

MONITORING OF RUSSIA'S ECONOMIC OUTLOOK:

TRENDS AND CHALLENGES OF SOCIO-ECONOMIC DEVELOPMENT

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Monitoring of Russia's Economic Outlook

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1. THE BANK OF RUSSIA KEPT THE KEY RATE UNCHANGED ON A SIMILAR SCALE AND RAISED ITS INFLATION FORECAST FOR THE END OF THE YEAR

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On April 26, 2024, the Board of Directors of the Bank of Russia at its regular monetary policy meeting decided to keep the key rate unchanged at 16.0% per annum. The signal on the further direction of monetary policy became tougher. The Bank of Russia raised its inflation forecast for the end of the current year by 0.3 p.p. to 4.3–4.8% and increased its forecast for Russian GDP growth by 1.5 p.p. (to 2.5–3.5%). At the end of April, annual inflation (over the last 12 months) accelerated to 7.8%, and consumer prices in April rose by 0.5% seasonally adjusted, amount to 5.5% in terms of annual growth rates. The current inflation in April accelerated compared to March 2024, but was below the average in Q1 2024.

On April 6, 2024, the Board of Directors of the Bank of Russia at its regular monetary policy meeting decided to keep the key rate unchanged at 16.0% per annum. The decision coincided with analysts' expectations.¹ However, the signal sent by the Central Bank of Russia on the further trend of monetary policy turned out to be tougher compared to expectations of the market actors. The Bank of Russia raised the key rate path for the current year by an average of 100 b.p. compared to its February forecast, and for 2025 by 200 b.p., which is higher (by about 60 b.p.) than the expectations updated in April.

The CBR noted in a press release that the inflation target recovery and its further stabilization near 4% implies a longer period of maintaining tough monetary conditions in the economy compared to previous projects.² During press conference by the Bank of Russia Governor, as well as in the summary of the discussion of the key rate, it was noted that the signal on the period of maintaining tight monetary conditions in the economy should be interpreted as more stringent.³

In the updated forecast, the Bank of Russia raised its expectations regarding the dynamics of Russia's GDP in 2024 by 1.5 p.p. to 2.5–3.5% due to a significant (by 3.5 p.p.) increase in consumer spending, as well as the dynamics of gross fixed capital formation. As a consequence of higher household consumption, the import forecast increased by 5 p.p. compared to the February version.

The forecast of the exports' quantum was also increased, but to a much lesser extent, i.e. by 0.5 p.p. Despite the higher expected path of the key rate, the Bank of Russia raised by 2 p.p. the forecast of corporate lending (to 8–13%) in 2024 and loans to households (also to 8–13%), which resulted in growth in the forecast of the money supply growth rate.

1 URL: <https://www.interfax.ru/business/957859>

2 URL: https://cbr.ru/press/pr/?file=26042024_133000key.htm

3 URL: https://cbr.ru/dkp/mp_dec/decision_key_rate/summary_key_rate_13052024/

Monitoring of Russia's Economic Outlook

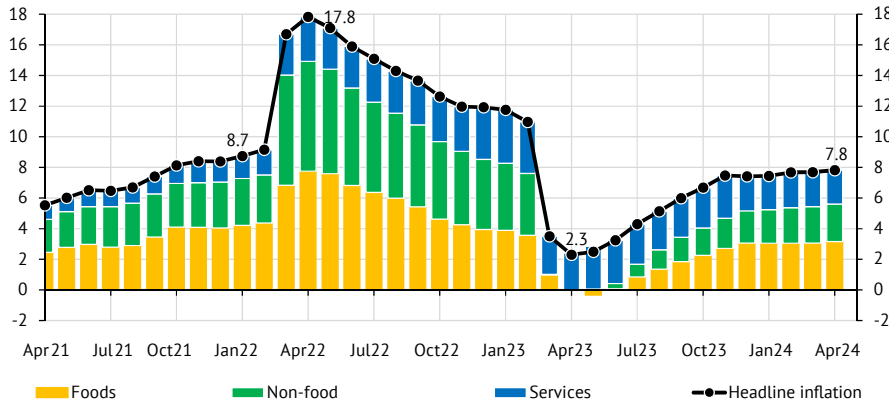


Fig. 1. Contribution of certain components to annual inflation, p.p.

