.000 tons per year. After census of 2016, data were corrected again and it turned out that in 2017 gross collection accounted for only 21.3 million tons rather than 29.6 million tons. It turned out that there was a decline of production by 15.5 million tons compared to corrected 5.9 million tons in this period against benchmark data for 2007 instead of growth.

Thus, according to current reports production of potatoes had a growth tendency during both periods and gross output increased in 2017 by 5.2 million tons compared to 2000, by 2.8 in 2000–2007 and by 2.4 in 2008–2017. However, according to final report gross output was 1.6 times less in 2017 compared to 2000.

As a result, officers of the Ministry of Agriculture of Russia, politicians, scientific and business community are confident that there is more than enough potatoes in Russia. In fact, it proves that Russia produces about 20 million tons and already face deficit or increase of import taking into consideration the volume of consumption, seed and losses. If business and governing bodies of the Agrarian Industrial Company were not disoriented by false statistics, major investments would have been allocated to this sphere.

It seems that existing methods of statistical survey and accounting require improvement while methodology of assessments require amendments based on selective survey.

## **3.INDUSTRIAL GROWTH CONSTRAINTS IN 2018: ENTERPRISES' OPINION**

### **S.Tsukhlo**

*In the course of monthly surveys which have been carried out by the Institute for Economic Policy since 1992, Russian industrial enterprises are asked to identify factors which curb output growth. Insufficient domestic demand has been a major problem for the industry since the period of the 2008–2009 crisis.*

In 2018, the share of enterprises which pointed to insufficient domestic demand as a factor affecting the output has increased from 43% to 50%. It is not the highest index of this factor's negative effect on the Russian economy after the 2008–2009 crisis when it amounted to 67%. In 2013 (there was no crisis), low demand curbed output growth with 60% of the enterprises, while in January 2015 (the beginning of the 2015–2016 crisis) 49% of the enterprises, as many as today, mentioned insufficient demand.

However, Russian enterprises realistically accepted, but not at once, the growing negative effect of demand on the output amid the stagnation observed this year. In H1 2018, the share of normal estimates of sales volumes varied from 52% to 64%, while in H2 2018 it stabilized at 61%. As a result, according to the data of the first 11 months satisfaction with demand in 2018 turned out to be only 1 p.p. below the result of 2017 which was undoubtedly more positive for the Russian economy. Consequently, enterprises are well aware of the complicated current economic situation and are prepared to adapt to it.

Low export demand is currently rated the third in the rating. This result is equal to the average level of 2017 when enterprises, as it was repeatedly stated, sensed improvement of the situation after the previous crisis years. Early in 2018, slowdown of domestic positive processes stepped up the industry's orientation towards export demand: in H1 2018 it was lacked by 30% of enterprises. However, in the mid-2018 depreciation of the ruble pushed down the index of insufficiency of export demand: to 25% and 23% of the references in July and October, respectively. As a result, export demand which occupied the 2<sup>nd</sup> place in the rating (or, precisely, in the anti-rating of factors) downgraded to the 3<sup>rd</sup> one.

By the end of the year, "the uncertainty of the current economic situation and its prospects" has moved up to the 2<sup>nd</sup> place in enterprises' rating. While in January 2018 it was referred to by only 25% of the Russian enterprises (almost the historic minimum of the 2009–2018 monitoring), in October 2018 this factor was regarded to as output growth constraints by 35% of the enterprises. In such a situation and with a failure of previous efforts to overcome the negative consequences of 2012–2016 taken into account, in 2018 a larger number of enterprises started to revise their output growth forecasts in favor of stagnation forecasts.

Based on the results of this year, the share of enterprises which have kept their output plans unchanged have gained the record-high maximum throughout the entire period of surveys (1992–2018) and amounted to 58%.

### 3.Industrial Growth constraints in 2018: Enterprises' Opinion

The previous “record” of this index was registered in 1994 and amounted to 55%. Note that the previous peak of references to the factor of uncertainty in the Russian industry took place not at the beginning of the 2015–2016 crisis, but in the middle of it, that is, January 2016 when 49% of the enterprises did not realize what was going on in the industry, nor could assess correctly the prospects of their output growth. However, a change in the government’s economic rhetoric and revision of own estimates of the situation helped the industry reduce by 13 points the extent of the effect of uncertainty on output growth by April 2016. By April 2017, the reduction amounted to 25 points.

Other constraints are less substantial for the Russian industry and have not undergone any dramatic changes in 2018. The current shortage of the personnel is regarded as a constraints by 22% of the enterprises in Q4 2018 (the 4<sup>th</sup> place in the overall rating of constraints and the 2<sup>nd</sup> place in the rating of resources). In Q2 2018, amid the next wave of expectations of the stagnation coming to an end and the outflow of the personnel being overcome a surge of up to 28% in the current shortage of the personnel was registered by the surveys. However, the overall negative situation in H2 2018 reversed the shortage of that resource to the same minimum level seen in 2010–2018.

