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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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3.1. Dynamic and structure of GDP and investments in 2023¹

1. The context and factors of the recovery growth in 2023

The year-end results of 2022 determined starting positions of 2023, when the output by basic types of economic activities was at the level of 99.6%, GDP volume amounted to 98.8% relative to the previous year. Investment demand grew by 6.8%, while government spending rose by 3.0%, with household final demand contracting by 1.1%. The state of the domestic market was significantly affected by an increase in the contribution of net exports to 12.8% of GDP against 9.8% in 2021 (according to the SNA methodology in current prices), with foreign trade in goods and services expanding by 6.3%, including goods – by 8.8% (according to the balance of payments methodology).

Changes in the domestic and external environment, acceleration of inflation as of year-end 2022 up to 11.9% determined the implementation of flexible monetary policy with regulation of the level of the Bank of Russia key rate in the range from 20% (28.02.2022) to 7.5% (19.09.2022). Consistent implementation of government measures of anti-sanctions fiscal and monetary policy resulted in the formation of conditions for a gradual deceleration of inflation, and reduction of the key rate during 2022.

Economic dynamic in 2023 was shaped by the active adjustment of the Russian business to the new environment in the domestic and foreign markets with a gradual reduction in the risks of sanction and infrastructure restrictive measures on the real and financial sectors of the domestic economy.

Recovery of GDP growth in 2023 at the level of 103.6% was determined by the acceleration of domestic market dynamics by 9.1%, including household final consumption by 6.1% and investment in fixed assets by 9.8% vs. the previous year.

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The growth of output of basic economic activities rose to 105.1% against a 0.4% drop in output in 2022.

The strongest positive response to the changes in political and economic conditions was observed in the manufacturing and investment, and construction sectors of the economy. The growth of manufacturing industries in 2023 amounted to 107.5% and construction – 107.9% against the indicators of the previous year. With the growth of economic activity of business and changes in consumer demand from Q2 2023, the indicators of trade organizations were recorded in the area of positive values. The turnover of wholesale trade in 2023 increased by 10.9% and retail trade – by 6.4% as compared to the previous year, however, the results of activity remained below the 2021 indicators. The expansion of consumer demand was driven by the growth of real disposable household income by 5.4%, real wages – by 7.8%, real size of assigned pensions – by 3.3%. Freight transportation showed restrained dynamics: at the end of 2023, cargo turnover decreased by 0.6% (a year earlier – by 2.3%), which was explained by the current structure of the transportation system due to the difficulties in building new logistical chains, expanding opportunities for multimodal transportation, especially in the eastern direction. Cardinal changes in the movement of commodity flows in the domestic and foreign markets were supported by government policy measures for the development of transportation and logistics infrastructure and financial and insurance services.

In recent years, agriculture steadily contributed positively to the dynamics of the Russian economy. However, in 2023 the rate of agricultural output is estimated at 99.7% relative to the previous year due to the exceptionally high 2022 base over the last decade (*Table 1*).

Table 1

**Dynamics of main macroeconomic indicators in 2022–2023,
in % on corresponding period of the previous year**

	Internal conditions									
	2022					2023				
	year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4
GDP	98.8	103.0	95.5	96.5	97.3	103.6	98.4	105.1	105.7	104.9
Output of goods and services by basic economic activity	99.6	105.6	97.0	98.6	98.0	105.1	98.6	107.3	107.9	106.1
Industry	100.7	106.3	98.6	99.8	98.7	103.5	98.6	105.7	105.4	104.1
Agriculture	111.3	106.4	109.4	113.8	110.5	99.7	101.6	101.1	102.4	94.3
Construction	107.5	105.1	105.8	107.2	110.2	107.9	110.0	109.1	107.5	106.6
Transportation	97.7	104.2	97.4	94.9	94.7	99.4	98.2	97.6	100.8	101.0
Retail turnover	93.5	104.8	90.4	90.2	90.4	106.4	93.1	109.4	111.3	111.1
Paid services to population	105.0	111.5	103.3	103.9	103.0	104.4	102.8	105.0	104.9	104.9
Wholesale turnover	83.3	102.1	80.1	76.2	79.1	110.9	89.3	112.9	123.1	119.6
External conditions*										
Balance of foreign trade	172.6	316.4	263.2	139.2	87.6	29.1	28.4	19.0	35.6	39.2

	Internal conditions									
	2022					2023				
	year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4
Export of goods and services	116.5	160.7	127.4	104.7	91.4	72.5	68.3	69.9	77.5	74.9
Import of goods and services	91.4	110.2	76.7	87.9	93.6	109.2	105.5	134.9	109.4	94.1
Ruble exchange rate (Average for period) Rb/USD	68.12	84.73	66.01	59.40	62.32	85.12	72.71	80.97	94.07	92.93
Urals price, USD/bbl.	77.6	90.5	80.6	76.2	62.9	64.0	49.0	56.0	73.7	77.1

* Balance of payments methodology.

Sources: Rosstat, CBR.

The nature of economic development in 2023 was determined by the impact of such factors as the imbalance of supply and demand in the domestic and external markets; high inflationary pressure on the financial and economic activities of businesses and on the consumer behavior of the population; changes in the parameters of monetary and currency regulation.

GDP dynamic in 2022–2023 was significantly affected by the changes in external demand. In 2023, the reduction in Russian exports was driven by the slowdown in demand from the global markets, as well as by a voluntary reduction in export supplies of certain types of commodities. Due to objective constraints, in particular, the transportation and logistics infrastructure, the reorientation of export flows to loyal sales markets took place at a restrained pace. The dynamic of imports in 2023 was determined by the high level of domestic demand and adaptation of the economy to changes in terms and directions of trade.

