MONITORING OF RUSSIA'S ECONOMIC OUTLOOK:

TRENDS AND CHALLENGES OF SOCIO-ECONOMIC DEVELOPMENT

No. 7(173) December 2024

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Monitoring is a publication of Gaidar Institute for Economic Policy (Gaidar Institute).

GAIDAR
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POLICY

7(173) 2024

Monitoring of Russia's Economic Outlook: trends and challenges of socio-economic development. 2024. No. 7(173). December 2024. Edited by: S. Drobyshevsky, V. Mau and S. Sinelnikov-Murylev; Gaidar Institute for Economic Policy. 21 p. URL: http://www.iep.ru/files/text/crisis_monitoring/2024_07-173_December_eng.pdf

1. REGIONS' BUDGETS FOR 9 MONTHS OF 2024

Alexander Deryugin, Senior Researcher, Center for Macroeconomics and Finance, Gaidar Institute

In Q3 2024, the growth rates of revenues of the regions' consolidated budgets slowed down slightly compared to the first half of the year, which is generally triggered by the slowdown in GDP growth rates. Given the growth of tax and non-tax revenues of regions' budgets, as well as some reduction in the volume of public debt, the debt burden of the regions continued to decrease. It is expected that by the end of 2024 and at the beginning of 2025 personal income tax, which is the main fiscal source of regional and local budgets, is expected to remain the main driver of their growth.

Revenues

According to the results of the first nine months of 2024, total revenues of the regions' consolidated budgets of the Russian Federation amounted to Rb16.9 trillion, having increased by 6.9% as compared to the corresponding period of 2023. From January 1, 2023, the dynamics of revenues continued to be affected by the transition to the unified tax payment through the unified tax account (UTA), due to which there was a shift in the timing of tax payments to the budget to a later period (including the next month), which could differ for the same months of 2023 and 2024. By the end of the year, this feature plays a smaller and smaller role in the budget revenues dynamic.

Tax revenues of the regions' consolidated budgets for the first nine months of 2024 increased by 8.3%, non-tax revenues – by 50.5%, and uncompensated transfers from other budgets decreased by 9.6%. These indicators look somewhat worse than at the end of H1 2024, which is explained both by a certain incomparability of data in relation to the corresponding period of 2023, and by a certain slowdown in the growth of the revenue part of regions' budgets in Q3 2024, during which the total growth of revenues of the regions' consolidated budgets amounted to 5.3%, tax revenues – 6.7%, non-tax revenues – 47.8%, and uncompensated receipts from other budgets decreased by 6.8%.

The greatest contribution to the growth of tax revenues of the regions' consolidated budgets following the results of 9 months of 2024 as compared to the corresponding period of 2023 was made by personal income tax (+25.2%), tax levied in connection with the simplified taxation system (+38.3%), personal property tax (+124.6%) and transportation tax (+40.5%). One of the reasons for such impressive dynamics of the personal property tax and transportation tax is the rebound after their reduction by 14.2% and 7.7%, respectively, in the first 9 months of 2023. Excises increased by 2.5%, corporate property tax – by 5.2%, corporate profit tax decreased by 11.6%. In the latter case, this can also be explained by a rebound (but in the other direction) after a 19.3% growth in the first 9 months of 2023.

The impressive growth of non-tax revenues (+50.5%) is due to a 2.5-fold increase in revenues from the placement of budget funds.

The dynamic of uncompensated receipts from other budgets (-9.6%) was multidirectional. Thus, the volume of equalization transfers to the subjects of the Russian Federation increased by 21.1%, which was due to the inclusion of new regions in the general system of equalization. Accordingly, instead of grants to support measures to balance budgets (the total amount of which decreased by 78.6%), they began to receive equalization transfers.

Subsidies increased by 3.8%, subventions – by 9.1%, and other intergovernmental fiscal transfers decreased by 41.4%.

According to the results of the first 9 months of 2024, positive growth rates of consolidated budget revenues were observed in 63 subjects of the Russian Federation, and the highest – in Magadan Oblast (+30.9%, the main growth was provided by the corporate income tax, mineral extraction tax and subsidies), Nenets Autonomous Okrug (+29.6%, corporate income tax, revenues from the allocation of budget funds, as well as income in the form of a share of the state's profitable production under the production sharing agreement for the Kharyaginskoye field project), the Udmurt Republic (+26.1% corporate income tax, tax levied in connection with the application of the simplified taxation system and subsidies).

The highest rates of decline in consolidated budget revenues over the same period were observed in the Lugansk People's Republic (-21.7%, the main reduction was in subsidies), Donetsk People's Republic (-16.4%, subsidies), Sevastopol (-14.8%, subsidies, grants), Zaporizhzhya Oblast (-13.8%, subsidies) and Kemerovo Oblast – Kuzbass (-13.4%, corporate income tax).

The main source of revenues of the new subjects of the Russian Federation in the first 9 months of 2024 was still intergovernmental fiscal transfers from other budgets (62.9% of total consolidated budget revenues), including mainly equalization transfers (28.5% of total revenues of consolidated budgets), which replaced grants to balance the budget, other types of grants (14.2%), as well as subsidies (16.6%). At the same time, the share of tax and non-tax revenues increased (36.2%, including personal income tax – 27.4% and corporate income tax – 3.7%), which increased more than 2.1 times because of a low base. According to the results of the first 9 months of 2023, the share of tax and non-tax revenues in the consolidated budgets of the new subjects of the Russian Federation amounted to 14.4%.

Some decrease in the growth rates of tax and non-tax revenues of the regions' consolidated budgets in Q3 2024 compared to the corresponding indicators for H1 2024 is generally caused by the slowdown in GDP growth.[1] The same factor will lead to a further decline in the growth rates of regions' revenues. Against the background of record low unemployment in the Russian economy and, consequently, labor shortage, employers in the struggle for employees continue to increase the level of wages, and with it the payroll fund, stimulating further growth of personal income tax revenues. With some lag in this process, the public sector of the economy will also be included in this process, which is not only beginning to experience labor shortage, but also has to maintain a certain ratio between the level of remuneration of the specified categories of state employees and the corresponding average level in

1 According to Rosstat's preliminary estimate, the volume index of GDP in Q3 2024 relative to the corresponding period of 2023 amounted to 103.1% compared to 104.6% at the end of H1 2024.

the economy, in order to comply with the parameters of the May 2012 decrees of the President of Russia. Therefore, it is expected that by the end of 2024 and the beginning of 2025, the personal income tax, which is the main component of the labor remuneration of state employees, will be reduced. PIT, which is the main tax source of regional and local budgets, will also remain the main driver of their growth.

Expenditure

According to the results of the first nine months of 2024, the regions' consolidated budgets expenditures amounted to Rb15.9 trillion, having increased by 8.2% compared to the first nine months of 2023, which corresponds to the inflation rate[1] and is slightly higher than the growth rate of budget revenues (+6.9%).

The leaders of growth were expenditures on culture and cinematography (+27.8%), healthcare (+15.5%), secondary vocational education (+15.2%), social services (+15.2%), as well as additional education of children (14.6%). The largest reduction in expenditures affected national defense (-53.3%), pension provision (-40.5%), environmental protection (-26.3%), family and child protection (-17.1%), agriculture and fishery (-9.3%), as well as road maintenance (-6.5%).

