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R95 **Russian economy in 2023. Trends and outlooks. (Issue 45)** / [V. Mau et al; scientific editing by Kudrin A.L., Doctor of sciences (economics), Radygin A.D., Doctor of sciences (economics), Sinelnikov-Murylev S.G., Doctor of sciences (economics)]; Gaidar Institute. – Moscow: Gaidar Institute Publishers, 2024. – 422 pp.: illust.

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The review "Russian economy. Trends and outlooks" has been published by the Gaidar Institute since 1991. This is the 45th issue. This publication provides a detailed analysis of main trends in Russian economy, global trends in social and economic development. The paper contains 5 big sections that highlight different aspects of Russia's economic development, which allow to monitor all angles of ongoing events over a prolonged period: the monetary and budget spheres; financial markets and institutions; the real sector; social sphere; institutional changes. The paper employs a huge mass of statistical data that forms the basis of original computation and numerous charts confirming the conclusions.

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Nadezhda Volovik

3.6. Russia's foreign trade in 2023[1]

1.The state of the world economy and world trade

Despite tighter monetary policy, escalating geopolitical conflicts and increased economic uncertainty, the global economy in 2023 was more resilient than expected. Economic growth exceeded expectations in several major developed and developing economies, and a sustained labor market recovery supported consumer spending. At the same time, global inflation has fallen significantly as energy and food prices have fallen, allowing central banks to slow or pause interest rate hikes. However, this semblance of resilience masks both short-term risks and structural vulnerabilities. Underlying price pressures remain elevated in many countries. Further escalation of conflicts in the Middle East poses a risk of disruption to energy markets and renewed inflationary pressures globally.

As the global economy prepares for the lagged effects of a sharp rise in interest rates, the central banks of major developed economies have signaled their intention to keep interest rates high for as long as possible. The prospects of a prolonged period of higher borrowing costs and restrictive credit conditions pose serious headwinds for a global economy that is burdened by high levels of debt and, at the same time, needs increased investment to revitalize growth. Moreover, tight financial conditions, combined with the growing risk of geopolitical fragmentation, are putting pressure on global trade and industrial production.

According to the World Bank estimates,[2] global GDP growth in 2023 is estimated at 2.6%, which is 0.5 p.p. higher than forecast last June. The world economy in 2023 avoided a sharp recession, but a prolonged period of low growth is expected. The WB forecasts global growth to slow to 2.4% in 2024. Growth may moderate to 2.7% in 2025, but will remain below the pre-pandemic (2011–2019) growth rate of 3.0%. Growth prospects for many developing countries, especially low-income ones, remain uncertain, making full recovery from the pandemic even more elusive and threatening to further slow sustainable development.

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2 World Bank official website. URL: https://www.worldbank.org/en/publication/global-economic-prospects

The US economy expanded by 2.5% in 2023, 1.4 p.p. above the WB's June estimate. Consumer spending remained strong, supported by ongoing job growth, higher real wages and rising asset prices. However, the Federal Reserve's rate hikes are expected to dampen consumption and investment in 2024, with annual GDP growth expected to slow to 1.4%, according to the WB. Growth prospects for Europe and Japan remain subdued. In the European Union, GDP is forecast to expand by 0.7% in 2024 after growing by just 0.4% in 2023. Restrictive credit conditions have led to a 0.6 p.p. cut in the region's economic outlook for 2024 compared to the bank's June estimate. The moderate recovery of the European economy is expected to be supported by a gradual increase in consumer spending as inflationary pressures ease, real wages rise and labor markets remain robust. In Japan, GDP growth is projected to slow from 1.8% in 2023 to 0.9% in 2024, despite continued accommodative monetary and fiscal policies. The slowdown in the economies of Japan's main trading partners, the US and the PRC, is expected to reduce net exports in 2024.

Short-term growth prospects for developing countries and regions differ significantly. In China, annual GDP growth hit 5.2% in 2023, driven by recovery from COVID-19-related constraints. Weakness in the real estate sector and sluggish external demand are expected to moderate the growth rate of the Chinese economy to 4.7% in 2024. Average growth in East Asia is projected to decline from 4.9% in 2023 to 4.6% in 2024. Private consumption is expected to pick up, boosted by easing inflationary pressures and a sustained recovery in the labor market. While the resuscitation of services exports – especially tourism – has been sustained, weak global demand is likely to depress merchandise exports. In South Asia, GDP grew by about 5.3% in 2023 and is projected to grow by 5.2% in 2024. In India, which remains the fastest growing major economy in the world, GDP is projected to expand by 6.2% in 2024 after growing by 6.3% in 2023 on the back of sustained domestic demand and strong manufacturing and services sectors. Tight financial conditions, fiscal and external imbalances, and the return of El Niño climate phenomenon pose risks to these gains for several other South Asian countries.

In the CIS and Georgia, economic growth in 2023 is higher than previously expected, reflecting the resilience of the Russian Federation's economy as well as strong performance in the Caucasus and Central Asia. Regional GDP growth is projected to slow from 3.3% in 2023 to 2.3% in 2024. In Russia, GDP grew by 3.6% in 2023. This stronger-than-expected recovery was supported by substantial fiscal support, including additional military spending. Oil production and exports declined slightly, and the authorities announced an extension of export restrictions by 300,000 bbl/d until the end of 2023, and an increase of 200,000 bbl/d from January 2024. The depreciation of the exchange rate led to a sharp rise in inflation, which contributed to the subsequent increase in the discount rate. Monetary tightening is expected to reduce domestic demand.

Risks to the near-term global outlook continue to be shifted to the downside. Increased geopolitical tensions due to the conflict following Hamas terrorist attacks on Israel are a key near-term concern. A widening conflict could lead to significant disruptions in energy markets and major trade routes, as well as additional re-pricing in financial markets, which would slow economic growth and increase inflation. Constraints related to growing trade restrictions, domestic market-oriented policies, and restructuring of global supply chains are also contributing to greater uncertainty about the outlook for global trade, a key concern given the importance of trade for productivity and development. Persistent price pressures, renewed increases in energy and food prices, or signs of rising inflation expectations could force central banks to keep interest rates higher for longer than expected, potentially creating additional stress in financial markets. Conversely, the impact of higher interest rates and tighter credit standards could be stronger than expected, leading to a more severe slowdown in spending, higher unemployment, and more bankruptcies. At the same time, however, the global economy and financial markets have so far proved relatively resilient to monetary tightening, and inflation could return to target without a marked slowdown in economic growth or a sharp rise in unemployment. Maintaining this pattern would mean higher-than-expected growth in 2024 with lower inflation. Growth would have also been stronger if households were willing to spend savings accumulated during the pandemic.

The IMF forecasts that global economic growth will slow from 3.5% in 2022 to 3.1% in 2023 and 2024,[1] which is well below the historical average (2000–2019) of 3.8%. Growth in advanced economies is expected to slow to 1.5% in 2024 as monetary stringency begins to take effect. Growth in emerging markets and developing economies is expected to stabilize at 4.1% over the next 2 years. Global inflation is projected to decline from 8.7% in 2022 to 6.8% in 2023 and 5.8% in 2024 due to monetary restraint supported by lower global commodity prices. However, in most cases inflation is not expected to return to the target level until 2025 (*Table 21*).