Prompt measures to support systemic enterprises, small and medium-sized businesses, exports of Russian goods, import/import substitution of common and critical goods and technologies, formation of alternative transportation and logistics routes allowed the Russian economy to demonstrate resilience to external shocks, despite a rather high dependence on export-import components at the level of both individual basic industries and final and intermediate demand.

Following a surge in external market activity on the wave of post-pandemic economic recovery, the annual turnover of trade in goods and services in 2021 surged by 35.5% (in balance of payments methodology) and 1.8% in physical volume (in SNA methodology) and surpassed that of pre-pandemic 2019. The contribution of net exports in 2021 to GDP amounted to 9.3% (in 2021 prices, according to SNA methodology), including exports of 30.1% and imports of 20.8%, and determined the potential for development in the short term. A drastic change in the 2022 political and economic context and the introduction of unprecedented restrictive measures limiting the access of Russian business to the world markets of goods, services and technologies led to the disruption of the established model of functioning of the export-import complex of the Russian economy.

The impact of sanctions on the real and financial sectors of the economy was stretched both in terms of time and the nature of impact, which, given the accumulated experience of resisting the 2014 restrictions and the pandemic period, allowed Russian business to react quickly enough to the disruption of trade,

transportation, logistics, production and technological chains and actively reorient to the formation of new business relations in the markets of goods and services of friendly countries. With different speed of changes in the parameters of foreign trade in goods and services and favorable global environment, the surplus of trade in goods and services in 2022 reached \$293.3 bn and exceeded the previous year's figure by 1.72-fold. Economic activity was also supported by the proactive accumulation of stocks of material assets of imported and domestic import-substituting production, which made it possible to somewhat weaken the negative impact of the unstable dynamics of imports of goods in 2022–2023. However, difficulties with foreign trade turnover of services, especially transportation and financial, and insurance services, persisted.

In the context of geopolitical and market instability, in 2023, the foreign economic turnover of goods and services fell by 14.5% against the previous year (in current prices according to the balance of payments methodology), including goods by 16.7% and services by 2.8%. The contribution of net exports to GDP in 2023 amounted to 4.3% vs. 12.7% in 2022, including exports – 23.3% and imports – 19.0% against the figures of 27.7% and 15.0% a year earlier.

In 2023, external restrictive measures continued to complicate the international logistics of Russian export. The balance of foreign trade in goods and services in 2023 amounted to \$85.4 bn and decreased by almost 70% compared to the indicator of a year earlier (according to the balance of payments methodology). The 61.9% reduction in the trade surplus (to \$120.90 bn) was driven by a 28.4% decrease in exports (to \$423.9 bn) and a 9.9% increase in imports of goods (to \$303.8 bn). The deficit in the balance of foreign trade in services increased almost 1.6-fold (up to \$34.7 bn), including at the expense of a decline in the volume of services provided to non-residents and import of transportation services. The weakening of the nominal ruble exchange rate to 92.9 rubles/dollar in 2023 against 62.3 rubles/dollar a year earlier had also a significant impact on the dynamics and structure of the foreign trade. The change in net exports of goods and services under the existing sanctions on financial transactions and the system of cross-border payments narrowed the possibilities of transferring net income from foreign trade activities to support the domestic market (*Table 2*).

Table 2

Dynamics and structure of use of GDP use in 2019–2023

	As % of total, in current prices					% on previous year, in comparable prices				
	2019	2020	2021	2022	2023	2019	2020	2021	2022	2023
GDP	100	100	100	100	100	102.2	97.3	105.9	98.8	103.6
Including:										
Domestic market	92.3	94.9	90.7	87.3	95.7	103.1	96.0	109.9	100.3	109.1
Including:										
Final consumption expenditure	69.7	71.5	67.8	64.8	69.5	103.4	96.1	108.4	99.9	106.6
Gross savings	22.6	23.4	22.9	22.5	26.1	102.3	95.7	114.4	101.3	115.8

	As % of total, in current prices					% on previous year, in comparable prices				
	2019	2020	2021	2022	2023	2019	2020	2021	2022	2023
Net exports	7.7	5.1	9.3	12.7	4.4	96.5	110.2	79.5	n/a	n/a
Export	28.5	25.5	30.1	27.7	23.4	100.7	95.8	103.3	n/a	n/a
Import	20.8	20.4	20.8	15.0	19.0	103.1	88.1	119.1	n/a	n/a
<i>Note:</i>										
Rb exchange rate (average for period), Rb/USD	64.73	72.04	73.65	68.12	85.12	103.3	111.3	102.2	92.5	125.0
Average Brent crude oil price, USD/bbl	64.03	42.03	70.44	99.82	82.0	90.1	65.6	167.6	141.7	82.1

Source: Rosstat.

Changes in the outlines of economic development in 2023 continued to be significantly influenced by the imbalance of supply and demand across the segments of domestic and external markets; high inflationary pressure on the financial and economic activities of businesses and consumer behavior of the households; changes in the parameters of monetary and foreign exchange regulation.

The increasing focus of the Russian economy on the domestic market was accompanied by the outstripping growth of final private and public consumption and acceleration of gross savings movement. The growing gap between the expansion of domestic demand by sectors of the economy and the increasing deficit of output and labor resources provoked pressure on prices. The growth of producer prices for industrial products accelerated to 119.2% after the deceleration of prices in H2 2022, agricultural producers – to 109.1%, in the construction sector – to 110.1% and was translated into consumer inflation. At the end of 2023, inflation is estimated at 7.4%, a year earlier consumer price growth amounted to 11.9%.