In the first nine months of 2024, consolidated budgets expenditures grew in 70 subjects of the Russian Federation, and in 42 of them the growth exceeded inflation over the same period. The leaders in the growth of budget expenditures were the Tyumen Oblast (+25.4%, the largest increase in the spheres of national economy, social policy, as well as culture and cinematography), the Orenburg Oblast (+24.4%, transportation and social policy), the Leningrad Oblast (+21.2%, fuel and energy complex, transportation, communications and informatics), Lipetsk Oblast (+20.8%, communications and informatics, physical culture and sports, general education) and Sakhalin Oblast (+20.6%, physical culture and sports, fuel and energy complex and road facilities).

Budget expenditure decreased most significantly in the Luhansk People's Republic (-25.7%), Donetsk People's Republic (-24.5%), Sevastopol city (-16.6%), Kherson oblast (-9.4%) and the Republic of Ingushetia (-9.1%).

The structure of expenditures of the new subjects of the Russian Federation in the first 9 months of 2024 slightly differed from the structure of the other regions by a smaller share of expenditures on education (21.8% vs. 24.8%) and a larger share of expenditures on general state issues (9.5% vs. 6.4%) and social policy (24.4% vs. 19.9%). If we assess the difference in the structure of budget expenditures of the groups of the subjects of the Russian Federation under consideration as the sum of absolute values of deviations in the specific weights of budget expenditures by sections of the functional classification, then at the end of 9 months of 2024 as compared to 9 months of 2023 it decreased by 3.3 times. Moreover, according to this indicator, the new regions were closer to the average structure of expenditures of consolidated budgets of other regions than the regions of the North Caucasian Federal District. This testifies to the completion of the process of integration of the new subjects of the Russian Federation into the general system of delimitation of powers between the levels of power in Russia.

1 According to Rosstat, the consumer price index for January-September 2024 to January-September 2023 came to 108.27%.

Regional budget balance and public debt

As a result of 9 months of 2024, the consolidated budget surplus was observed in 60 subjects of the Russian Federation, and its total volume amounted to Rb1.04 trillion (against a surplus of Rb1.15 bn in 9 months of 2023). Among the new regions only the Kherson Oblast executed the consolidated budget with a deficit.

As of October 1, 2024, the regions' public debt amounted to Rb3.1 trillion, having decreased by 0.7%[1] over 12 months. Thanks to this reduction, as well as to the growth of tax and non-tax revenues of the regions, the level of debt burden of the regions[2] for 12 months decreased to 18.8% compared to 21.5% as of October 1, 2023, remaining at the minimum and safe level for the last decade (*Fig. 1*).

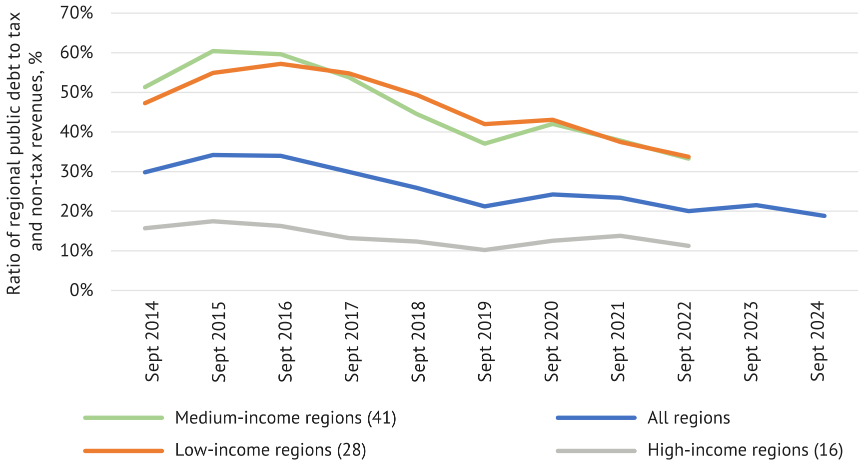


Fig. 1. Debt burden of the subjects of the Russian Federation as of the end of September in 2014–2024, %

Source: Own calculations on the data released by Minfin of Russia and the Federal Treasury.

The number of regions with a debt burden above 50% decreased from 25 to 20 over 12 months and still does not pose a threat to the stability of regional budgets (*Fig. 2*).

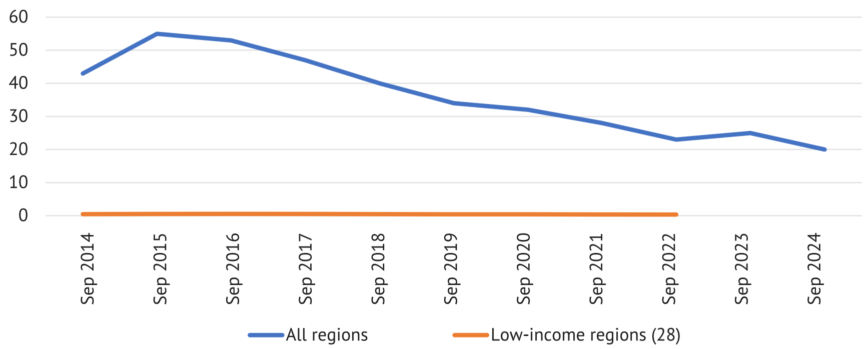


Fig. 2. The number of subjects of the Russian Federation with a debt burden of more than 50% in 2014–2024

Source: Own calculations on the data released by Minfin of Russia and the Federal Treasury.

1 Until 2024, the data on the volume and structure of public debt of the Donetsk People's Republic, Lugansk People's Republic, Zaporizhzhya and Kherson oblasts were not disclosed.
2 The level of debt burden of a subject of the Russian Federation is defined as the ratio of the volume of public debt of the region to the volume of tax and non-tax revenues of the regional budget.

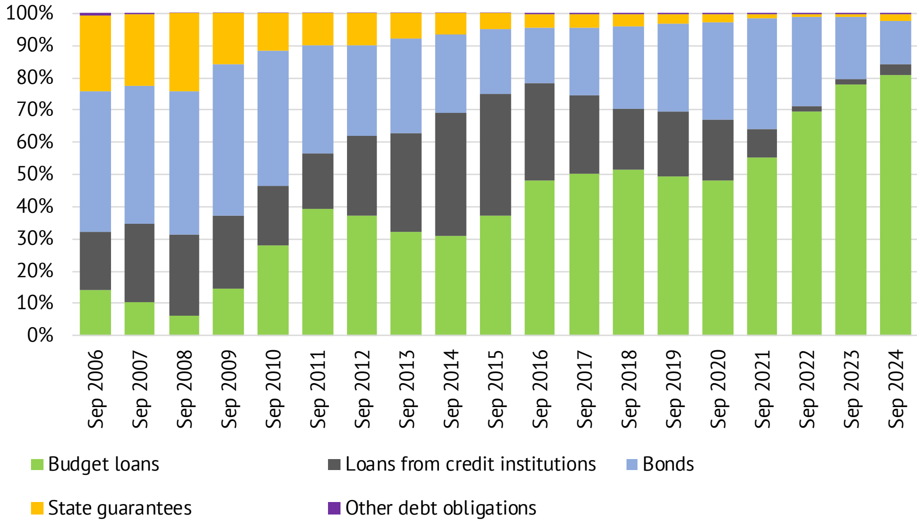


Fig. 3. Structure of public debt of the subjects of the Russian Federation as of July 1, 2006–2024, in % to the total

Source: Own calculations on the data released by Minfin of Russia

As of October 1, 2024, there were no subjects of the Russian Federation with a debt burden exceeding 100% of the volume of tax and non-tax revenues of the regional budget.