Table 21

Dynamics of the global GDP and world trade (growth rates, in % on the previous year)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	Esti-mate	Forecast	
										2023	2024	2025
World GDP	3.6	3.5	3.3	3.8	3.6	2.8	-3.1	6.0	3.5	3.1	3.1	3.2
Advanced economies	2.1	2.3	1.7	2.5	2.3	1.7	-4.5	5.2	2.6	1.6	1.5	1.8
USA	2.5	2.9	1.6	2.4	2.9	2.2	-3.4	5.7	1.9	2.5	2.1	1.7
Euro zone	1.4	2.1	1.9	2.5	1.9	1.3	-6.4	5.2	3.4	0.5	0.9	1.7
Germany	2.2	1.5	2.2	2.5	1.5	0.6	-4.6	2.6	1.8	-0.3	0.5	1.6
France	1.0	1.0	1.1	2.3	1.7	1.5	-8.0	6.8	2.5	0.8	1.0	1.7
Great Britain	2.9	2.3	1.8	1.7	1.4	1.5	-9.4	7.4	4.3	0.5	0.6	1.6

1 IMF official website. URL: https://www.imf.org/en/Publications/WEO/Issues/2023/10/10/world-economic-outlook-october-2023

	2014	2015	2016	2017	2018	2019	2020	2021	2022	Esti-mate	Forecast	
										2023	2024	2025
Emerging and developing economies	4.6	4.0	4.3	4.7	4.5	3.7	-2.0	3.7	4.1	4.1	4.1	4.2
Russia	0.6	-3.7	-0.2	1.5	2.3	1.3	-2.7	4.7	-1.2	3.0	2.6	1.1
Developing countries in Asia	6.8	6.6	6.4	6.5	6.4	5.5	-0.9	7.2	4.5	5.4	5.2	4.8
China	7.3	6.6	6.7	6.9	6.6	6.1	2.3	8.1	3.0	5.2	4.6	4.1
India	7.3	7.6	7.1	6.7	6.8	4.2	-7.3	8.7	7.2	6.7	6.5	6.5
Latin America and the Caribbean	1.3	0.0	-0.9	1.3	1.0	0.0	-6.9	6.9	4.2	2.5	1.9	2.5
Brazil	0.1	-3.8	-3.6	1.4	1.1	1.1	-3.9	3.0	3.0	3.1	1.7	1.9
Mexico	2.1	2.5	2.3	2.2	2.0	–0.3	-8.1	4.8	3.9	3.4	2.7	1.5
World trade in goods and services	3.3	2.6	2.2	5.2	3.9	0.9	-8.2	10.4	5.2	0.4	3.3	3.6

Source: The IMF official website. URL: https://www.imf.org/en/Publications/WEO/Issues/2024/01/30/world-economic-outlook-update-january-2024.

In 2023, according to IMF estimates, world trade growth decelerated significantly to 0.4% well below the growth rate of 5.2% recorded in 2022. This slowdown is due to a sharp fall in trade in commodities. In contrast, trade in services, especially in tourism and transportation, continued to recover. The shift in consumer spending from goods to services, tighter monetary policy, the strong United States dollar and geopolitical tensions hampered global trade.

Exports from developing countries have declined, demand from developed countries has weakened, and financial conditions restrict trade financing. International tourism has shown signs of strong recovery, particularly in East and West Asia and is expected to reach pre-pandemic levels by 2024. International trade relations are showing trends of realignment as countries seek to secure supply chains "closer to home" or from more reliable sources. These trends are expected to persist in the coming years, with trade growth projected to remain subdued and export-oriented growth strategies giving way to domestic demand-oriented growth strategies.

The most significant factors affecting world trade are:

– positive dynamics of economic growth, but with significant differences. Global economic forecasts remain stable but still below historical averages. In addition, substantial differences remain between countries and regions in terms of the expected economic outlook for 2024. These disparities will affect trade patterns;
– high interest rates and depressed industrial production. Economic activity has been hampered by persistently high interest rates in a number of countries. The latest Purchasing Managers' Index (PMI) data in China and the United States suggest a subdued outlook for industrial production in the short term;
– volatility in commodity prices. Regional conflicts and ongoing geopolitical tensions are likely to increase uncertainty in commodity markets;

– lengthening supply chains. Global trade is influenced by changes in supply chains responding to changes in trade policy and geopolitical tensions;
– increase in subsidies and trade restrictive measures. According to the WTO,[1] the trade coverage of trade restrictive measures between mid-October 2022 and mid-October 2023 is estimated at $337.1 bn, compared to $278.0 bn between mid-October 2021 and mid-October 2022.

The World Trade Organization has released its latest Commodity Trade Barometer[2] for March 2024, which provides an indication of the trajectory of the volume of merchandise trade relative to recent trends. The current Barometer value of 100.6 is slightly above the baseline value of 100, implying that world trade will start to grow modestly in Q1 2024 after a weak performance in 2023. However, geopolitical tensions continue to pose a downward risk to the near-term outlook.

The dynamics of the Barometer components are mostly neutral, with export orders (101.7) and air transportation (102.3) slightly above trend, while container transportation (98.6) and raw materials trade (99.1) remain slightly below trend. The auto production and sales index (106.3) remains well above trend, although it has been losing momentum recently. Meanwhile, the seemingly sharp rebound in the electronic components trade index in the previous report was revised downward (95.6).

2. Terms of Russian foreign trade: Price trend for the main goods of Russian exports and imports

In 2023, the World Bank commodity price index[3] amounted to 108.0%, which is almost a quarter lower than in 2022 (142.5%). Price declines were observed for all components of the index, except for precious metals (*Table 22*).

Prices were falling during the first half of the year, but many components of the index have seen gains since July. In Q3 2023, the World Bank's Commodity Price Index rose 5% quarter-on-quarter, mainly on the back of an 11% increase in oil prices. With oil accounting for 52% of the index, higher oil prices offset declines in 24 of the 43 commodities in the index. The World Bank's Energy Price Index rose 8.6% in Q3 2023 from the previous quarter due to higher oil prices, responding to a series of supply cuts by OPEC+ countries. In Q4, the commodity price dynamic returned to a negative trend.

Prior to the conflict, commodity prices remained relatively high, around 45% above the 2015–2019 average (*Fig 19*).