Rather rapid strengthening of inflationary pressure and formation of a monthly devaluation wave in the foreign exchange market in H2 2023 was regulated by the monetary policy instruments: in Q3 the key rate was raised three times – from 8.5% per annum (24.07.2023 to 12.0% (August 15, 2023) and 13.0% (September 19, 2023), and twice in Q4 – to 15.0% (October 30, 2023) and 16.0% (December 15, 2023) (*Table 3*).

Table 3

**Financial conditions: Key rate and price index in 2022–2023,
in % on previous year**

	2022					2023				
	year	Q1	Q2	Q3	Q4	year	Q1	Q2	Q3	Q4
Key rate (quarter-end), % per annum	10.6*	20.0	9.5	7.5	7.5	9.9*	7.5	8.5	13.0	16.0
Consumer prices	111.9	110.0	101.3	99.1	101.3	107.4	101.7	101.1	101.8	102.7
Producer prices:										
Industrial goods	96.7	110.2	95.0	96.0	96.3	119.2	102.6	106.2	110.8	98.8
Extraction of mineral resources	84.7	123.3	80.0	92.6	92.7	140.9	100.0	114.4	131.6	93.6

	2022					2023				
	year	Q1	Q2	Q3	Q4	year	Q1	Q2	Q3	Q4
Manufacturing	99.1	106.9	100.4	95.5	96.6	114.9	102.4	105.1	106.4	100.4
Agricultural products	95.9	102.5	99.1	96.7	97.6	109.1	100.0	97.0	104.6	107.5
Capital goods	114.7	108.9	102.9	101.1	101.3	110.1	101.9	102.6	103.9	101.4

* Average annual key rate.

Sources: Rosstat, CBR.

Economic adaptability to the new price proportions of the domestic market and the ruble exchange rate was accompanied by a change in the GDP structure by income with the share of net taxes on production and imports increasing to 8.0%. While the change in net taxes on production and imports was influenced by a rise in the volume of foreign supplies and the ruble exchange rate, the dynamics of gross profit with the remaining imbalance of supply and demand was defined by the transfer of increasing production costs and transaction costs to prices; in particular, producer prices in mining increased by 40.9% in annual terms, in manufacturing – by 14.9%.

In addition, the adjustment mechanisms of business regulation and fulfillment of social obligations enhanced the process of redistribution of gross profit of the economy and other mixed incomes in GDP structure in favor of wages of hired workers up to 40.3% in 2023 against 38.5% a year earlier (*Table 4*). With a shortage of labor resources, this allowed businesses to retain qualified personnel and maintain stability in the labor market with a decrease in the general unemployment rate from 3.5% in Q1 to 2.9% in Q4.

Table 4

Structure of GDP by revenue source in 2019–2023, in % to GDP

	2019	2020	2021	2022	2023	Q1	Q2	Q3	Q4
GDP	100	100	100	100	100	100	100	100	100
Compensation of employees	44.1	45.2	40.4	38.5	40.3	44.8	42.6	38.4	37.1
Net taxes on production and imports	11.0	9.7	10.0	7.7	8.0	9.4	8.4	6.8	7.7
Gross profit of economy and gross mixed income	44.9	45.1	49.6	53.8	51.7	45.8	49.0	54.8	55.2

Source: Rosstat.

Given the long-standing trend in the Russian economy of outstripping growth of wages relative to labor productivity, redistribution of income in favor of wages requires the implementation of effective measures to restructure employment in accordance with changes in demand for labor by qualifications, competencies and skills and the creation of material and technological conditions for optimizing the management of production and financial business processes. At the current level and structure of employment and at critically high capacity utilization, sustainable economic growth depends on investments in human capital and technological development of production as factors in increasing labor productivity.

2. Structural transformation of domestic production

The functioning of the economy in the last two years (2022-2023) relied on intensive diversification of the domestic market. The dynamics of industrial output has recovered since the second quarter of 2023, demonstrating growth by 3.5% and offsetting the decline of the previous year. The transformation of financial and economic interactions under the sanctions pressure changed the context of business environment in the domestic and foreign markets. Structural changes were determined by the outstripping rates of industrial growth and an increase in the share of manufacturing production in the gross value added of industry to 45.2% against 43.3% a year earlier. These trends strengthened the domestic market demand for domestic raw materials and high-tech goods with high added value and intellectual services. Outpacing growth in gross value added of manufacturing production (107.0% relative to 2022), construction (107.0%), trade and transportation infrastructure (105.9%), information and communication services (110.0%), and research and development (112.1%) were landmark events in 2023 (*Table 5*). The share of products of high-tech and knowledge-intensive industries in GDP increased from 22.2% in 2019 to 23.5% in 2023.

The dynamic growth of manufacturing and related service segments was supported by the reallocation of labor and capital to activities with high potential for technological development and import substitution. As business environment and structural transformation of the economy intensified, the growth of production capacity utilization partially compensated for the contraction of external demand, but increased the burden on the labor market due to the diversification of the economic structure. Budget and tax support of critical activities, including through increased government orders, had a significant impact on the nature of economic growth.