The Republic of Khakassia (the ratio of public debt to tax and non-tax revenues is 92.6%), the Arkhangelsk Oblast (89.8%), the Republic of Mordovia (79.8%), the Jewish Autonomous Oblast (78.2%) and the Chechen Republic (77.8%) have the highest debt load. The Yamalo-Nenets Autonomous Okrug (1.5%), the Sakhalin Oblast (1.6%), the city of Sevastopol (1.8%), the Nenets Autonomous Okrug (2.2%) and the Tyumen Oblast (3.1%) traditionally have the lowest debt burden.

Overall, between September 2023 and September 2024, the public debt of 45 subjects of the Russian Federation increased, while the debt burden increased in 27 subjects of the Russian Federation.

As of October 1, 2024, the share of loans from credit institutions in the structure of the regions' public debt, although having grown over the previous 12 months, remains at a low level (3.3%). The share of government bonds continued to decline, falling to the level of 13.4%, while the share of budget loans to the regions from the federal budget grew from 77.9% to 81.0% over 12 months (*Fig. 3*), primarily due to the provision of infrastructure budget loans. The shares of state guarantees and other debt obligations continued to balance at around zero – 2.1% and 0.2%, respectively.

Thus, the debt sustainability of the regions remains at a high level, which was facilitated by both the reduction in the nominal volume of public debt of the regions and the growth of tax and non-tax revenues of regional budgets.

Until the end of 2024, the dynamics of the regions' debt burden will be determined by the dynamics of the total volume of their public debt, which in turn will depend both on the dynamics of granting new volumes of infrastructure budget loans and writing off a part of budget loans (except for infrastructure loans), and on the dynamics of tax and non-tax revenues of regional budgets. In general, we can expect a further reduction in the debt burden of the regions.

2. INDUSTRIAL OUTPUT IN RUSSIA IN THE FALL OF 2024 WENT ON GROWING DRIVEN BY THE MANUFACTURING SECTOR

Andrey Kaukin, Candidate of Economic Sciences, Acting Director of the Center for Real Sector, Head of the Industrial Organization and Infrastructure Economics Department, Gaidar Institute;

Evgenia Miller, Researcher, Industrial Organization and Infrastructure Economics Department, Gaidar Institute

In the fall of 2024, the trend component of the industrial production index continued to grow, which was primarily due to the manufacturing sector (the reason, among other factors, may be the state defense order, replacement of vacated niches, including owing to the positive effect of production localization programs). In the extractive sector, the downward trend, which commenced back in Q2 2023, continues. Production and distribution of electricity, gas and water slightly decreased over the period under review.

To correctly interpret the available trends in individual industries, it is necessary to decompose their output into components: calendar, seasonal, non-regular and trend;[1] the interpretation of the latter is of substantial interest. The authors singled out the trend component of the series of production indices for 2003–2024[2] based on actual statistics published by Rosstat.

The results of the series processing for the industrial production index are presented in *Fig. 1*. *Fig. 2* shows the results for the aggregated indices of the extractive and manufacturing sectors, as well as the production and distribution of electricity, gas and water. For the other series the results of decomposition are presented in *Table 1*.

In November 2024, industrial output relative to the previous period amounted to 100.1% and 103.0%. In the first 11 months of 2024, industrial production showed a growth of 104.3%.

The dynamic of the extractive sector continues to be affected by the extension until April 1, 2025[3] of the OPEC+ deal on voluntary additional adjustment of daily production. According to the results of the first 11 months of 2024, production

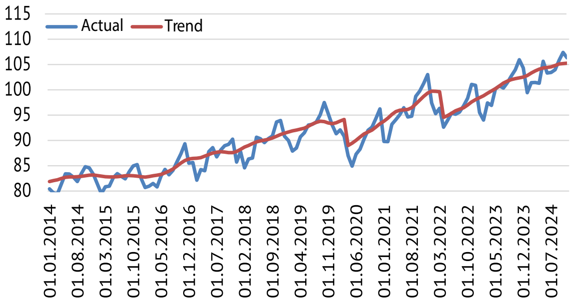


Fig. 1. Dynamics of the industrial production index in 2014–2024 (actual data and trend component), % against average annual value in 2021

Sources: Rosstat, own calculations.

1 The trend component is a well-established term used in the literature, but it should be noted that this component is not a "trend" in the strict sense used in econometrics when analyzing time series: in this case, it is precisely the residual from the separation of calendar, seasonal and irregular components. The trend component is incorrect to use for time series forecasting (for most industrial production indices it is non-stationary in levels (and stationary in differences), but it can be used for interpreting short-term dynamics and comparison with past events.

2 The trend component was extracted with the Demetra package using the X12-ARIMA procedure.

3 Saudi Arabia, Russia, Iraq, United Arab Emirates, Kuwait, Kazakhstan, Algeria, and Oman held a virtual meeting on the sidelines of the 38th OPEC and non-OPEC Ministerial Meeting (ONOMM)// OPEC. 05.12.2024. URL: https://www.opec.org/opec_web/en/press_room/7420.htm

dynamic in the sector came to 99.2%, and 98.7% as compared to the same period of the previous year. A slight improvement compared to October 2024 (100.1%) was obtained due to the growth of gas and coal extraction. The growth in gas production was due to increased production of gas-intensive products – ammonia, necessary for nitrogen fertilizers, as well as increased supplies to China and Uzbekistan. The most significant obstacle to production growth in the coal sector remains logistics: railroad capacity currently does not allow to fully exploit the potential of new ports, which limits the growth potential of coal exports in the medium term; additionally, there is still a negative impact associated with payments and import duties on Russian coal, which China introduced in December 2023.[1]

In November 2024, the manufacturing sector registered slow growth: 100.8% relative to the previous period and 105.6% compared to the same period in 2023. In the first 11 months of 2024, the sector's growth amounted to 108.0%.