In 2023, the energy price index decreased by 29.9% compared to 2022. Brent crude oil prices averaged $82.62/bbl in 2023, 17.2% lower than in 2022. Due to weaker global growth and increased supply in 2023, the price decline will continue in 2024, with prices expected to stabilize in 2025 as both supply and

1 WTO official website. URL: https://www.wto.org/english/news_e/news23_e/news23_e.htm
2 WTO official website. URL: https://www.wto.org/english/news_e/news24_e/wtoi_08mar24_e.htm
3 World Bank official website. URL: https://www.worldbank.org/en/research/commodity-markets

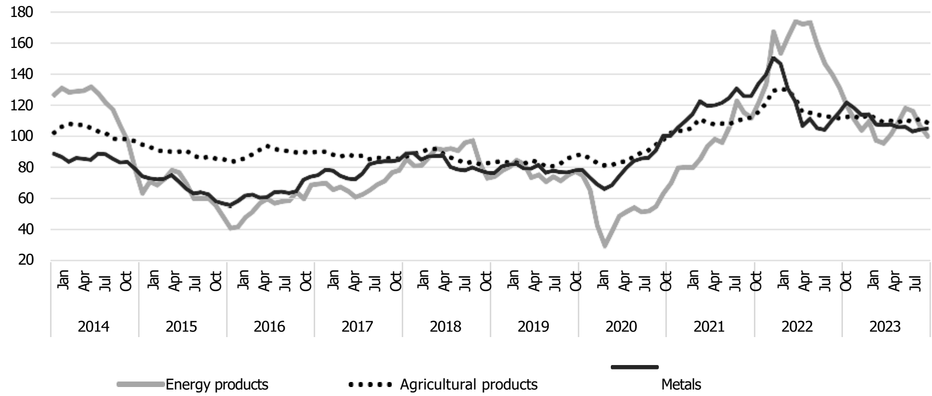

Fig. 19. World Bank commodities price index (2010 = 100%)

Source: World Bank official website. URL: http://www.worldbank.org/en/research/commodity-markets#1

demand recover. The WB forecasts that the energy price index will decline by another 5% in 2024 and by 1% in 2025, with the index remaining high in the long-term.

The conflict in the Middle East has led to increased volatility in natural gas prices. Since the conflict broke out in early October, European natural gas prices have increased by 35% due to the closure of a natural gas field off the coast of Israel, an explosion at an interconnector in the Baltic Sea and concerns about escalating conflict in the Middle East. In Q3 2023, the World Bank's natural gas price index increased by 2% compared to the previous quarter, i.e., before the conflict commenced. This followed significant price declines in the previous three quarters as the market rebalanced following the cessation of Russian gas exports to Europe. The three components that make up the gas price index followed different trajectories in Q3, but prices remained high – the Q3 2023 index is still 34% above the 2015–2019 average. The U.S. benchmark (Henry Hub) was volatile, as a 20% increase in Q3 2023 followed a roughly similar drop in Q2 2023. The European benchmark (TTF) continued its decline, but at a more modest rate of 5%, while Japanese LNG fell in price by 6%. Overall, in 2023 year-on-year, natural gas was 60.1% cheaper in the U.S., 67.5% cheaper in Europe, and 22.8% cheaper in Japan LNG.

The WB forecasts that European natural gas prices will continue to decline in 2024 before recovering in 2025 on the back of growing demand.

The main risk to the energy price outlook is the potential escalation of the Middle East conflict, which could lead to significant supply disruptions and price spikes. Other risks include continued voluntary OPEC+ supply cuts and slower-than-expected economic activity and lower oil demand in China.

The 2023 non-energy commodity price index declined 9.8% year-on-year. Decrease was observed in all components of the index, except for precious metals.

Metals are 9.6% cheaper in 2023, continuing a trend of steady price declines since early 2022. This largely reflects slowing economic activity in major economies with ample supply in 2023, especially copper, nickel and zinc. Metals prices have been largely flat since the outbreak of conflict in the Middle East.

The WB forecasts that after an expected decline in 2023, metal prices will continue to decline in 2024 due to slowing demand and ample supply, before stabilizing in 2025 as demand recovers. Escalating Middle East conflict and related supply disruptions represent a key upside risk to industrial metals and gold prices. Other risks to higher prices include an earlier-than-expected recovery in China's real estate sector in 2024 and supply disruptions, including those resulting from trade restrictions.

The Precious Metals Price Index rose by 7.7% in 2023, with all components of the index growing: compared to 2022, gold rose by 7.9%, silver by 7.4%, and platinum by 0.5%. Prices for precious metals were supported by the growing attractiveness of safe haven assets due to geopolitical events and a decline in US Treasury bond yields. Many central banks started actively buying gold to replenish their assets. In September-October 2023 alone, global central banks purchased 114.1 tons of gold, which is 23% higher than the average monthly volumes for this year. As the geopolitical situation in the world is becoming increasingly unstable, it can be assumed that the process of replacing the dollar and euro with gold in international assets may become more intense.

In early December 2023, the gold price rose above $2,100 per ounce for the first time in its history. The WB forecasts gold prices to average $1,900 per troy ounce in 2024, before declining in 2025 as inflation and recession fears subside. While the initial impact of the Middle East conflict on the gold price was moderate, its escalation will exacerbate uncertainty, leading to lower risk appetite.

Table 22

Average annual world prices

	2013	2014	2015	2016	2017	2018	2019 г	2020	2021	2022	2023
Crude oil (Brent), USD/bbl.	108.86	98.94	52.37	44.05	54.39	71.07	64.03	42.3	70.44	99.82	82.62
Natural gas (USA), USD/MMBTU	3.72	4.37	2.61	2.49	2.96	3.16	2.57	2.01	3.85	6.37	2.54
Natural gas, European market USD/MMBTU	11.79	10.05	6.82	4.56	5.72	7.68	4.80	3.24	16.12	40.34	13.11
Natural gas (Japan), USD/MMBTU	15.96	16.04	10.93	7.37	8.61	10.67	10.56	8.31	10.76	18.43	14.23
Coal (Australia), USA/t	84.56	70.13	58.94	66.12	88.52	107.02	77.86	60.79	138.05	344.9	172.78
Copper, USD/t	7332.1	6863.4	5510.5	4867.9	6169.9	6529.8	6010.2	6173.8	9317.1	8822.4	8490.3
Aluminum, USD/t	1846.7	1867.4	1664.7	1604.2	1967.7	2108.5	1794.5	1704	2472.8	2705	2255.7
Nickel, USD/t	15032	16893	11863	9595.2	10409	13114	13914	13787	18465	25833	21521
Iron ore, USD/t	135.36	96.95	55.85	58.42	71.76	69.75	93.85	108.9	161.71	121.3	120.57
Gold, USD/troy ounce	1411.5	1265.6	1160.7	1249	1257.6	1269.2	1392.5	1770.3	1799.6	1800.6	1942.7

Source: Calculated on the World Bank data.

The World Bank's price index for agricultural products in 2023 declined by 7.7% year-on-year, mainly due to a 9.3% decline in food prices. Pressure on prices came from strong grain harvests, which offset disruptions due to weather-related disruptions and Russia's withdrawal from the Black Sea Grain Initiative. Nevertheless, the emergence of El Niño has caused a significant jump in prices of some agricultural commodities produced mainly in regions that are usually negatively affected by this weather phenomenon. For example, rice and cocoa prices reached the highest level since 2008. Since the outbreak of conflict in the Middle East, agricultural commodity prices have increased by about 4%, mainly due to higher prices for tropical commodities. As the global situation improves, the food price index is expected to decline by 2% in 2024 and 3% in 2025.