Source: Rosstat

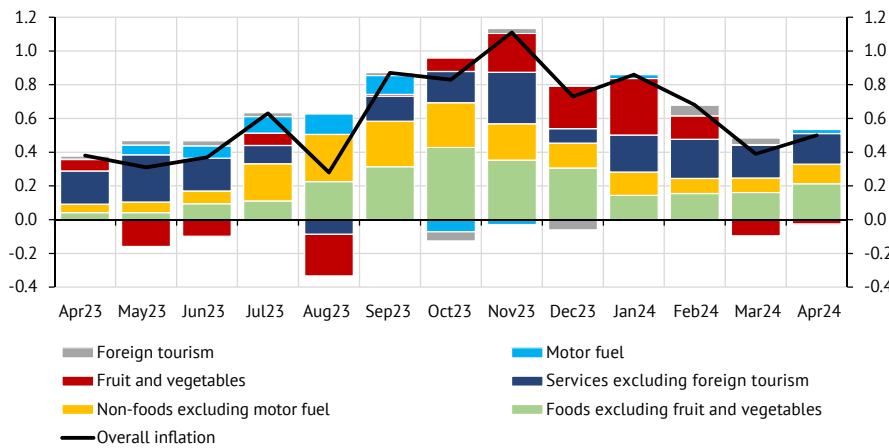


Fig. 2. Contribution of certain components to monthly inflation, p.p.

Source: Rosstat, own calculations.

The Bank of Russia links growth of corporate lending in Q1 2024 to the need to pay significant amounts of taxes for 2023, including income tax and VAT.¹ However, the forecast for mortgage lending remained unchanged, which implies significant growth in automotive lending and unsecured consumer loans. Consumer lending is growing due to more active use of credit cards during the grace period, when people open short-term deposits at high rates and pay for current expenses with credit cards.² The Bank of Russia expects a slowdown in lending growth next year, which should be facilitated by longer tight monetary conditions and, consequently, a slowdown in consumer and investment demand.

The Bank of Russia raised by 0.3 p.p. its inflation forecast for the end of the current year and expects it to slow down to 4.3–4.8% by December, noting that inflation will be returning to target slower than previously forecasted due to increased domestic demand exceeding the capacity to expand supply. However, the CBR's forecast is still below analysts' expectations (5.2% y/y by December 2024), as reflected in the Bank of Russia's April macroeconomic survey.³ The Central Bank of Russia narrowed the forecast range of average inflation for 2024 to 6.2–6.4%, while analysts' expectations are 6.9%, and for 2025 expanded it

1 URL: https://www.cbr.ru/Collection/Collection/File/49100/razvy_bs_24_03.pdf

2 URL <https://www.cbr.ru/press/event/?id=18647>

3 URL: https://www.cbr.ru/statistics/ddkp/mo_br/

1. The Bank of Russia kept the key rate unchanged

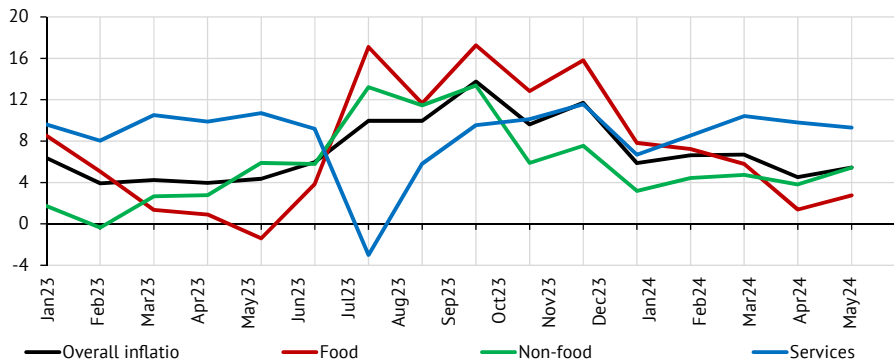


Fig.3. Dynamics of overall inflation and its main components, % SAAR

Source: Rosstat, own estimates.

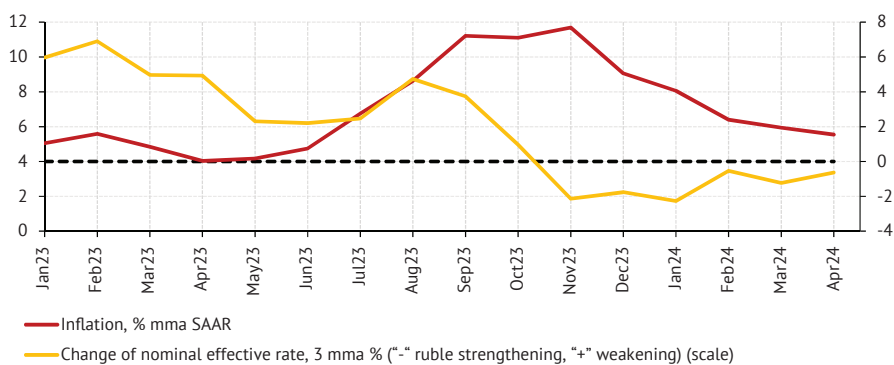


Fig.4. Inflation and dynamics of the ruble/dollar rate exchange, mom %

Source: Rosstat, CBR.