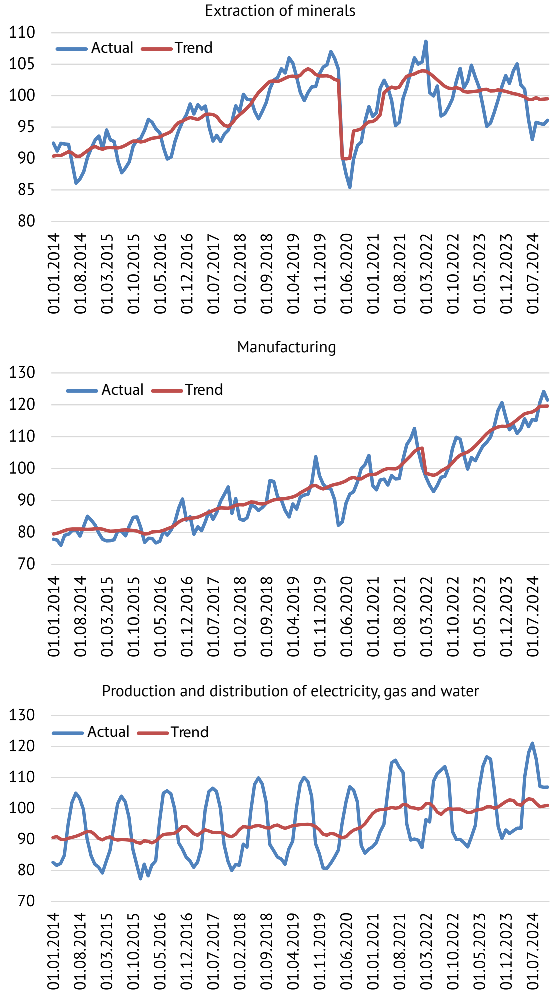


Fig. 2. Dynamics of the production indexes by industries in 2014–2024 (actual data and trend component) in % against average year value 2021

Sources: Rosstat, own calculations

The main positive contribution to the dynamics of industrial production in 2024, as well as in 2023, was made by the industries producing intermediate goods and components for the needs of the military-industrial complex: metallurgy (an additional factor was the growth in demand from the construction industry, which, however, began to weaken by the end of the year due to the growth of the key rate), machine-building, production of vehicles, production of electrical equipment, computers and electronics. In addition, the growth of the trend component was noted in the food industry (due to the ongoing replacement of departed international brands by local domestic ones[2]), the chemical industry (due to the increase in import-substituting output and the creation of technological chains for specialty chemicals, the products of which are used in the production of medicines, cosmetics, household and industrial chemicals, construction materials, and food products)[3], and the woodworking complex (due to successful restructuring of logistic chains of product sales, change of

1 *Dubchenko N.* Year results on the coal market // Finam. 25.12.2024. URL: https://www.finam.ru/publications/item/itogi-goda-na-ugolnom-rynke-20241225-1005/

2 By the end of 2024, production growth in the food industry is expected to reach 5% // InfoLine. 19.12.2024. URL: https://www.retail.ru/rbc/pressreleases/po-itogam-2024-goda-rost-obemov-proizvodstva-v-pishchevoy-promyshlennosti-ozhidaetsya-na-urovne-5/

3 *Bateneva T.* The National Project "New Materials and Chemistry" is included in the pool of 12 top-priority megaprojects // RG.RU. 06.11.2024. URL: https://rg.ru/2024/11/06/reakciia-vosstanovleniia.html

Table 1

Change in the output index as per economic industries, %

Industry	Share in the index of industrial production	November 2024 against November 2023	November 2024 against November 2024	Changes in the last months
Index of industrial production		103.0	102.9	Stagnation
Extraction of minerals	34.54	98.7	98.8	Stagnation
Manufacturing, including:	54.91	105.6	105.6	Slow growth
Production of foods, including drinks and tobacco	16.34	110.3	109.1	Slow growth
Textile and dress making production	1.14	108.2	107.5	Slow growth
Production of leather, leather items, and production of shoes	0.27	88.0	87.2	Recession
Wood manufacturing and production of wood items	2.02	103.8	105.2	Growth
Cellulose – paper production	3.35	82.4	83.5	Sluggish recession
Production of cox, petroleum products	17.25	98.1	98.3	Sluggish recession
Chemical production	7.56	112.2	111.1	Growth
Production of resin and plastic items	2.14	99.1	100.0	Sluggish recession
Production of other non-metallic mineral products	4.02	106.0	106.8	Slow growth
Metallurgical production and production of finished metallic items	17.42	119.5	117.4	Slow growth
Production of machinery and equipment	6.97	95.0	96.1	Stagnation
Production of electric equipment, electronic and optical equipment	6.27	110.6	109.3	Stagnation
Production of transport vehicles and equipment	6.75	138.9	135.7	Growth
Other productions	2.42	109.3	111.2	Sluggish recession
Electric energy, gas and water	13.51	99.7	98.9	Stagnation
Wholesale trade		103.4	103.3	Slow growth
Retail trade		106.4	106.2	Slow growth
Cargo turnover		99.8	99.9	Stagnation
Construction		99.7	99.5	Sluggish recession
Agriculture		103.8	103.5	Stagnation
Volumes of paid services to the population		101.3	101.1	Sluggish recession

Sources: Rosstat, own calculations.

product origin for access to new markets, application of new approaches to the organization of international payments: netting and barter).[1]

Industries other than wholesale and retail trade have near-zero growth rates at the end of 2024:

- In construction due to the high key rate, the share of developers who have difficulties in launching new projects has increased (the indicator in May 2024 was 23%, in November 2024 – 52%).
- In freight transportation due to the slowdown of the railway network and difficulties in organizing the transportation process: shortage of locomotives and locomotive crews, reduction of section and technical speeds, which lead to shortages of non-tractor rolling stock, reduction of the freight base due to new sanctions against Russian companies (EVRAZ, Mechel, Norilsk Nickel),[2] in road transportation due to rising

1 *Baginian K., Tikhonov A., et al.* Overview of the Russian timber industry: 2024 // b1. December 2024. URL: https://b1.ru/local/assets/surveys/b1-russian-forest-industry-2024-overview.pdf
2 *Slobodianik A.* Cargo loading on the railway transportation network: results of 9 months 2024 // ROLLINGSTOCK Agency. 03.10.2024. URL: https://rollingstockworld.ru/ekonomika/pogruzka-gruzov-na-seti-zheleznodorozhnogo-transporta-itogi-9-mesyaczev-2024/

costs (increase in the leasing rate to 26%, increase in scrappage duty on imported vehicles, increase in the cost of fuel and vehicle maintenance) and shortage of drivers. An additional factor is the slowdown in the construction industry, which affects the co-reduction of transportation of metallurgical goods and construction cargo.

The shortage of highly qualified personnel, uncertainty in monetary policy (slowdown in investment in the development of enterprises), market environment (lower oil production under OPEC+, weakening demand for coal from China, etc.) are the main factors that may limit economic growth in 2025.

3. SITUATION ON THE OIL MARKET IN Q3 2024

Evgenia Miller, Researcher, Industrial Organization and Infrastructure Economics Department, Gaidar Institute.

Growing demand for liquid hydrocarbons from the air transportation and petrochemical sectors, as well as the extension of voluntary oil production cuts under the OPEC+ agreement will keep oil prices at $80/bbl by the end of 2024. In early 2025, it is possible that the EU sanctions imposed on the Russian fuel and energy sector will be monitored more stringently.

OPEC+ oil production adjustment agreement

On December 5, 2024, the ministerial meeting of the OPEC+[1] countries extended the agreement on additional voluntary reductions in daily oil production by 2.2 million barrels per day until the end of March 2025. Starting from April 1, 2025, the cuts will be gradually phased out in line with the schedule shown in *Table 1*.

Table 1

Oil production levels agreed at the OPEC+ ministerial meetings in 2025–2026, thousand barrels per day.