3. Main indicators of the Russian foreign trade

According to the Central Bank of Russia,[1] Russia's foreign trade turnover in 2023 amounted to $727.7 bn, which is 16.2% lower than in 2022. The trade surplus decreased 2.6 times – to $120 bn against $303 bn in 2022 (*Fig. 20*).

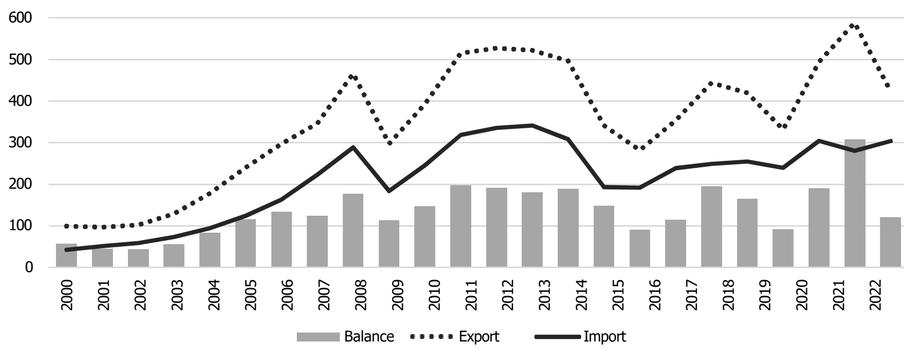

Fig. 20. Main indicators of Russian foreign commodities trade (USD bn)

Source: RF CBR official website.

In 2023, Russian merchandise exports amounted to $425.1 bn, which is 28.3% lower than the same indicator of 2022 (*Table 23*). After the record high value volumes of 2022, a downward trend was observed in the exports dynamics in H1 of 2023. Due to the strengthening of restrictive measures and the decline in world commodity prices, the value of exports decreased by 26.9% in Q1 2023 compared to the previous quarter. In Q2, the rate of decline slowed down to 1.7%. Under the influence of the oil price growth in Q3 compared to Q2, the dynamics of the exports value improved – it went up by 5.3%. Russian exports were supported by a good grain harvest and redirection of supplies to new markets. In Q4 2023, the value of exports of goods fell by 2.4% as compared to the previous quarter. Exports of Russian goods were hampered by foreign trade restrictions, low demand in the

1 CBR official website. URL: https://cbr.ru/Collection/Collection/File/43419/Balance_of_Payments_2022-3_12.pdf

international market in the context of slowing global economic growth, as well as issues with sea transportation.

Table 23

Russia's merchandise exports and imports (USD bn)

	Exports			Imports		
	2022	**2023**	**in % on previous year**	**2022**	**2023**	**in % on previous year**
Total	592.5	425.1	71.7	255.3	285.1	111.7
Food products and agricultural raw materials	41.3	43.1	104.3	35.8	35.1	98.3
Mineral products	391.6	260.1	66.4	5.3	5.6	105.1
Chemical products, rubber	42.0	27.2	64.8	57.1	55.7	97.6
Raw leather, fur and products thereof	0.2	0.1	62.8	1.0	1.2	122.2
Wood and pulp and paper products	14.0	9.9	70.3	3.9	3.4	86.6
Textiles, textile products and footwear	1.9	1.7	93.2	15.8	19.1	121.4
Metals and metal products	70.7	60.0	84.9	19.1	19.2	100.4
Machinery, equipment, vehicles and other goods	30.8	22.9	74.5	117.5	145.8	124.1

Source: Rosstat. URL: https://rosstat.gov.ru/storage/mediabank/osn-01-2024.pdf

Despite tough international sanctions, Russia continues to play a huge role in global crude oil markets. In 2023, it remained the third largest oil producer after the US and Saudi Arabia, the second largest oil exporter in the world after the US, and the largest net exporter in the world.

In early 2022, the EU reduced its imports of Russian fossil fuels from a peak of $16 billion per month in early 2022 to about $1 bn per month by the end of 2023. At the same time, physical volumes of Russian crude oil exports in 2023 remained stable compared to 2022 at 7.5 mb/d, with a slight drop in crude oil exports offset by an equivalent increase in petroleum product shipments.

However, as a result of notable decline in world oil prices, introduction of price restrictions by the G7 countries and increased discounts on Russian crude oil, Russia's revenues from mineral fuel exports fell by 33.6% in 2023 compared to 2022, which saw the maximum level of hydrocarbon supplies abroad. At the same time, revenues from mineral fuel exports in 2023 are comparable to 2021 ($267 bn) mainly due to the shift of oil exports towards China, India and Turkey.

In the commodity structure of Russian exports, the share of mineral commodities fell from 66.1% in 2022 to 61.2% in 2023 (*Fig. 21*).

According to the Ministry of Industry and Trade, the volume of non-resource non-energy exports (NRE) from Russia in 2023 decreased by 23% year-on-year and amounted to $146.3 bn. Against the background of a decline in the total volume of Russian exports in 2023, the share of NRE in it increased from 28% to 35% compared to 2014. Metal products accounted for 31.4% of non-resource exports, machine-

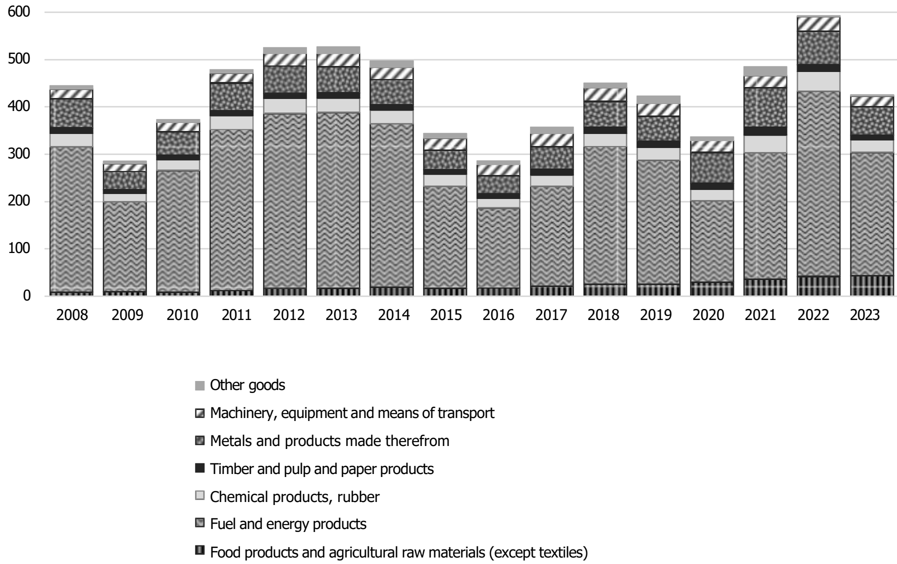

Fig. 21. Goods-wise dynamic of Russian exports (USD bn)

Source: FCS.