to 4.0–4.2%, while analysts expect average inflation in 2025 at 4.5%. Thus, the Bank of Russia and the expert community forecast the recovery of annual inflation to the target not earlier than Q2 2025.

The acceleration of inflation over the previous 12 months to 7.8% in April indicates the inability to reach the target already this year. Since the end of 2023, the main contribution (about 40%) to annual inflation was made by growth of food prices, however, growth of the contribution of non-food products to annual inflation, which increased over the year from about zero to 31.4% in April 2024, deserves attention (Fig. 1).

Rising prices for vehicles (11.9%; +0.64 p.p. to annual inflation), motor fuel (8.5%; +0.41 p.p.), and medical supplies (9.7%; +0.26 p.p.) evidenced the largest contribution to non-food inflation among certain categories of non-foods in the period between April 2023 and March 2024.

In April, consumer prices increased by 0.50% mom. About 43% of the consumer basket price growth in April was due to growing prices for food products excluding fruit and vegetables (+0.21 p.p.); prices for fruit and vegetables in April dropped by 0.6%, which reduced the overall CPI by about 0.03 p.p. (Fig. 2).

At the same time, this year the decline in prices for fruit and vegetables began in March, while last year only in May. In April, prices for gasoline and diesel fuel increased significantly (by 0.5 and 0.4% respectively), which added 0.03 p.p. to the overall inflation. The growth in prices for non-foods excluding motor fuel added 0.11 p.p. to April inflation, while services excluding foreign tourism added 0.18 p.p. to the rise in the price of the consumer basket.

Seasonally adjusted¹ consumer inflation in April is estimated at 0.44% mom or 5.5% in terms of annual growth rate (SAAR), which is higher compared to March 4.5% SAAR (*Fig. 3*), but lower than the average 5.9% SAAR in Q1 (*Fig. 4*). Among the components of seasonally smoothed inflation, the rate of non-food price growth increased in April compared to March (to 5.4% SAAR), food inflation increased (to 2.8% SAAR), current service price growth slowed slightly (to 9.3% SAAR) (*Fig. 3*), but still remains well above 4%.

Since the beginning of this year, price growth has not fallen below 8% SAAR and averaged 9.5%, which is a result of the shortage of personnel in the labor market, as evidenced by the record low unemployment rate, which fell to 2.7% in March, and the high growth rate of real wages, which amounted to 10.8% yoy in February.

Non-food price growth from December 2023 to March 2024 was close to 4% SAAR (the average for this period was 4.0%), but in April non-food prices significantly exceeded 4% as a result of increased consumer demand (non-food retail turnover growth in Q1 2024 was 13.2% y/y).

Weekly data for the first half of May indicate a further growth in price pressure: according to the Russian Ministry of Economic Development, by May 13, annual inflation accelerated to 7.9%.² Thus, the Bank of Russia's fears about the instability of the disinflationary process observed in early 2024 were justified. The key factor of increased inflationary pressure is still the rapidly increasing consumer demand. According to Q1 2024, growth of real GDP by 5.4% y/y³ resulted in expansion of the output gap, which, despite tight monetary policy and stabilization of the ruble exchange rate (the Russian currency appreciated against currencies of major trading partners in February-April 2024 by 1.9% (*Fig. 4*)), resulted in the interruption of disinflation.

The main reason for overheating of the Russian economy is the stimulative fiscal policy: in 2022 and 2023, the expenditures of the fiscal system grew by 17.2% and 14.2%, respectively, resulting in growth in the share of government spending in GDP from 34.7% in 2021 to 36.6% in 2023.