Countries*		Algeria	Iraq	Kuwait	Saudi Arabia	UAE	Kazakh-stan	Oman	Russia
2025	January-March	908	4 000	2 413	8 978	2 912	1 468	759	8 978
	April	911	4 012	2 421	9 034	2 938	1 473	761	9 004
	May	914	4 024	2 428	9 078	2 963	1 477	764	9 030
	June	917	4 037	2 436	9 145	2 989	1 482	766	9 057
	July	919	4 049	2 443	9 200	3 015	1 486	768	9 083
	August	922	4 061	2 451	9 256	3 041	1 491	771	9 109
	September	925	4 073	2 458	9 311	3 066	1 495	773	9 135
	October	928	4 086	2 466	9 367	3 092	1 500	775	9 161
	November	931	4 098	2 473	9 422	3 118	1 504	778	9 187
	December	934	4 110	2 481	9 478	3 144	1 509	780	9 214
2026	January	936	4 122	2 488	9 534	3 169	1 514	782	9 240
	February	939	4 134	2 496	9 589	3 195	1 518	785	9 266
	March	942	4 147	2 503	9 645	3 221	1 523	787	9 292
	April	945	4 159	2 511	9 700	3 246	1 527	789	9 318
	May	948	4 171	2 518	9 756	3 272	1 532	792	9 344
	June	951	4 183	2 526	9 811	3 298	1 536	794	9 371
	July	953	4 196	2 533	9 867	3 324	1 541	796	9 397
	August	956	4 208	2 541	9 922	3 349	1 545	799	9 423
	September-December	959	4 220	2 548	9 978	3 375	1 550	801	9 449
Acceptable production level (37th ONOMM)		1 007	4 431	2 676	10 478	3 519	1 628	841	9 949

* The table shows the OPEC+ countries that have made additional voluntary adjustments to reduce oil production volumes.

Source: MOMR data, June 2024.

1 Saudi Arabia, Russia, Iraq, United Arab Emirates, Kuwait, Kazakhstan, Algeria, and Oman held a virtual meeting on the sidelines of the 38th OPEC and non-OPEC Ministerial Meeting (ONOMM) // OPEC. 05.12.2024. URL: https://www.opec.org/opec_web/en/press_room/7420.htm.

3. Situation on the oil market in Q3 2024

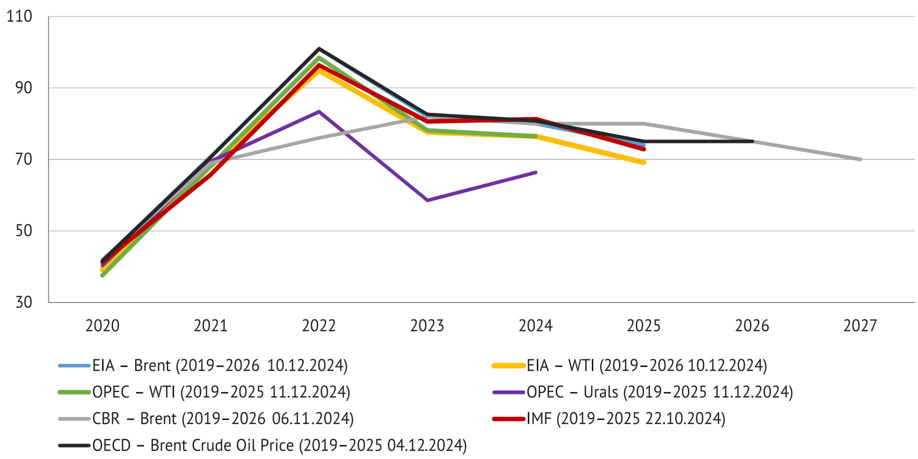
Iraq and Kazakhstan exceeded agreed production levels in early 2024 and were required to submit schedules of production adjustment plans to the OPEC Secretariat. For this purpose, the Secretariat organized workshops where the non-compliant countries presented measures taken to achieve full compliance with the required production levels and to meet the compensation schedules for August and September 2024, in particular: long-term field maintenance planning and production reductions, as well as postponement and cancellation of spot sales in August. According to the documents submitted, countries have committed to fully offset all overproduction by September 2025.

Prolongation of the postponement of this decision may significantly affect Kazakhstan's ability to comply with the oil production quotas defined for the country, as the Tengiz field is planned to be developed in 2025, as a result of which its capacity will increase by 260 thousand barrels per day by the middle of the year, or by 20% of the expected increase in global oil demand next year (according to OPEC forecasts). In order to fulfill the obligations, oil production will have to be reduced at other fields, which is more economically feasible, as the Tengiz field has the lowest production cost.

Russia's official OPEC+ quota is set at 9.95 mn bpd.

International oil price forecasts

According to EIA forecasts,[1] the price of Brent crude oil will rise from $72/bbl in November 2024 to $78/bbl in Q1 2025. The growth is related to a slight decrease in global oil reserves due to the extension of voluntary production cuts by the OPEC+ countries and the remaining geopolitical risks of the Iran-Israel conflict. In Q1 2025, EIA assumes an increase in production in OPEC+ countries and an increase in supplies from non-OPEC+ countries, which will increase oil reserves. This will affect the decline in oil prices already in H2 2025 to $74/bbl (*Fig. 1*). The price dynamics in 2025 will be affected by the situation in the Middle East and the willingness of the OPEC+ countries to adhere to the voluntary adjustments in daily oil production. The main driver of oil demand growth from 2025 is not China, which is actively increasing the share of owners



Note. The date of the forecast publication is given in parentheses.

Fig. 1. Crude oil prices forecast, USD/bbl.

Source: Own calculations on the data released by EIA, OPEC, IMF, RCB, OECD.

1 Short-term energy outlook. Crude oil prices // EIA. 13.11.2024. URL: https://www.eia.gov/outlooks/steo/marketreview/crude.php

of electric cars and the use of LNG in freight transportation, but India at the expense of the transportation industry.

According to OPEC's forecast, average prices for Urals crude oil in 2024 will be around $66.38/bbl. The growth of global oil demand in 2024, compared to the previous estimate, will decrease and amount to 1.6 mn bpd, including the demand for oil for the OECD will increase by 0.1 mn bpd, and for non-OECD countries – by 1.5 mn bpd. It is expected that in 2025 the global demand for oil will also slightly decrease from 1.8 to 1.4 mn barrels per day, and the main drivers of growth in liquid hydrocarbon supplies will be the USA, Canada, Brazil and Norway.