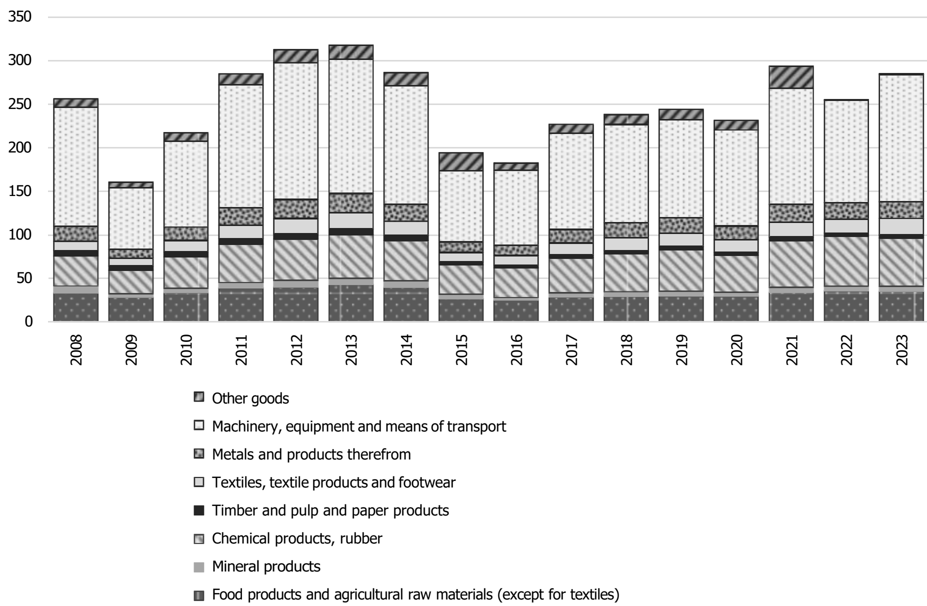

Fig. 22. Goods-wise dynamic of Russian imports (USD bn)

Source: FCS.

building products – 19.1%, chemical products – 10.9%, agricultural products – 18.8%. A record level of $194 bn of non-commodity exports was recorded in 2021.

Imports of goods to Russia in 2023 amounted to $303.8 bn, which is 9.9% higher than in 2022. During the first 9 months of 2023, Russian imports continued to recover: in January – September 2023, the value of imports of goods exceeded the level of the same period of 2022 by 16.4%. Imports were supported by reorientation to alternative suppliers, the parallel import mechanism and other government measures on simplified import of goods. Since the middle of Q3 2023, the growth of imports has been restricted by the weakening of the ruble and higher interest rates in the economy. In Q4 2023, the value of imported goods dropped by 5.8% in annual terms.

Among the commodity groups, the largest contribution to the growth of imports in 2023 was made by shipments of machinery, equipment and vehicles, as well as textiles, textile products and footwear (*Fig. 22*).

4. Regional pattern of Russian foreign trade

Asian countries remained Russia's key trading partners in 2023. According to the Federal Customs Service, their share in exports increased from 49.1% in 2022 to 72.1% in 2023, and in imports – from 56.9% to 65.9%. Trade turnover with European countries continued to decline: their share in total exports of Russian goods decreased from 44.9% to 20%, in Russian imports – from 35.1% to 27.6%. Imports of Russian goods to the EU countries dropped by 75%, supplies of European goods to the Russian Federation fell by 30%.

In Q1 2023, China overtook the EU as Russia's main trading partner for the first time: trade with the PRC accounted for more than 30.7% of Russia's foreign trade, while trade with the EU accounted for only about 19%. The new sanctions imposed by the EU reinforced this trend: in 2023, the share of the PRC increased to 32.9%, while the share of the EU decreased to 13.2%.

According to Eurostat,[1] between February 2022 and December 2023, the value of imported Russian goods to the EU fell by 82%, while the value of exported European goods to Russia fell by 61%. These developments caused the EU's trade deficit with Russia, which peaked at €18.6 bn in March 2022, to decline to €0.8 bn in December 2023.

Russia's share in European exports of goods fell from 3.8% in February 2022 to 1.4% in December 2023. Over the same period, the share of imports of goods from Russia into the EU fell from 9.5% to 1.9%.

Analysis of European statistics for 2023 reveals that the EU continues to purchase oil, oil products and natural gas from Russia (€29.1 bn), as well as ferrous metals, nickel, aluminum, platinum group metals, fertilizers, inorganic chemical products (including nuclear fuel, ammonia, etc.).

The EU also exported a wide range of products to Russia. In value terms, the largest product groups exported to Russia in Q1 2021 were machinery and

1 Eurostat official website. URL: https://ec.europa.eu/eurostat/statistics-explained/index.php?title=EU_trade_with_Russia_-_latest_developments#Latest_developments

equipment, vehicles, pharmaceuticals, electrical equipment and plastics. Between Q1 2021 and Q3 2023, exports of four of these five commodity groups declined significantly, the exception being pharmaceuticals, which amounted to €2,099 mn in Q4 2023 after peaking at €2,894 mn in Q4 2022 (*Table 24*).

Table 24

EU exports into Russia (Euro mn)

Commodity groups	2021				2022				2023			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Machinery and equipment	4479	5113	4910	4968	3468	2700	1862	1810	1766	1320	1080	888
Means of transport	2411	2329	1990	2208	1351	191	314	364	257	237	126	112
Pharmaceuticals	1964	1788	1947	2310	2257	1994	2722	2894	2575	1981	2015	2099
Electrical equipment	1684	1844	1882	2169	1307	449	511	586	371	219	212	216
Plastics	952	1099	1156	1164	983	625	534	510	378	381	372	315

Source: Eurostat (online data code: ds-059322).

In 2023, the sanctions pressure on Russia from the West intensified, forcing the country to look for new formats of interaction and expand the geography of trade partners. The development of cooperation within the BRICS, CIS, EAEU is becoming an important area of focus.

China remains the main trade partner of the Russian Federation. In the context of global economic challenges, Russia and China continue to increase bilateral trade. According to the General Administration of Customs of the People's Republic of China, trade turnover between the countries totaled $240 bn in 2023, up 26.3% year-on-year.[1] This means that the two countries have achieved ahead of schedule the goal that was set in 2019: to increase bilateral trade to $200 bn by 2024.

The growth rate of China's trade with Russia was significantly higher than the growth rates of China's trade with many other major partners, including the EU (-7.6%) and the US (-12.2%). As a result, Russia ranked 4th among all of China's foreign trade partners.

Exports of Russian goods to the PRC increased by 12.7% and amounted to $129.14 bn. Mineral products are the basis of Russian goods supplies accounting for 76.7% of total Russian exports to the PRC in 2023. The Russian Federation has overtaken Saudi Arabia to become the largest supplier of oil to the PRC; the Russian Federation ranks second in pipeline gas and coal supplies and third after Australia and Qatar in LNG supplies.