Table 5

**Physical volume indices of gross domestic product in 2020–2023,
in % on previous year**

	2020	2021	2022	2023
Gross domestic product in market prices	97.3	105.9	98.8	103.6
Gross value added in base prices	97.8	106.3	99.7	103.7
Including:				
Agriculture, forestry, hunting, fishing	100.2	100.5	107.0	100.1
Extraction of mineral resources	93.5	103.5	100.6	98.0
Manufacturing	100.1	105.9	98.0	106.9
Electricity, gas and steam supply	97.0	106.0	100.3	100.1
Water supply; wastewater disposal, waste utilization, pollution elimination	100.3	110.6	95.2	97.0
Construction	96.6	105.7	107.1	106.6
Wholesale and retail trade	98.7	105.5	87.2	106.6

	2020	2021	2022	2023
Transportation and storage	89.1	107.9	100.1	103.2
Hospitality and catering business	75.2	127.5	105.1	110.0
Information and communication	101.6	113.5	100.9	109.8
Financial and insurance activity	112.9	114.5	102.4	108.7
Real estate activities	98.1	104.5	101.5	100.8
Professional, scientific and technical activities	99.6	105.7	101.1	105.9
Public administration and national defense	102.7	104.2	109.5	105.8
Education	96.9	100.0	102.0	101.8
Health care	98.5	112.9	93.4	100.5
Culture, sports and leisure activities	89.1	114.9	107.5	101.0
Rendering of other types of services	92.9	109.0	97.5	97.0

Source: Rosstat.

In 2023, there was an acceleration of monthly dynamic with annual output growth by 7.5% in manufacturing industries, while in mining and production of electric power and gas there was a drop by 1.3% and 0.2%, respectively. In the extractive industries, the negative trend was due to the strengthening of external restrictions on export of mineral commodities, as well as internal measures of regulation in the fuel and energy complex.

It is important that support for manufacturing industries was shifting from immediate contingency management to the solution of strategic development tasks. The production index in the high-tech sector against 2022 amounted to 121.8% versus 106.8% a year earlier.

In 2023, the main contribution to the growth of manufacturing output was ensured by the machine-building complex, which demonstrated a steady diversification of the system of production-technological and trade-logistical interactions in the new markets of suppliers of components and finished products, while increasing the production potential of domestic manufacturers. Besides, the gradual recovery of investment and intermediate imports, especially in the types of activities critically dependent on foreign components and equipment, had a positive impact on the dynamic of the machine-building complex. Expansion of the parallel import scheme, smoothing of a number of logistical and financial challenges, testing of new goods and brands were supported by the growth of incomes and expansion of opportunities for obtaining credit resources and budget support.

In 2023, production growth in the machine-building complex as a whole amounted to 21.1% with positive trends in all sub-productions: manufacturing of computer and electronic equipment went up by 32.8%, electrical equipment – by 19.0%, vehicles – by 13.6% and other vehicles – by 25.5%. High-tech industries of the machine-building complex took the leading positions in terms of potential for the production of import-substituting products. The main trend in machine-building remained the expansion of production aimed at the substitution of imported materials and components, the output of which still lags behind the demand of the domestic market (*Table 6*).

Table 6

Movement of extraction and manufacturing sectors of the Russian industry in 2022–2023, in % on the corresponding period of the previous year

	2021	2022					2023				
		year	Q1	Q2	Q3	Q4	year	Q1	Q2	Q3	Q4
Industry	106.3	100.7	106.3	98.6	99.8	98.7	103.5	98.6	105.7	105.4	104.1
Extraction of mineral resources	104.2	101.5	108.1	99.7	100.6	98.4	98.7	96.4	100.5	98.7	99.3
Manufacturing sectors	107.4	100.3	106.4	97.6	99.6	98.7	107.5	100.5	110.5	110.8	107.8
Consumer complex:											
Food industry	104.6	101.6	104.9	100.2	100	101.5	104.6	104.0	105.7	106.3	103.1
Textile, clothing and footwear industry	111.6	104.5	105.8	99.7	105.0	107.2	104.3	100.7	105.4	106.8	104.4
Timber processing complex	110.5	98.0	108.7	98.7	94.2	91.7	99.6	89.1	98.8	103.9	107.2
Chemical complex	108.7	99.7	108.3	100.7	98.8	93.2	105.0	95.2	107.6	109.0	109.4
Petrochemical complex	103.6	99.4	102.8	94.4	100.7	99.8	102.6	102.9	108.3	100.8	99.0
Construction complex (non-metal mineral products)	109.3	103.9	115.7	105.7	101.3	96.7	102.6	94.9	104.0	104.9	105.2
Metallurgical complex	104.1	102.7	108.4	97.2	104.8	101.3	109.3	106.6	114.9	110.4	106.5
Machine building complex	111.8	94.1	103.5	91.1	90.1	93.1	121.1	103.8	132.6	138.5	120.4
Including computers, electronics, optics	109.9	109.4	114.7	111.0	108.1	106.9	132.8	118.9	138.5	141.6	130.5
Electrical equipment	107.7	101.1	102.6	94.8	99.0	106.9	119.0	107.5	135.4	123.5	112.3
Machinery and equipment not included in other groups	117.1	99.3	111.7	99.6	95.8	93.9	104.5	95.0	105.8	112.6	103.9
Road transport trailers and semi-trailers	114.6	55.8	86.3	37.4	49.1	52.1	113.6	60.3	152.4	148.4	137.5
Other means of transport and equipment	110.5	97.9	100.2	98.9	92.3	99.3	125.5	118.6	130.3	149.0	114.8

Sources: Rosstat; RF Ministry of Economic Development.