The Bank of Russia downgraded its forecast for the price of Brent oil in 2024 from $85 to $80/bbl, taking into account lower prices in the second half of the year. In 2025, the regulator expects the oil price to reach $80/bbl, in 2026 – $75/bbl, and in 2027 – $70/bbl, which is in line with previously published forecasts.[1]

The International Monetary Fund forecasts average oil prices of $81.29/bbl in 2024 and $72.84/bbl, and in 2025 – 72.84 USD/bbl.[2]

Sanction restrictions against the Russian oil industry

It is likely that in 2025 the European Commission will strengthen enforcement of sanctions already imposed on the Russian oil industry, as well as impose new ones, as described in the November report of the International Working Group on Russian Sanctions.[3] The report proposes:

- Restore leverage by enforcing a "ceiling" on the price of oil and oil products. First, apply sanctions not only against the companies managing the vessels, but also against individual vessels and any organizations involved in the sale of Russian oil: operators, oil traders, cargo buyers and financial institutions conducting supply-related transactions. Second, to solve the problem of collecting data on export prices by making them available only to "white list" traders (implementation requires guarantees to reduce legal risks in trading Russian oil). Third, lower the level of the price ceiling by at least $10/bbl, i.e. to $50/bbl for crude oil and $90/bbl for petroleum products, and impose a ceiling price for vacuum gasoil.
- Impose additional sanctions against the Russian oil sector by reducing oil imports to zero by 2027, primarily affecting Hungary and Slovakia, in case of violation to increase taxes on any transportation of fuel within the EU, even if the fuel is not of Russian origin, and to impose fines and restrictions on access to EU funds. In addition, it is proposed to prohibit the use of prices above a new "ceiling" for all imported oil products, which would eliminate the "loophole" associated with imports of Russian oil in the form of refined oil products from India and Turkey.
- Increase pressure on the Russian gas sector through a complete ban on LNG imports to the EU in 2025; impose sanctions against Gazprom and companies involved in new Russian LNG projects; completely

1 Medium-term forecast of the Bank of Russia based on the results of the Board of Directors meeting on the key rate // Bank of Russia. 25.10.2024. URL: https://cbr.ru/Content/Document/File/166590/comment_06112024.pdf

2 World Economic Outlook Update, 22.10.2024 // IMF. URL: https://www.imf.org/en/Publications/WEO/Issues/2024/10/22/world-economic-outlook-october-2024

3 The Path Forward on Energy Sanctions: A Toolkit to Step Up Pressure on Russia in 2025 // The International Working Group on Russian Sanctions. Working Papers #21. 15.10.2024. URL: https://fsi.stanford.edu/working-group-sanctions

prohibit Western organizations from providing services to the Russian LNG sector; ban imports of Russian LNG by Ukraine's allies in Asia after the winter of 2025–2026. ban any LNG ships from Russian LNG projects from 2027; impose tariffs on imports of Russian ammonia fertilizers to Europe and other Western countries (including Japan and South Korea).
- Weaken the Russian energy sector by imposing sanctions against critical companies in the sector (such as: PJSC Gazprom, PJSC Rosneft, PJSC Gazprombank, Rosatom and its subsidiaries), against the Russian nuclear industry to accelerate the EU's liberation from dependence on Rosatom (personal sanctions; ban on new contracts for nuclear fuel supply to the coalition countries; imposition of tariffs on nuclear fuel) and a complete ban on the provision of energy-related services from 2025. without a special license, public disclosure of information on contracts related to Russia and related profits from participation in the Russian oil and gas sector.

According to the forecasts of international agencies, by the end of 2024, the world oil price is expected to be around $80/bbl, even taking into account the decision of OPEC+ to gradually restore oil production volumes. A risk for the fulfillment of OPEC+ plans in 2025 may be Kazakhstan's desire to recoup its investments in the expansion of the Tengiz field, which may lead to an increase in reserves on the world market and a decline in oil prices. An additional risk for the Russian oil industry is the expected attempts of the European Commission to strengthen control over compliance with sanctions, lowering the price ceiling and imposing sanctions on individual vessels in the "shadow fleet" rather than on the companies that own them.

4. PROVISIONAL SUMMARY OF RUSSIA'S FOREIGN TRADE FOR 2024: EXPORTS GROW, IMPORTS DECLINE

Alexander Knobel, Candidate of Economic Sciences, Senior Researcher, Head of the Foreign Trade Department, Gaidar Institute;

Alexander Firanchuk, Senior Researcher, Foreign Trade Department, Gaidar Institute

In the first 10 months of 2024, Russian exports amounted to $354.4bn in value terms (+0.9% vs. the same period of 2023). The share of fuel and energy products in exports remained at 61%. The share of markets of neutral countries reached 86% (+7.0 p.p.). Oil and LNG supplies to China changed insignificantly, coal exports declined (-27%); copper exports decreased, while copper concentrate supplies rose. The discount to the price of Russian oil on the Chinese market in 2024 remains near zero. Russian imports fell to $229.8bn (-2.7% vs. the same period of 2023). Supplies from China significantly replaced European goods in the group of motor vehicles and mechanical devices. The volume of pharmaceutical supplies from the EU remains at the pre-sanctions level, and China's role in this market remains minimal.

Russia's trade turnover dynamics

Value sales of goods in the first ten months of 2024 were slightly below the values of the same period of pre-sanctions 2021, both for exports (-8.5%) and imports (-3.2%).

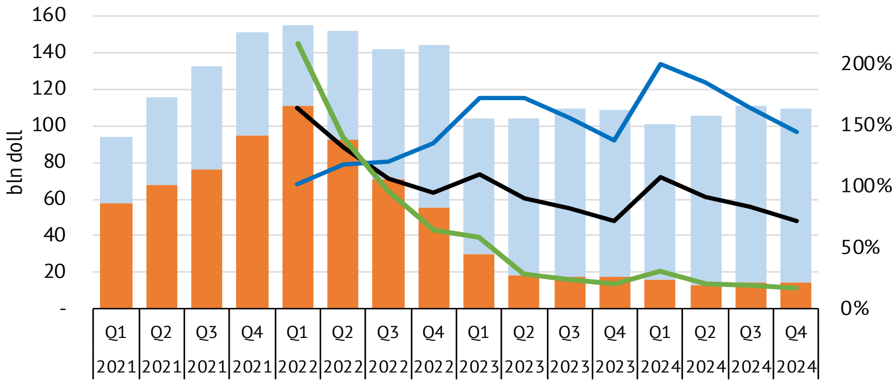
Exports in January-October 2024 amounted to $354.4 bn in value terms, remaining the same as in the previous year (+0.9%) (*Fig. 1*). At the end of the year, it is expected to be around $430 bn. The share of fuel and energy goods in exports in January-October 2024 amounted to 61.5%, having changed slightly against the previous year (+0.6 p.p.).[1] The short-term dynamics of Russian exports apart from the price environment in global energy markets continues to be affected by sanctions pressure. Sanctions against Gazprombank will put additional pressure on Russian exports, which will affect November-December sales.

Redirection of Russian exports is approaching its natural limit. The share of the markets of unfriendly countries continued to shrink in 2024, amounting to 14% in Q1, 2 and 3 according to mirror statistics (-7.0 p.p. compared to the same period of 2023). Prior to the onset of sanctions confrontation, these markets accounted for about 60% of Russian exports, i.e. their share shrank by more than 4 times.