Russia exported 107 mn tons of crude oil to China in 2023, 24% more than in 2022. The value of shipments amounted to $60.6 bn, 2.9% more than in 2022.

Natural gas trade is expanding rapidly. At the end of 2023, gas exports to China via the Power of Siberia pipeline totaled 22.7 billion cubic meters. This is 700 million cubic meters above Gazprom's contractual obligations and 1.5 times more than in 2022.

1 The General Administration of Customs of the People's Republic of China (GACC) official website. URL: http://english.customs.gov.cn/Statics/57de06a8-279a-4ee7-952c-d4ce287404e1.html

Non-energy Russian exports to China are also growing. Thus, China's purchases of Russian food products in 2023 increased by 44.1%. Exports of Russian grain products increased 3.8 times compared to 2022. The main drivers of growth in exports of grain products were rape (17-fold growth), barley (6-fold), flax seeds (2-fold), oilcake (2-fold), and supplies of peas have started.

China and Russia have signed a large number of agreements on agricultural projects that can be extended for more than a decade, providing a guarantee that the potential of bilateral cooperation will be maintained. For the first time in 15 years, it has become possible to supply China with pork from Russia. In addition, negotiations on supply of wheat and barley, rye flour, semolina, animal feed, and dairy products to China are in their final stages.

Deliveries of Russian chemical industry products increased by 21%. Exports of inorganic chemical products rose by 21.4%, organic chemical compounds more than doubled, fertilizers went up by 25.9%, and tannin extracts by 46%.

Imports of Chinese goods into Russia in 2023 increased by 46.9%, amounting to $110.97 bn. This was mainly due to a sharp, almost 7-fold increase in supplies of Chinese cars and spare parts, which accounted for 10.5% of the total imports of Chinese goods to Russia in 2023 (2.2% in 2022). In addition, supplies of various Chinese equipment, smartphones and computers have increased.

Russia's trade surplus with China in 2023 was roughly halved compared to 2022, to $18.17 bn.

In mutual settlements, the countries have almost completely switched to national currencies – more than 90% of payments are made in rubles and RMB. According to the Bank of Russia,[1] in the total volume of foreign trade transactions of the Russian Federation in December 2023, the share of RMB in export revenues went up to 35.8% against 15.6% in December 2022, in import payments – to 37.0% against 23%. The share of transactions in rubles in export revenues amounted to 35.7% (34.4% in December 2022), and in import settlements grew from 27.2% to 31.7%.

The main constraints to trade growth include Russia's logistics and border infrastructure in the Far East, namely the capacity of pipelines, ports, railroads and roads, as well as the limited number of border crossing points. However, there is a clear political will on both sides to expand cooperation.

In 2022, India replaced Europe as the main buyer of Russian crude oil by sea, increasing its purchases 16-fold. After processing at refineries in New Delhi, oil products from Russian crude were successfully resold to Western countries at a significant profit. Russian oil exports allowed to quickly surpass the $30 bn mark of bilateral trade target, which Russian President Vladimir Putin and Indian Prime Minister Narendra Modi in 2019 agreed to reach only by 2025. In 2022, bilateral trade stood at a record $43.6 bn, moving Russia from 25th to 7th place among India's major trading partners.

In 2023, the high growth rates of mutual trade between the Russian Federation and India continued. According to the Ministry of Commerce and Industry of India,[2]

1 CBR official website. URL: https://cbr.ru/collection/collection/file/48852/orfr_2024-01.pdf
2 Official website of the Ministry of Commerce and Industry of India. URL: https://tradestat.commerce.gov.in/meidb/cntcom.asp?ie=i

total trade turnover between the two countries in 2023 reached $64.9 bn, which is 75.9% higher than in 2022.

Russian exports to India rose to $69.9 bn against $34.0 bn in 2022, mainly due to a 96.2% increase in crude oil purchases. As a result, the share of mineral products in the structure of Russian exports to India accounted for 88.2% (80.5% in 2022). Supplies of Russian foodstuffs to India expanded by 12.5%, chemical products – by 25%, metals and metal products – by 80%.

In 2023, imports of Indian goods into the Russian Federation totaled $4.1 bn, up 39.3% year-on-year. The most significant commodity groups in the structure of supplies from India to the Russian Federation are products of the chemical industry (mainly pharmaceuticals), which accounted for 33% of the total value of imported Indian goods, machinery and equipment (24%), food products (21%), metals and metal products (13%). These commodity groups saw significant growth in shipments in 2023.

A significant issue in mutual trade between the two countries is the trade deficit for India: for 2023 it has almost doubled to $60.9 bn (in 2022 – $34.0 bn). Despite the interest of the parties in the growth of supplies of Indian goods to the Russian Federation, their volumes remain low. One of the reasons for this is the fact that Indian exporters do not dare to bring to Russia such goods as electronics and equipment, for which there is demand, fearing third country sanctions.

However, the parties continue to develop their trade relations. Opportunities are emerging to significantly expand areas of cooperation, discussions on India's free trade agreement with the EAEU are ongoing, and the North-South and Chennai-Vladivostok transport corridor projects are in the final stages of approval. Improved logistical links over the next few years will further boost mutual trade.

Trade relations between Russia and Brazil also saw significant changes in recent years. In 2022, bilateral trade reached a record level of $9.8 bn, which is 35% more than in the previous year. Brazilian goods import into Russia increased by 25% to $1.9 bn, while Russian exports grew by 38% to $7.9 bn. The trade balance was positive for the Russian Federation – $6 bn.

In 2023, trade turnover between the countries increased by 15.5% to $11.3 bn compared to 2022. At the same time, exports of Russian goods surged by 27.4% to $10.0 bn, while imports of Brazilian goods to Russia decreased by 31.9% to $1.3 bn.[1]

Brazil supplies Russia mainly with agro-industrial products. Soybeans are the leading import commodity accounting for 54.9% of the total imports of Brazilian goods to Russia in 2023. Meat was the second largest item of Russian imports accounting for 22.7%. Coffee was the third largest item of Russian imports from Brazil with a share of 9.8%.

Brazil buys mainly middle and heavy distillates from Russia, which accounted for 45.2% (1.3% in 2022) of total Russian exports in 2023 and fertilizers – 35.5% (71.4% in 2022). Wheat and meslin accounted for 2.3% of total Russian exports (1.3% in 2022).

1 Official website of Ministério do Desenvolvimento, Indústria, Comércio e Serviços. URL: https://www.gov.br/mdic/pt-br

Western sanctions imposed against Russia have redirected global trade flows making Turkey one of Russia's key trading partners, which is complying with UN sanctions against Russia but refuses to join the unilateral sanctions imposed by the US and the EU. As Turkey's economy is going through a difficult period, ties with Russia offer potential to minimize negative economic trends. As a result, Turkey has become a key transit hub through which goods from all over the world, including the US and European countries, flow. In 2023, compared to the previous year, Russian-Turkish trade turnover almost doubled to $68.2 bn ($34.7 bn in 2022).