In the metallurgical complex, the output dynamic was shaped by, on the one hand, the growing domestic demand for engineering materials from the machine-building and construction complexes, and, on the other hand, the simultaneous restructuring of export activities. In 2023, the output rate of the metallurgical complex increased to 9.3% on 2.7% a year earlier, including finished metal products with a high share of added value – to 27.8% vs. 13.4% a year earlier.

Increased construction sector demand for machinery, equipment and construction materials remains a significant growth factor. In 2023, the volume of construction works grew by 7.9%, but the production of construction materials increased by only 2.6%. Such dynamic of related sectors of the economy may create problems for the future functioning of such activity as construction works. The dynamic of the chemical and forestry complexes is significantly affected by the capacity of the domestic market, the narrowing of exports and the difficulties of forming new production, technological and trade and sales chains.

In timber processing complex, the limited domestic market without adequate measures to stimulate exports restrains the processes of production restructuring and implies the formation of new approaches to the development of the industry. In the last two years, the timber processing complex has been experiencing negative movement of production. In 2023, the output of the timber processing complex decreased by 0.4%, while production fell by 2.0% a year earlier.

Due to changes in geographic export destinations for basic goods the chemical industry is experiencing increasing competition from producers from loyal countries in both domestic and foreign markets. Limited availability of foreign technologies and services for maintenance of specialized foreign equipment affects economic efficiency with a restrained potential for the introduction of domestic technologies. In 2023, the chemical complex output as a whole was up 5.0% and compensated for the previous year's decline by increasing output of agrochemical products (107.5%), restoring growth in the production of basic chemicals (103.7%), and accelerating demand by 9.2% from the rubber products and plastics industries.

In chemical complex the production of pharmaceuticals retained a rather stable position in the domestic market, which remained outside the strict restrictive measures on trade in chemical and biological substances and had a certain potential for development and import substitution due to the domestic base of production of chemical products and substances. Unstable dynamic in 2023 and the decrease in the growth rate of the output of pharmaceuticals to 101.9% is explained by the exceptionally high base of the previous year, when production rate amounted to 109.3%. While assessing the state of drug production, it should be noted that due to the refusal of some foreign companies operating in the Russian market to invest in scientific and clinical research, it was necessary to update the program of development of domestic pharmaceutical market taking into account the new realities of inter-country interaction and domestic potential. Gradual substitution of foreign products with Russian analogs at high capital intensity of research and development, production and technological processes is associated with the risks of appreciation of critically needed pharmaceutical substances.

The consumer complex trend was positive over the last two years. In 2023, food industry output grew by 4.6%, including food products for domestic market by 5.9% against 1.1% a year earlier.

In 2023, the light industry demonstrated stable dynamics of production expansion with an annual growth rate of 107.2% on the back of an increase in government orders. The growth of domestic consumer goods and parallel imports contributed to the recovery of positive dynamics of the retail market turnover by 6.4% in 2023, including the market of food products by 3.3%, non-food products by 9.8%. Positive dynamics of real disposable income maintained expansion of consumer demand.

In general, the industrial sector in 2023 demonstrated sufficiently high resistance to external shocks and market factors in the domestic market and identified basic development potential in the short term.

31 Domestic market: Consumption and household income

In 2023, starting conditions of final consumption were determined by the tense situation in the social sector, which was predetermined by the previous year's trend (decline in real disposable income of the population by 1.0%, reduction in household expenditures by 1.1% and decrease in their contribution to GDP dynamics by 2.6 p.p.). The implementation of an expanded package of systemic measures to support the households determined the recovery of positive dynamics of social parameters in 2023. The increase in public expenditures on final consumption played a key role in mitigating shocks of the inflationary wave, in reducing tension in the labor market and in preserving social stability. In 2023, the 5.4% increase in real disposable personal income fully offset the decline in the previous year's figure and had a stimulating effect on the growth of consumer and investment activity of the households. Household final consumption expenditures in 2023 increased by 6.5% and exceeded the indicators of the pre-pandemic 2019. Of course, the acceleration of the growth rate of public consumption expenditures by 7.0% had a positive impact on the social sector (*Table 7*).

Table 7

Expenditure on final consumption in gross domestic product 2020–2023 – growth rates and share

	In % of total, in current prices				In % to the previous year, in comparable prices			
	2020	2021	2022	2023	2020	2021	2022	2023
GDP	100	100	100	100	97.3	105.9	98.8	103.6
Including final consumption	71.5	67.8	64.8	68.7	96.1	108.4	99.9	106.6
Households	50.8	49.9	47.3	49.8	94.1	110.5	98.9	106.5
Public administration	20.1	17.3	16.9	18.3	101.9	102.9	103.0	107.0

Source: Rosstat.

There was a change in the structure of consumer demand against the backdrop of the household income growth. The increase in the turnover of the non-food market amounted to 9.5% and food products – 3.3% and took place on the back of an increase in retail trade turnover by 6.4% in 2023. In 2023, the consumer services sector demonstrated stable positive movements with an increase in volumes by 2.4% and a shift in demand to the segments of tourist (109.0% by 2022), sports and recreation (107.6%), educational (104.0%), and medical (102.7%) services.

In 2023, the structure of personal income was transformed under the influence of the outstripping growth of labor remuneration of employees and income from entrepreneurial activity. Changes in the competitive environment in the domestic market and the emergence of new niches for the economic activity of domestic businesses determined growth of the contribution of household income from entrepreneurial activity to the growth of household income in 2023 up to 6.8% (+1.1 p.p. to 2022), and the increase in economic activity and employment – the increase in wages of salaried workers up to 59.0% (+1.5 p.p.). With the outstripping

growth of labor income of the population in 2023, a relative weakening of the contribution of social payments and property income was recorded (*Table 8*).