Imports in January-October 2024 declined to $229.8 bn (-2.7% vs. the same period of 2023), being slightly below the pre-crisis 2021 values ($237 bn) (*Fig. 2*). At the end of the year, imports are expected to be worth about $280 bn. The accumulated inflation of international trade for 2021–2023, according to the WTO amounted to 6%.[2] There is also still a premium on supplies of goods to Russia from both unfriendly and neutral countries, which is expressed in

1 Share of Mineral products group (25-27) in Russian exports
2 WTO Stats: Merchandise trade – indices and prices. URL: https://stats.wto.org/

4. Provisional summary of Russia's foreign trade

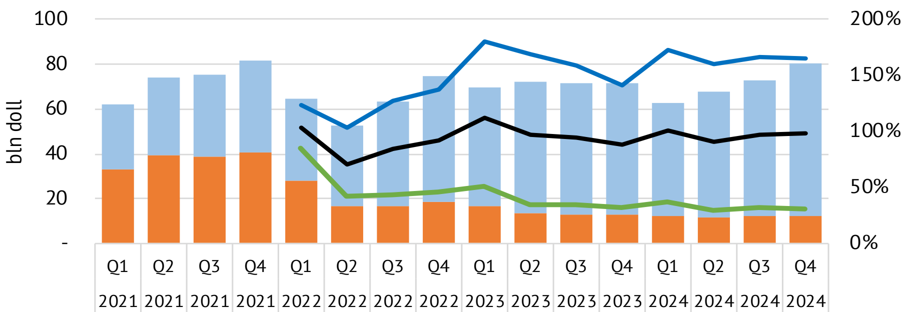


Note. Authors' estimates based on imports from Russia of major unfriendly countries and aggregate exports according to the FCS and the Bank of Russia since 2022.

* provisional estimates based on the Bank of Russia, Eurostat and China's General Customs Department.

Fig. 1. Exports dynamics in 2021–2024

Source: own estimates based on FCS, Bank of Russia, Eurostat, COMTRADE, China's General Customs Department.



Note. Authors' estimates based on exports to Russia of major unfriendly countries and aggregate imports according to the FCS and the Bank of Russia since 2022.

* provisional estimates based on the Bank of Russia, Eurostat and China's General Customs Department.

Fig. 2. Imports dynamics in 2021–2024

Source. Own estimates based on FCS, Bank of Russia, Eurostat, COMTRADE, China's General Customs Department.

the outstripping dynamics of prices of goods shipped to Russia compared to supplies to other markets. Relative price growth is estimated at 3.5–8.4% (2023 to 2021).[1] Thus, the current decline in import value sales relative to pre-crisis

1 Ref. *A. Firanchuk* (2024). Impact of sanctions on prices of Russian imports. URL: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=5006373

(-3.2%) indicates a more significant reduction in physical import amounts due to rising prices of imported goods.

Redirection of imports has ended. Data on the exports from major unfriendly countries allow to estimate reduction of their share in Russian imports from 50–55% in 2019–2021 to 18% in Q1, 2 and 3 of 2024. It is worth noting that in a significant number of cases the redirection of Russian imports to neutral suppliers is reduced to logistical changes and administrative procedures that allow circumventing restrictions on direct supplies from unfriendly countries. This significantly limits the accuracy of estimates based on partner countries' export data.

The volume of supplies through intermediaries in third countries is difficult to estimate directly, however, it is clear that its scale significantly affects the calculation of neutral countries' share in Russian imports. For example, exports of communication and imaging equipment from Armenia to Russia increased to $500 mn in 2023, up from virtually zero in 2021. Meanwhile, Armenian imports of similar goods from third countries rose by a comparable amount up to $628 mn (from $80 mn in 2021). Similar dynamics is typical for other major categories of equipment: monitors, projectors, computing machines, vacuum cleaners, air conditioners and washing machines.[1] These items accounted for half of the total gain in Armenian exports to Russia. A similar situation is probably observed with other neutral countries, but the size of their economies and trade volumes makes it difficult to reveal such phenomena at the country statistics rate.

Substitution of European goods with supplies from China

China became a major source of substitution of goods from unfriendly countries, especially the EU, the largest supplier to the Russian market in the pre-sanctions period. However, the degree of substitution varies by industry (*Fig. 3*). The rise in vehicle shipments from China has doubled the pre-sanctions volume of vehicle imports from the EU. From November 2023 to October 2024, imports of vehicles from China totaled $25.5 bn, exceeding the 2021 by $21.3 bn. Some other major commodity groups only partially compensated for the fall in imports from the EU. In the mechanical equipment category, shipments from China increased by $12.1 bn (from $14.7 bn to $26.8 bn), while in the optics and medical equipment group, shipments grew by $1.3 bn (from $1.9 bn to $3.2 bn), offsetting about 60% of the decline in imports from the EU. In the plastics and polymers category, imports from China rose by $1.6 bn (from $2.7 bn to $4.4 bn), covering about 40% of the drop in European shipments.

There was no significant growth in imports from China in other commodity groups. In the aircraft group, the growth amounted to only $201 mn, while supplies from the EU dropped by $3.1 bn.

The European Union is not reducing the volume of pharmaceutical exports to Russia: over the last 12 months (from November 2023 to October 2024) pharmaceutical products were supplied for $9.3 billion, which corresponds to the pre-crisis ($9.4 bn in 2021). China remains a small supplier of this group of goods with volumes of $108 mn over the last 12 months. Thus, the Russian market remains dependent on European drugs and substances.

Supplies to China

The period of booming exports to China has come to an end due to redirection of the Russian export.

1 Ref. *A. Firanchuk* (2024). Impact of sanctions on prices of Russian imports. URL: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=5006373

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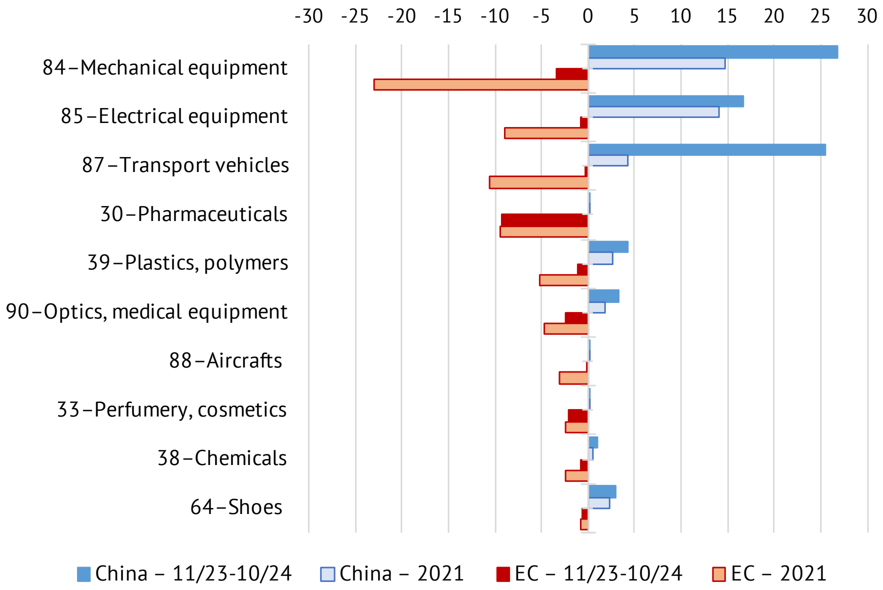

Fig. 3. Comparative dynamics of supplies of the largest commodity groups from the EU and China to Russia in November 2023 – October 2024 vs. 2021

Source: own estimates based on China's General Customs Department and Eurostat.

In the first 11 months of 2024, China's imports of Russian ***crude oil*** stabilized both in value (+4% vs. the same period of 2023) and in physical terms (+2%), amounting to 99.1 mn tons.