However, the United States' attempts to prevent the re-export of "dual-use" Western-made products to Russia have become a significant obstacle to further development of Russian-Turkish trade and economic relations. For example, Washington imposed sanctions on 16 Turkish companies for supplying technology and equipment to Russia in circumvention of existing restrictive measures.

In March 2023, Turkey suspended re-export of sanctioned goods to Russia after intensive consultations with the West. As a result, according to the Turkish Statistical Service,[1] in 2023 compared to 2022, the Russian-Turkish trade turnover decreased by 17.1% to $56.5 bn. This was due to the reduction of Russian exports by 22.5% (in 2022 there was a more than 2-fold growth) with the growth of imports of Turkish goods into Russia by 16.9% (in 2022 imports of Turkish goods increased by 61.8%). It should be noted that the reduction in supply of Russian goods to Turkey can be explained not only by the threats of potential Western sanctions, but also by the relatively difficult economic situation in Turkey itself.

Energy exports traditionally form the basis of Russian supplies to Turkey. Russia also exports grain, copper and copper products, precious stones and metals, and pearls. Imports from Turkey are represented, on the one hand, by re-exports of sub-sanctioned goods from the EU, and, on the other hand, by products of Turkish production. Russia buys food and beverages, boilers, machinery and mechanical devices, fruits and nuts, plastics and plastic products, electrical machinery and equipment, as well as organic chemicals.

In 2023, the foreign trade turnover of the Russian Federation with the CIS countries increased by 6.9% (up to $94 bn) compared to the previous year, with exports increasing by 1.2% (up to $59 bn) and imports by 18.1% (up to $35 bn). The share of these countries in the total volume of Russian trade turnover equals 14.5%.

In Russia's trade with post-Soviet countries, the Russian ruble has become the main currency, accounting for more than 80% of export and import transactions. National currencies are used to pay for imports. Goods from the CIS countries are not subject to customs duties, which facilitates trade operations under a simplified scheme that is beneficial for both businesses and consumers. The major share of Russia's foreign trade turnover with CIS countries is accounted for by Belarus and Kazakhstan.

The volume of bilateral trade between Belarus and the Russian Federation expanded by 6% to $53 bn in 2023. Russia supplies Belarus with ferrous metals,

1 Official website of Turkish Statistical Service. URL: https://data.tuik.gov.tr/Bulten/Index?p=Foreign-Trade-Statistics-October-2023-49628

pipes and bearings, railway locomotives and various machines, rolled aluminum products and grain. Chemical products and agricultural machinery, medicines, milk and dairy products are imported from Belarus to Russia.

Kazakhstan remained Russia's main trade partner among the Asian countries of the near abroad. In 2023, the foreign trade turnover between the countries amounted to $25.98 bn, which is 3.7% less than in 2022, as a result of which Russia lost its leading position in trade with Kazakhstan for the first time in many years, conceding it to China. Imports of Russian goods into Kazakhstan decreased by 9.4%, while imports of Kazakh goods into Russia increased by 7.7%

5. Regulation of Russian foreign trade[1]

In order to prevent shortages of certain goods on the domestic market and curb price growth, the Russian Government adopted an extensive set of measures in the area of customs and tariff regulation over the past 2 years.

Tariff regulation

Export customs duties

In 2022, the rates of export duties on crude oil and petroleum products were calculated in accordance with the methodology approved by Resolution No. 276 of the Government of the Russian Federation of March 29, 2013 "On calculation of the rates of export customs duties on crude oil and certain categories of goods derived from oil" (*Table 25*).

Table 25

Export duty rates on crude oil and petroleum products in 2022–2023 (USD/t)

	Crude oil	Petroleum products	
		Light oil products	Dark oil products
2022			
January 1	46.7	14.0	46.7
February 1	47.7	14.3	47.7
March 1	58.3	17.4	58.3
April 1	61.2	18.3	61.2
May 1	49.6	14.8	49.6
June 1	44.8	13.4	44.8
July 1	55.2	16.5	55.2
August 1	53.0	15.9	53.0
September 1	52.0	15.6	52.0
October 1	44.4	13.3	44.4
November 1	42.7	12.8	42.7
December 1	43.3	12.9	43.3
2023			
January 1	16.7	5.0	16.7
February 1	12.8	3.8	12.8

1 Materials from the information and legal portal GARANT.RU were used to prepare this section.

	Crude oil	Petroleum products	
		Light oil products	Dark oil products
March 1	14.2	4.2	14.2
April 1	14.3	4.2	14.3
May 1	14.4	4.3	14.4
June 1	16.2	4.8	16.2
July 1	15.6	4.6	15.6
August 1	16.9	5.0	16.9
September 1	21.4	6.4	21.4
October 1	23.9	7.1	23.9
November 1	26.2	7.8	26.2
December 1	24.7	7.4	24.7

Source: RF Ministry of Economic Development data.

Since 2015, there has been a gradual reduction in export duties on crude oil and petroleum products with a simultaneous and comparable increase in the mineral extraction tax (MET). An important consequence of this maneuver was an increase in domestic oil prices. As a result of a 10-year tax maneuver in the oil industry, from January 2024 export duties on export of crude oil and petroleum products will be nullified, but export duties on gas will be retained.

The Russian Government Decree No. 1418 of 31.08.2023 extends the period of validity of customs duty rates for sunflower oil exported from Russia outside the Eurasian Economic Union. The new period of their application is from September 1, 2023 to August 31, 2024 inclusive. The rate of export customs duty on sunflower oil will remain the same and will be calculated taking into account the basic export price of Rb82,500 per 1 ton.

The Russian Government Decree No. 1538 dated September 21, 2023 stipulates that from October 1, 2023 to December 31, 2024 Russia will have flexible export duties on a wide range of products linked to the ruble exchange rate. The duty will range from 4 to 7% depending on the exchange rate of the national currency. Thus, at the exchange rate of Rb80-85 per USD the rate will be 4%, at Rb85-90 – 4.5%, at Rb90-95 – 5.5%, at Rb 95 and over – 7%. At Rb80 per USD and lower it will be zero. The new duties do not apply to oil, gas, grain and timber; thus, the largest payers will be mining companies, exporters of ferrous, non-ferrous and precious metals, coal, fertilizers (in respect of fertilizers at the exchange rate of more than 80 rubles per dollar the export duty rate will increase to 10% from the already introduced 7%). Thus, in November 2023, the duties for nitrogen mineral or chemical fertilizers were 10%, but not less than Rb 1,100/t; for phosphate and multi-component fertilizers – 10%, but not less than Rb 2,100/t; for potash fertilizers – 10%, but not less than Rb 1,800/t.