A lack of machinery and equipment for increasing current output was referred to by 16% of the plants (the 7<sup>th</sup> place in the overall rating and the 3<sup>rd</sup> place in the rating of resources). Late in 2018, a shortage of investments was mentioned by 16% of enterprises (the 7<sup>th</sup> place in the overall rating and the 3<sup>rd</sup> place in the rating of resources), too compared to 19% early this year. A lack of the working capital throughout 2018 was referred to as a constraint on average by 16% of the enterprises (the 7<sup>th</sup> place in the overall rating and the 3<sup>rd</sup> place in the rating of resources, too) without any dynamics during the year. In 2018, only 9% of the enterprises lacked primary products and materials to secure output growth (the 11<sup>th</sup> place in the overall rating and the 4<sup>th</sup> place in the rating of resources).

Lending complete rating of resource constraints (according to enterprises survey). A high interest rate on loans is perceived by 6% of the enterprises as a constraint to industrial growth (the 14<sup>th</sup> place in the overall rating and the 5<sup>th</sup> place in the rating of resources), while a lack of loans, by the mere 3% of enterprises (the 16<sup>th</sup> place in the overall rating and the 6<sup>th</sup> place in the rating of resources). Amid current low activities, the industry does not virtually require a larger number of loans.

In 2018, the national currency depreciation tested both the feasibility of adaptation of the Russian industry to the new exchange rate policy of the Bank of Russia and the reaction of enterprises to the modified business conditions. In 2018, due to the weakening of the ruble the negative effect of appreciation of imported equipment and primary products on output growth increased up to 13% of the references against 5–6% in 2017. Note that the record of this index was registered not in 2015 as it could be logically expected, but early in 2016. However, as early as Q2 2017 on the back of the revived economic growth and appreciation of the ruble exchange rate the negative effect of the weak exchange rate and expensive imports fell to the minimum of 5%. The appreciated ruble is currently referred to as an output growth constraint by only 2% of the enterprises. However, the Russian industry was dismissive in its estimation of the effect of this factor on output growth both in Q2 2014 and Q3 2014.

The competition with imports has undergone changes – logical for 2018 – in its effect on the output of the Russian industry. Early this year, amid slowdown of exit from the 2015–2016 crisis the negative effect of imports rose to 18% of references. In July 2018, this factor was referred to as an output growth constraint by 22% of enterprises. It is to be reminded that in 2014 the competition with imports was regarded as constraints by 27% of the enterprises. However, due to the depreciation of the national currency the negative effect of the competition with imports fell to 19% by October 2018.

## **4. BANK LENDING PROMOTES ECONOMIC GROWTH**

**M.Khromov**

*In 2018, the dynamic development of bank lending took place in all the main segments of the money market. Nominal indices of the debt and lending have attained the new maximum. A positive net contribution of bank lending to households' disposable cash resources was feasible on the back of reduction of interest rates and extension of more loans.*

In 2018, the retail bank lending market has been developing quite dynamically. Within 10 months of 2018, individuals' debt on bank loans increased by Rb 2.2 trillion, that is, 17.8% of the debt volume as of the beginning of 2018. This is a two-fold increase on the relevant period of the previous year when the households' loan debt to banks amounted to Rb 1.0 trillion or 8.9% of its value as of the beginning of 2017. Within last year, this index amounted only to Rb 1.4 trillion (12.3%). In 2018, the lending market saw similar growth (Rb 1.4 trillion) based on the results of the first seven months of the year. As a result, households' overall debt volume to banks amounted to a new record-high value and was equal to Rb 14.4 trillion as of 1 November 2018.

Within 10 months, banks extended Rb 9.9 trillion worth of new loans to households, a 37% increase on the index of the relevant period of 2017 (Rb 7.2 trillion) and a 7% increase on the overall level of 2017 (Rb 9.2 trillion) which used to be the maximum annual volume of bank loans to households. It is obvious that in the entire period of existence of the Russian banking market, in 2018 it will definitely see the new maximum attained as regards the volume of new loans.

The pattern of loans extended to individuals keeps shifting towards home loans. Within 10 months of 2018, banks extended to individuals Rb 2.4 trillion worth of home loans, a 58% increase and 17% increase compared with the relevant period of 2017 and the year 2017 as a whole, respectively. In January-October 2018, the share of new home loans amounted to 24% in the overall volume of bank loans extended to households, while in 2017 it did not exceed 22%.