The share of Russian oil in the Chinese market increased to 19.3% (+0.7 p.p.). China's imports of Russian light ***distillates*** totaled $2.3 bn (+9%), with volumes stabilizing at 3.3 mn t; the share in Chinese imports was 29% (+1.0 p.p.). Shipments of heavy distillates increased to $5.2 bn (+18%) and 10.2 mn tons (+14%); the share in Chinese imports also increased to 30% (+1.9 p.p.).

Imports of Russian ***coal*** in January-November 2024 decreased to 81.5 mn tons (-13.3% vs. the same period of 2023), while the decline in prices resulted in a more pronounced reduction in value volumes to $9.7 bn (-27%). Russia's share in this market dropped to 25% (-8.2 p.p.).

Liquefied natural gas ***(LNG)*** imports from Russia reduced to $4.6 bn (-5.6%), despite a slight increase in shipments to 7.8 mn tons (-0.9%). The share in the Chinese market declined to 7.6% (-0.7 p.p.). ***Pipeline gas supplies*** from Russia continued to grow to $7.4 bn (+25.0%).

Aluminum exports to the Chinese market stabilized at 1.09 mn t (-1.9%) and $3.2 bn (+25%). A more active build-up of aluminum imports by China from other countries resulted in a reduction of the Russian share to 21% (-4.2 p.p.). The US sanctions on Russian ***nickel*** accelerated the growth of supplies to the Chinese market. The nickel supplies increased to 58.000 tons (+20.5%), however, the value sales fell to $847 mn (-16.6%) due to the price environment on the world markets. Shipments of ***ferrous metals*** dropped to 0.67 mn t (-46%) and $715 mn (-19%). The share of ferrous metals from Russia in the Chinese market rolled back to 3.2% (-2.4 p.p.).

As for copper exports, there was a shift in shipments towards concentrates. Thus, ***copper*** shipments fell to 300 kt (-19%) and $2.7 bn (-11%), resulting in a decrease in Russia's share to 4.2% (-1.2 p.p.). However, copper concentrate shipments increased significantly to 380 kt (+37%) and $1.3 bn (+67%), while the share reached 1.5% (+0.4 p.p.).

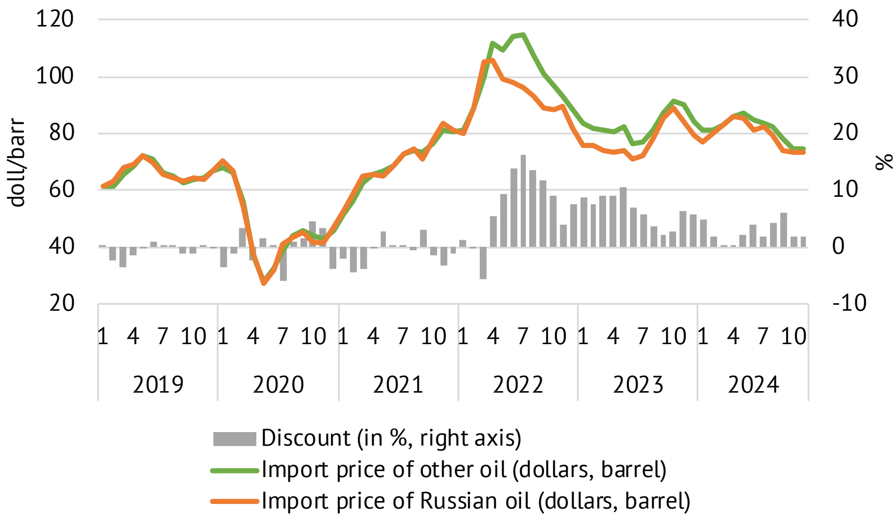

Fig. 4. Prices and discounts for Russian oil supplied to China

Source: own estimates based on China's General Customs Department.

Imports of ***wood*** and wood products from Russia remained stable at 11.9 mn tons (-5.7%) and $4.7 bn (-3.9%), maintaining their share at 11%. Shipments of ***chemical products*** to China increased to $4.6 bn (+26%) with the share growing to 2.0% (+0.5 p.p).

The discount on Russian oil almost faded away in 2024 (*Fig. 4*). The difference between average prices for Russian crude oil and prices for raw materials supplied from other countries is consistently below 6% in 2024, i.e. 2.6% on average. Such variations can be explained by the difference in grades of oil coming from Russia and other countries. The average monthly price of Russian crude oil has remained above the "price ceiling" throughout this period.

Supplies from China and secondary sanctions

The dynamics of the Russian market share in China's exports indicates that pressure of the secondary sanctions became evident only in March 2024,[1] when they were first applied on a large scale (*Fig. 5*). Supplies from China to Russia then declined (-14.2%), and the share of the Russian market dropped to 2.7% (-0.7 p. p. by February 2024). Starting from April, a steady recovery dynamics was observed, and by July the decline was fully recovered, with the share of the Russian market returning to 3.3%. In August, China's monthly exports to Russia set an absolute record, reaching $11.2bn. In the first 11 months of 2024, shipments of Chinese goods amounted to $104.1bn (+3.8%), while annual volumes are expected to reach $115bn.

1 This indicator better takes into account the trade seasonality. China has floating holidays (usually in February), while Russia's share is traditionally lower in January due to the longer New Year vacations. In addition, the U.S. President's executive order on secondary sanctions, issued in December 2023, did not immediately cause a visible decline in trade.

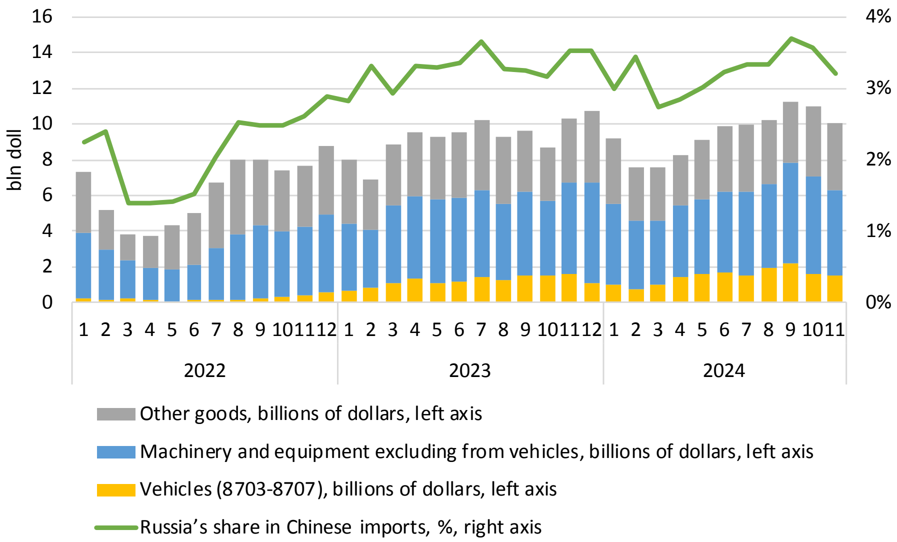

Fig. 5. Supplies of Chinese goods to Russia in 2022–2024

Source: own estimates according to China General Customs Department.