The Protocol of the meeting of the Sub-Commission on Customs-Tariff and Non-Tariff Regulation, Protective Measures in Foreign Trade of the Government Commission for Economic Development and Integration dated December 19, 2023 removes goods dependent on imports of key components as well as certain high-tech goods, from the scope of the so-called exchange rate export duties. Thus, medicines and pharmaceutical substances, chemical products, household metal products, drilling tools, pressing and other tools, marshmallows, soy protein and other products will not be subject to duties.

The Russian Government Decree No. 2150 dated December 14, 2023 establishes a zero export duty rate for certain types of mineral fertilizers exported outside the EAEU.

The Russian Government Decree No. 2484 dated December 28, 2022 extends the validity of increased rates of export customs duties on certain types of timber until December 31, 2025. The decision will make it possible to limit the export of unprocessed wood under the guise of sawn timber, stimulate the production of timber with deep processing in Russia and reduce prices for construction materials made of wood.

Import customs duties

Decree of the Government of Russia No. 1173 of July 20, 2023 increases the rates of import customs duties:

– with respect to wine originating from unfriendly countries – from 12.5 to 20%, but not less than $1.5/liter;
– with respect to purified glycerin – from 5 to 35%.

An import duty rate of 50% for plywood and 35% for polyurethane construction parts originating from unfriendly countries is set.

Decree of the Government of Russia No. 1328 of August 12, 2023 establishes a list of priority activities within the framework of which it is possible to import equipment and materials into the country without paying customs duty, including the sphere of sports, recreation and entertainment. In particular, where these activities relate to sports facilities, parks of culture and recreation and theme parks.

Tariff quotas

The Subcommittee on Customs Tariff and Non-Tariff Regulation approved introduction of a quota for scrap export from December 1 to June 30, 2024 in the amount of 600,000 tons.

Decree of the Government of Russia No. 1418 of August 31, 2023 extends tariff quotas on export of sunflower oil and sunflower seeds from the DNR, LNR, Zaporozhye and Kherson oblasts until December 31, 2023.

Import bans and restrictions

Decree of the Government of Russia No. 420 of March 18, 2023 introduced a temporary ban on export of rape seeds with certain exceptions from March 20 to August 31, 2023 inclusive.

Decree of the Government of Russia No. 833 of May 27, 2023 introduced a temporary ban on export of cartridges for civilian and service rifled firearms, as well as cartridge cases for cartridges for rifled firearms of certain calibers, with certain exceptions, until December 31, 2023.

Russian Government Decree No. 1034 of June 26, 2023 provides a list of commodities in respect of which import quantitative restrictions may be imposed from unfriendly countries from October 1 to December 31, 2023. These are seeds of potatoes, wheat, rye, barley, corn, soybeans, rapeseed, sunflower and sugar beet.

Russian Government Decree No. 1173 of July 20, 2023 introduced a ban on import of finished fish products and seafood products originating from unfriendly countries until the end of 2023.

Decree of the Government of Russia No. 1222 of July 28, 2023 establishes a temporary ban on export of rice and rice groats from Russia from July 29 to December 31, 2023 inclusive.

Decree of the Government of Russia No. 1382 of August 25, 2023 imposes a temporary ban on export of rape seeds with certain exceptions from September 1, 2023 to February 29, 2024 inclusive.

Russian Presidential Executive Order No. 693 of September 18, 2023 extends for 2024 the Russian food embargo on deliveries of products from countries that have imposed or supported anti-Russian sanctions.

Decree of the Government of Russia No. 1537 of September 21, 2023 temporarily banned export of gasoline, including gasoline purchased at exchange auctions, in order to stabilize the situation on the fuel market.

Decree of the Government of Russia No. 1824 dated October 31, 2023 introduces a temporary ban on export of waste and scrap of precious metals in Russia from November 1, 2023 to April 30, 2024.

Decree of the Government of Russia No. 1920 of November 15, 2023 lifted the ban on gasoline supplies abroad.

Decree of the Government of Russia No. 1943 of November 21, 2023 lifted the ban on export of summer diesel fuel.

Russian Government Resolution No. 1660 of October 10, 2023 extends until the end of 2024 the ban on import of certain types of agricultural products, raw materials and foodstuffs from unfriendly countries into Russia.

State support

In 2023, Russia launched a new program of state support for participants in foreign economic activity. Russian importers can obtain insurance, including against the risk of non-return of payment under an import contract, if deliveries of products failed as a result of legislative or administrative measures outside the territory of the Russian Federation.

Within the framework of the critical import insurance program, JSC EXIAR insures import credits for delivery of critical import products (the list of goods, works, services, results of intellectual activity is approved by the Edict of the Government of the Russian Federation No. 3456-r dated November 15, 2022) against business and political risks.

The Russian Government Edict No. 1787-r dated July 04, 2023 greatly expanded the list of goods of critical import for which import insurance support is provided by the state guarantee.

The Russian Government Edict No. 3090-r dated November 02, 2023 specifies the list of goods of critical import with state insurance support.

Decisions of the Sub-Commission on Customs Tariff and Non-Tariff Regulation on protection of the domestic market in 2024

At the end of November 2023, the Sub-Commission on Customs Tariff and Non-Tariff Regulation, Protective Measures in Foreign Trade of the Government Commission for Economic Development and Integration adopted a number of decisions to protect the domestic market and expand supply.[1]

In particular, the Ministry of Agriculture and the Ministry of Economic Development supported the proposal of the Ministry of Agriculture and the Ministry of Economic Development to establish a tariff quota for the export of basic grains (wheat, barley, corn, rye) outside Russia to states that are not members of the Eurasian Economic Union in the amount of 24 mn tons. It is planned that the quota will be valid from February 15 to June 30, 2024.

Also supported was the initiative of the Ministry of Agriculture to introduce a temporary ban on export of durum wheat from Russia for a period of 6 months – from December 1, 2023 to May 31, 2024 inclusive. The measure is aimed at ensuring food security and restraining consumer prices for grain processing products on the domestic market.

The subcommittee approved the introduction of a tariff concession for certain types of chicken meat. Thus, in 2024, it is planned to exempt from import customs duty the supply of chicken meat in the amount of up to 160,000 tons. This decision is aimed at stabilizing prices in the market of poultry products by increasing supply in the domestic market.

In addition, the Sub-Commission approved the initiative of the Ministry of Industry and Trade to introduce a quota for scrap export for the period from January 1 to June 30, 2024. The size of the quota of 600,000 tons remains unchanged, as well as the intra-quota duty of 5%, but not less than €15 per ton. The out-of-quota duty will also remain unchanged – 5%, but not less than 290 €/t. The extension of the existing measures will help support prices and provide domestic enterprises in the steel industry with strategic raw materials.

1 Official website of the RF Ministry of Economic Development. URL: https://www.economy.gov.ru/material/directions/vneshneekonomicheskaya_deyatelnost/tamozhenno_tarifnoe_regulirovanie/podkomissiya_po_tamozhenno_tarifnomu_regulirovaniyu_prinyala_ryad_resheniy_po_zashchite_vnutrennego_rynka_i_rasshireniyu_predlozheniya.html