Table 8

Structure of cash personal income generation in 2019–2023, in % of total

	Cash income, total	Including				
		Incomes from entrepreneurial activity	Compensation of employees	Social payments	Returns on property	Other cash incomes
2019	100	5.9	57.3	18.8	5.1	12.9
2020	100	5.2	57.2	21.4	5.8	10.4
2021	100	5.7	57.2	20.6	5.7	10.8
2022	100	5.7	57.5	20.0	7.8	9.0
2023	100	6.8	59.0	19.5	4.4	10.3
Q1	100	7.4	65.2	19.7	4.1	3.6
Q2	100	7.3	60.0	20.2	4.2	8.3
Q3	100	7.1	57.0	19.7	4.8	11.4
Q4	100	5.8	55.7	18.6	4.4	15.5

Source: Rosstat.

The population reacted to the changes in the level of income and conditions of monetary regulation starting from Q2 2023 by restoring the savings model of consumer behavior.

The investment potential of the households was formed in the context of retaining the trend to increase the share of deposits in the personal income and GDP. As of year-end 2023, the share of savings in deposits went up to 6.9% against 5.8% a year earlier, while in Q4, following a rise in the key rate, the share of savings in household income reached 15.1% due to a decrease in the level of expenditures on the purchase of goods and services and cash on hand (*Table 9*).

Table 9

Structure of household income aimed at current expenditure and savings, 2019–2023, in % of total

	2019	2020	2021	2022	2023	Q1	Q2	Q3	Q4
Incomes, total	100	100	100	100	100	100	100	100	100
Consumer expenditure	80.9	75.7	80.2	78.3	78.7	85.8	79.9	82.5	70.0
Including:									
Mandatory payments and contributions	15.2	15.2	15.5	15.9	14.4	13.7	13.9	15.0	14.9
Growth (+), decline (-) personal savings in deposits, securities, real estate, change in debt on loans and in accounts of individual entrepreneurs	3.4	4.6	3.4	5.8	6.9	0.5	6.2	2.5	15.1
Growth/decline of cash on hand	0.5	4.5	0.9	2.4	0.5	1.0	0.4	1.0	-0.1

Source: Rosstat.

With the acceleration of the dynamics of household cash income, an increase in personal financial activity was recorded. In 2023, household deposits in the banking system grew by 22.7% year-on-year and amounted to 26.3% of GDP

(+2.7 p.p. by 2022). Increased activity in the credit market is due, among other things, to the effect of pent-up demand for goods and services and increased participation in the real estate market. With the volume of loans extended to individuals growing by 22.0% in 2023, housing mortgage loans increased by 1.62 times and their share in household income rose to 8.8% vs. 6.0% a year earlier. Government measures to expand mortgage lending programs, including preferential housing mortgages, stimulated investment activity of the population. In 2023, preferential loans worth Rb4.7 trillion were extended, which was more than twice as much as in 2022 (Rb2.3 trillion) and accounted for 60.2% of the total volume of housing mortgage loans (*Table 10*).

Table 10

Household investment potential and activity in 2019–2023

	2019	2020	2021	2022	2023	2019	2020	2021	2022	2023
	% GDP					Rb trillion				
Deposits of individuals	27.7	30.5	25.6	23.6	26.3	30.4	32.8	34.7	36.6	44.9
Loans granted to individuals	16.1	18.6	18.2	17.4	16.0	17.7	20.0	25.0	27.7	33.8
Including housing mortgages	2.6	4.2	4.2	3.1	4.5	2.9	4.4	5.7	4.8	7.8
	In % to household cash income									
Deposits of individuals	48.6	51.6	49.2	45.9	50.9					
Loans granted to individuals	28.2	31.5	34.9	34.4	31.1					
Including housing mortgages	4.7	6.9	8.0	6.0	8.8					

Sources: CBR; Rosstat.

3. Investment and construction complex: Structural features 2022

The dynamics and structure of investment and construction activity in 2022–2023 were generated in the context of expanding domestic demand. The basic conditions for the growth of investment in fixed assets were determined by the trend of increasing the contribution of investment demand to the dynamics of the domestic market and the implementation of state support measures, as well as the reduction of financial and economic risks.

State measures to support and regulate investment activity, in particular, included: 1) updating the main provisions of the agreement on the protection of investments in the form of capital investments and special investment contracts; 2) restructuring of loans for large businesses; 3) introduction of the practice of regional investment standard; 4) expansion of the practice of supporting small and medium-sized enterprises; 5) specification of prices of state contracts in connection with the growth of the cost of resources; 6) adjustment of the programs of preferential lending to businesses and special investment contracts.

In 2022–2023, the investment activity dynamic was significantly influenced by changes in financial terms. Gradual reduction of the key rate throughout 2022 with the subsequent slowdown in the growth of prices for investment products and services made it possible to support economic activity in the construction sector: the growth of investment in fixed assets at the level of 6.7% became the impetus for the acceleration of work in construction by 7.5%. The economy’s adaptation to the new realities of price and exchange rate policy proved to be quite stable. Despite a significant increase in the key rate in H2 2023, fixed capital investment and construction activity maintained high growth rates. Investments in fixed capital in 2023 grew by 9.8%, the volume of works in construction – by 7.9%. (Table 11). Investments in fixed capital in 2023 amounted to 19.9% of GDP (+1.6 p.p. to 2022), while the contribution of construction to GDP remained at 5.0%.