Due to the fact that home loans have a longer period of repayment as compared to other loans to individuals, their share in the total debt volume is high. Based on the results of 2018, home loans accounted for 43% (Rb 6.2 trillion) of the total debt volume (Rb 14.4 trillion). A year before, this index was equal to 42%.

Based on the results of October 2018, annual growth rates of the loan debt (on the relevant period of the previous year) amounted to 22% and 24.9% for the overall volume of loans and home loans, respectively. Within the previous 12 months, the debt on other consumer loans increased by 19.8%. Higher growth rates of the loan debt affected all the market segments. In 2017, growth rates of lending were more moderate: the debt on home loans and consumer loans rose by 15%, and 11%, respectively (Fig. 1).

The recovery of the retail lending market is evident not only in nominal terms, but also in terms of comparison with the value of households' cash income.

Based on the results of August 2018, the overall loan debt exceeded 25% of the volume of households' cash income. A similar phenomenon was observed only for a few months late in 2014.

The volume of new loans relative to the volume of incomes has exceeded the previous maximums. As in 2013 when the volume of new loans amounted to 20% of the value of cash incomes, this index amounted to the same value based on the results of three quarters of 2018.

In 2018, the debt growth lags slightly behind the level of 2012–2013 when the correlation between the loan debt and cash incomes was at the level of 5.0–5.5%, while in 2018 this indicator does not exceed 4.5% of the annual volume of households' cash funds (Fig. 2). This can be explained by the fact that a substantial reduction of interest rates on loans to individuals stimulates refinancing of previous loans. Consequently, loan debt growth is lagging behind the rate of extension of new loans.

A return to the positive net contribution of a bank loan to households' disposable cash resources has become a key result of the loan market development in 2018. This indicator is determined as the difference between growth in households' loan debt to banks and the volume of interest payments on loans. In a situation where growth in the loan debt exceeds the value of interest payments, households receive additional funds from the banking sector, thus gaining more disposable cash resources.

During the past three years (from 2015 to 2017), households paid more interest payments to banks than received new loans, less the repaid ones, from them. In such a situation, fewer financial resources became available to households and the extent of consumer spending decreased.

In 2018, the bank loan has regained its role in stimulating growth in households' expenditures. Based on the results of the three quarters of 2018, the net contribution of bank lending to households' disposable cash resources could be estimated at 1.5% of their cash incomes. Those additional financial resources were spent by households both on underpinning ultimate consumption and investments in housing taking into account the fact that the importance of home loans in the overall volume of the loan market has greatly increased. In either case, it can be stated that a bank loan has a stimulating role to play in promotion of economic growth.

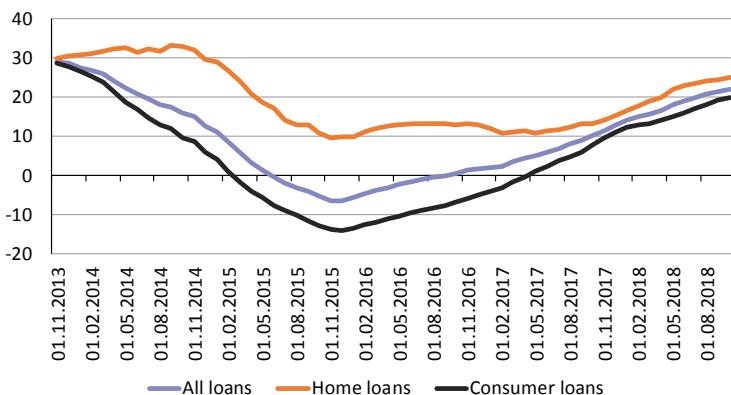


Fig. 1. Growth rates of bank loans to households, % change compared with the corresponding date of the previous year

Source: The Central Bank of Russia, calculations of the Gaidar Institute.

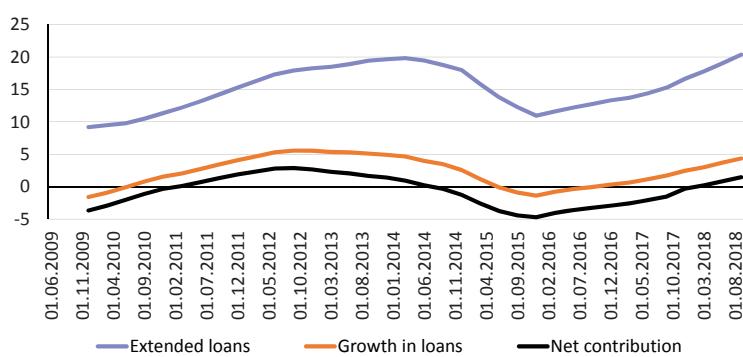


Fig. 2. Lending to households, % change on cash incomes for four quarters

Source: The Central Bank of Russia, the Federal State Statistics Service and calculations of the Gaidar Institute.

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