An alarming fact for inflation to reach the target level was the growth of inflation expectations of households in May to 11.7% after 4 months of continuous decline.⁴ Another pro-inflationary factor in H2 2024 may be a decline in crop yields due to May frosts in the central and southern regions. According to the Ministry of Agriculture of the Russian Federation, about 1% of crops were lost as a result of unfavorable weather conditions⁵, SovEcon cut its wheat production forecast by 7.3 mln tons (down 7.8%) to 85.7 mn tons, below the 5-year average.⁶

Our previous forecast of actual inflation in February-April was generally met.⁷ According to our estimates, prices will rise by 0.5–0.6% mom in May, which would correspond to annual inflation of 8.0–8.1%. Most likely, annual

1 Seasonally adjusted inflation has been measured in program R using seasonal package.

2 URL: https://economy.gov.ru/material/file/8897f9d1ef664425bc31550d5099f46f/o_tekushchey_cenovoy_situacii_15_maya_2024_goda.pdf

3 URL: https://rosstat.gov.ru/storage/mediabank/vvp_17-05-2024.html


4 URL: https://www.cbr.ru/Collection/Collection/File/49153/inFOM_24-05.pdf

5 URL: <https://www.vedomosti.ru/business/articles/2024/05/16/1037596-ot-zamorozkov-pogiblo>

6 URL: <https://sovecon.ru/blog/sovecon/2024/05/16/%d1%81%d0%be%d0%b2%d1%8d%d0%ba%d0%be%d0%bd-%d0%bf%d0%be%d0%bd%d0%b8%d0%b7%d0%b8%d0%bb-%d0%bf%d1%80%d0%be%d0%b3%d0%bd%d0%be%d0%b7-%d0%bf%d1%80%d0%be%d0%b8%d0%b7%d0%b2%d0%be%d0%b4%d1%81/>

7 URL: <https://www.iep.ru/ru/doc/38684/monitoring-ekonomicheskoy-situatsii-v-rossii-1-176-yanvar-fevral-2024-g.pdf>

1. The Bank of Russia kept the key rate unchanged

inflation will reach its peak in May, start to slow down in Q3 2024 mainly due to the effect of high base of the previous year and fall to 5.5–5.8% by the end of the year. In H2 2024, consumer and investment demand is expected to cool due to gradual exhaustion of fiscal impetus, winding down of concessional lending programs and restrictive monetary policy, causing gradual closing of the positive output gap and a slowdown in current inflation to 4.0–4.5% SAAR in the last months of 2024. 

2. REGIONAL BUDGETS IN Q1 2024: TAX REVENUES GROWTH SLOWS DOWN

Alexander Deryugin, Senior Researcher, Acting Head of the Budget Policy Department, Gaidar Institute

In Q4 2023 and Q1 2024, the growth rates of tax and non-tax revenues of consolidated regional budgets slowed down considerably. To implement the May Presidential Decree on the national development goals of the Russian Federation for the period up to 2030 and in the long-term till 2036, further financial assistance to the regions may be required, as well as readjustment thereof to facilitate a stronger equalizing effect.

Revenues

Based on the results of Q1 2024, the overall revenues of the consolidated budgets of the subjects of the Russian Federation amounted to Rb5.1 trillion, an increase of 3.6% on the relevant period of the previous year. Before commenting on these figures, it is necessary to remind that from January 1, 2023 taxpayers switched over to paying taxes through a single tax account (STA) and for this reason there was a shift in the timing of crediting taxes to the budget to a later period (including next month). In addition, the mutual repayment of obligations to pay taxes and reimbursement of overpaid taxes has sped up owing both to the use of the Unified Tax Service and a 3-fold reduction in the deadline for returns on property and social deductions. In the first few months of 2023, this situation led to a technical reduction in tax revenues, as well as (as a compensatory measure) the advanced provision of intergovernmental fiscal transfers (primarily subsidies to equalize the budgetary security of the subjects of the Russian Federation). Accordingly, early in 2024 (particularly after a number of decisions was made to facilitate the solution of the problems related with the receipt of tax revenues), the growth rates of both tax revenues and intergovernmental fiscal transfers turned out again to be strongly dependent on the situation seen in the beginning of 2023. Against this background, a 3.6% growth in the overall volume of regions' budget revenues does not mean anything and requires an in-depth analysis of its components.

In Q1 2024, tax revenues and non-tax revenues of the regions' consolidated budgets increased by 5.8% and 41.7%, respectively, as compared to the relevant period of the previous year, while non-repayable receipts from other budgets decreased by 18.1%. With the above factors taken into account, such an increase in tax revenues does not look optimistic, particularly, amid their growth of 16.0% in 2023. At the same time, this situation is not unexpected, as the decline in the tax revenues growth rates began late in 2023: after a 26.0% increase in Q3, they fell by 2.9% in Q4.¹

¹ Revenues growth rates for certain periods of 2023 as compared to the relative periods of 2022 are given without taking into account the data on the Donetsk People's Republic, the Lugansk People's Republic, the Zaporozhye Region and the Kherson Region.