Table 11

**Investment and construction complex dynamic in 2019–2023,
in % to the corresponding period of the previous year**

	2019	2020	2021	2022	2023				
					year	Q1	Q2	Q3	Q4
GDP	100.2	97.3	105.9	98.8	103.6	98.4	105.1	105.7	104.9
Investment in fixed assets	102.1	99.9	108.6	106.7	109.8	101.0	113.6	114.5	108.6
Construction	102.1	100.7	106.0	107.5	107.9	110.0	109.1	107.5	106.6
Commissioning of living space	106.7	100.2	112.6	110.9	107.5	98.8	99.4	104.1	130.3

Source: Rosstat.

Changes in the conditions of financing investment programs in 2023 were determined by an increase in the volume and share of using own funds of enterprises and organizations, as well as borrowed funds, which allowed to partially offset the change in demand for bank loans at high interest rates. Restructuring of loans taken at a adjustable rate made it possible to support investors and construction companies that found themselves in a difficult situation due to price increases and rising debt service costs.

Budgetary sources continued to support high investment activity. Active implementation of state investment and infrastructure projects, allocation of additional funds within the framework of infrastructure budget loans had a favorable impact on the dynamics of gross fixed capital formation and investment activity. The share of budgetary funds in the sources of funding amounted to 19.6% in 2023, falling by 0.9 p.p. compared to 2022.

In 2023, the main funding source for investment programs remained the enterprises’ own funds and borrowed funds. The rise in the share of companies’ own funds to 55.6% (+2.5 p.p. by 2022) was driven by the growth of business income: the balance profit of companies in 2023 grew by 35.5%, while the share of gross profit and other mixed income amounted to 58.1% of GDP (+4.3 p.p. by 2022). The increase in companies’ own funds – along with budget expenditures and credit growth – allowed businesses to expand their investment plans.

The role of bank loans in the sources of funding investments in fixed capital has been decreasing since 2021. The rise in the cost of loans led to a drop in the share of Russian banks in the sources of funding investments in fixed capital to 8.2% against 9.0% a year earlier. In the context of external sanctions on the movement of capital and investment goods, the share of foreign banks' credits and investments from abroad in the sources of financing of investments in fixed capital decreased to 0.6% against 1.5% a year earlier (*Table 12*).

Table 12

Investment in fixed assets by sources of funding in 2018–2023, in % of total

	2018	2019	2020	2021	2022	2023
Investment in fixed assets	100.0	100	100	100	100	100
Own funds	53.0	55.0	55.2	56.0	53.1	55.6
Borrowed funds	47.0	45.0	44.8	44.0	46.9	44.4
Bank loans	11.2	9.8	9.9	11.0	10.2	8.7
Of which:						
Russian banks	6.8	7.8	8.1	9.1	9.0	8.2
Foreign banks	4.4	2.0	1.8	1.9	1.2	0.5
Borrowed funds of other organizations	4.3	4.8	4.9	4.5	5.9	7.1
Investments from abroad	0.6	0.4	0.3	0.4	0.3	0.1
Budget funds	15.3	16.2	19.1	18.3	20.5	19.6
Of which:						
Federal budget	7.6	7.6	8.7	8.1	9.8	9.4
Budgets of RF subjects	6.6	7.4	9.2	9.0	9.4	9.1
Local budgets	1.1	1.2	1.2	1.2	1.3	1.1
Funds of state extra-budgetary funds	0.2	0.2	0.2	0.2	0.2	0.1
Other	15.4	13.6	10.4	9.6	9.8	8.8

Source: Rosstat.

The structure of the sources of funding the investments in fixed capital was transformed under the influence of changes in production by institutional sectors. In 2023, the share of investments in state-owned facilities increased to 17.5% (+1.5 p.p. vs. 2022) in the structure of investments in fixed capital with the outstripping dynamic of investment support of federal property structures. A significant impact on the implementation of major investment projects by companies with state participation was made by the placement of the National Welfare Fund assets. Investments in fixed capital of private Russian ownership in the context of tightening monetary policy conceded the leadership in the dynamics of investment activity to the economic entities of federal ownership. Structural changes by institutional investors were determined by the fall in the volume of investments in the structures of various forms of foreign ownership in 2023 to 8.2% of the total volume of investments in fixed capital against 9.8% in 2022, including foreign ownership – respectively to 1.7% against 3.0% a year earlier (*Table 13*).

Table 13

The share of investments in fixed capital by form of ownership in 2020–2023, in actual prices, in % of total

	Share of investment in fixed assets, %				Share, % of GDP			
	2020	2021	2022	2023	2020	2021	2022	2023
Investment in fixed assets	100	100	100	100	18.9	17.1	18.3	19.9
Including:								
Russian ownership	87.4	86.0	90.2	91.8	16.6	14.8	16.1	18.3
Including:								
State ownership	17.5	16.2	16.9	17.5	3.3	2.8	3.0	3.5
Federal ownership	8.2	7.5	8.3	9.4	1.6	1.3	1.5	1.9
Ownership of subjects of the Federation	9.3	8.7	8.6	8.1	1.8	1.5	1.5	1.6
Municipal ownership	2.9	2.8	2.7	2.7	0.5	0.5	0.5	0.5
Private ownership	60.4	61.6	65.6	66.0	11.4	10.6	11.7	13.1
Mixed Russian ownership	5.8	4.4	4.1	4.3	1.1	0.8	0.7	0.9
State corporations ownership	0.8	1.0	0.9	1.3	0.2	0.2	0.2	
Foreign ownership, joint Russian and foreign ownership	12.6	14.0	9.8	8.2	2.4	2.4	1.7	1.6
Of which:								
Foreign ownership	5.7	6.5	3.0	1.7	1.1	1.1	0.5	0.3

Source: Rosstat.

Despite a sharp decline in foreign direct investment in the Russian economy, the departure of foreign companies from the Russian market and weakening dynamics of foreign supplies of investment and intermediate goods against the background of geopolitical sanctions, government measures to support domestic demand made it possible to maintain a high level of business investment activity.

The strengthening of sectoral measures to support investment activity became effective for a wide range of activities in 2023. The analysis of the Russian industry dynamics and structure shows a differentiated impact of investment in fixed capital on the dynamics of output depending on the state of the technological base, the degree of capacity utilization and support measures.

The implementation of investment programs in production and housing construction required the involvement of idle production capacities of the construction industry, machine-building industries focused on the production of machinery, equipment and technology, while forming new supply chains and alternative foreign suppliers of engineering equipment and materials for construction projects. Decrease in the share of machinery and equipment in specific structure of investment in fixed assets to 34.5% in 2023 (*Table 14*) and growth of the load on production capacities at the level of 75-80% with the existing age structure of machinery, information, computer and telecommunication equipment and vehicles determine the risks of implementation of programs of technological modernization and reconstruction of the industrial sector and associated infrastructure. Creating of conditions for the development of the investment complex's own production and technological base remains a priority task for strengthening the economy.

Table 14

**Structure of investments in fixed capital by types of major funds 2019–2023,
in % of total**

	2019	2020	2021	2022	2023
Investment in fixed assets, total	100	100	100	100	100
Including:					
Residential buildings and premises	14.4	14.5	12.9	14.2	12.0
Buildings (except for residential) and facilities	38.4	37.5	37.0	40.2	39.8
Machinery, equipment, means of transportation	37.0	37.1	39.5	34.8	34.5
Intellectual property items	3.3	4.0	4.4	4.6	5.3
Other	6.9	6.9	6.2	6.2	8.4

Source: Rosstat.

With an increase in investment in fixed assets by large enterprises in 2023 by 9.4%, structural changes were determined by the outstripping growth of investment activity in manufacturing by 19.22%, supply of electricity and gas by 21.4%, and information and communication activities by 20.5%, which accounted for 28.2% of total investment expenditures.

In mining, which accounts for 17.4% (-0.6 p.p. of the 2022 figure) of the volume of fixed capital in the economy as a whole, investment growth amounted to 5.5% versus 2022. Investments in oil and natural gas extraction increased by 4.7%, in mining of metal ore – by 22.2%. Fulfillment of guaranteed obligations under previously signed contracts for supply and maintenance of process equipment and accumulated material inventories, formation of a new pool of suppliers from loyal markets allowed to continue implementation of investment projects in this segment of industrial activity. In the associated industries of oil and gas chemical and refining complexes, the investment growth rate accelerated to 11.2% in 2023.

In manufacturing industry, investments in all sub-productions of machine-building, metallurgical and chemical complexes grew dynamically.

The highest growth rates of investment programs funding relative to 2022 were recorded in the manufacturing of computers, electronic and optical products (71.8%), motor vehicles (65.3%), power equipment (67.8%), which determined the intensive recovery of production, utilization of existing and reserve capacities and employment generation. With the growth of production demand for intermediate goods, investments in the associated activities increased: in metallurgical production (by 9.7%) and in the production of finished metal products (by 85.5% vs. 2022).

In the timber industry complex, while maintaining high demand and raising capacity utilization, investments in paper production went up by 13.5% compared to 2022. The change in the position of wood processing in the global and domestic markets led to a sharp decline in investments in fixed assets and determined the acuteness of the problem of improving management of the industry in the new economic environment.

The change of the situation in the domestic market boosted the realization of investment projects in the production of consumer complex with the expansion of

the contribution of domestic business. In particular, investments in the production of textile products increased by 19.1% in 2023, leather goods – by 74.1%.

In transportation and storage, investments in 2023 increased by 4.0%. In the context of reorientation of cargo flows from western to southern and eastern directions, investments in the development of port and railway infrastructure became important. Investments in freight rail transportation increased by 54.5%, road transportation (freight transportation) – by 46.1%, water transportation – by 45.8% and warehousing – by 11.0% as compared to 2022. Investments in the development of wholesale trade infrastructure are increasing: growth of 3.5% as compared to 2022.

Despite the fact that the majority of basic industries in recent years have carried out quite active modernization with the outstripping growth of expenditures on upgrading machinery, equipment and vehicles, it should be recognized that, in general, the state of fixed assets does not correspond to the dynamic changes in demand for new product lines and production technologies. With the current level of capacity utilization in the economy as a whole and in the manufacturing industries in particular, with changing access to the world market of investment goods, transformation of the price structure, the exchange rate of the national currency, the Russian machine-building complex is experiencing a deficit of capacities capable of replacing the demand for technical means, especially in industries with a high share of foreign technologies and finished investment goods. This kept up to date the elaboration of the concept of technological development for the period up to 2030, which defined measures to support institutions of innovative development and active involvement of private business in the implementation of investment projects aimed at ensuring the development of investment production.