2. Regional Budgets in Q1 2024: Tax Revenues Growth Slows Down

The largest input to tax revenues growth of the regions' consolidated budgets in Q1 2024 relative to Q1 2023 was made by the personal income tax (+48.1%) and the tax levied in accordance with the use of the simplified taxation system (STS) (+25.8%). Such impressive dynamics can be substantiated in particular by a rebound after the fall in Q1 2023 (19.8% and 14.0% in case of the personal income tax and the tax levied in accordance with STS, respectively) caused by the abovementioned factors. Excise taxes increased by 12.2%. The growth rates of other main taxes were in the negative zone: the corporate income tax (-15.6%) and the corporate property tax (-18.0%). In the latter case, this can also be explained by a rebound (but in the other direction) after an increase of 61.7% based on the results of Q1 2023.

Substantial growth in non-tax revenues (+41.7%) was driven by a threefold increase in income from the placement of budget funds (+201.2), the number of recipients increased from 15 recipients as of the end of March 2023 to 88 recipients as of the end of March 2024.

The dynamics of non-repayable receipts from other budgets (-18.1%) turned out to be multidirectional. So, despite the absence in Q1 2024 of decisions on the advanced provision of subsidies to equalize the budgetary security of the subjects of the Russian Federation (in 2023 this was done in January), the allocated volume of these subsidies to the regions did not decrease, but even grew by 2.0% on the back of inclusion of new regions in the general equalization system. Accordingly, instead of subsidies to support measures to balance budgets (the allocated volume declined by 95.8%), they began to receive equalizing subsidies.

Subsidies decreased by 0.3%, other intergovernmental fiscal transfers, by 49.9%, while subventions increased by 10.4%.

Based on the results of Q1 2024, positive growth rates of consolidated budget revenues were registered in 45 subjects of the Russian Federation with the highest ones in the Sakhalin Region (+35.5%, the main growth was driven by the personal income tax and income in terms of a share in profitable state products in implementing agreements on division of products), the Republic of Tatarstan (+34.6%, the personal income tax, the tax levied in accordance with STS, income from the placement of budget funds and subsidies), the Magadan Region (+34.5%, the personal income tax, the severance tax and subsidies), the Udmurt Republic (+31.8%, the corporate income tax, the personal income tax and subsidies) and Moscow (+25.9%, the personal income tax and income from the placement of budget funds).

Over the same period, the highest rates of decrease in consolidated budget revenues were registered in the Zaporozhye Region (-50.6%, the main reduction affected subsidies), the Tyumen Region (-34.3%, the corporate income tax, the corporate property tax), the Republic Sakha (-33.9%, the personal income tax, the severance tax in terms of natural diamonds, subsidies), the Yamal-Nenets Autonomous Okrug (-30.4%, the corporate income tax) and the Murmansk Region (-27.2%, the corporate income tax).

In Q1 2024, the main source of income of the new subjects of the Russian Federation were subsidies for equalizing budgetary security (39.7% of the overall consolidated budget revenues), which replaced budget balancing subsidies, tax and non-tax revenues (33.1%, including the personal income tax (22.6%) and the corporate income tax (5.2%)), which owing to the low base effect increased more than 3.6 times, and other subsidies not related to equalizing budgetary security and budget balancing (17.1 %). At the same time, the share of tax and

non-tax revenues in the overall budget revenues kept growing steadily for a second year running.

Such a range of fluctuations in budget revenues indicators is traditionally typical for the beginning of the year, so, it is too early to draw conclusions about the prospects for the relevant trends in individual regions. As for the outlook for growth in tax and non-tax revenues of regional budgets in 2024, on the one hand, the low rates observed over the past two quarters do not inspire optimism and, if this trend continues till the end of the year, may lead to growth no higher than inflation. On the other hand, the unemployment rate, which reached a historical minimum in March 2024, will push up the level of wages and with it the wage fund, which, in its turn, will become a growth driver of personal income tax revenues, the main tax source for regional and local budgets.

Expenditures

Based on the results of Q1 2024, regions' consolidated budget expenditures amounted to Rb4.5 trillion, an increase of 5.9% on Q1 2023, which is lower than the inflation rate (7.0%), but higher than the growth rates of budget revenues (+3.6%).

The growth leaders were expenditures on national security and law enforcement (+47.9%), culture and cinematography (+21.0%) and healthcare (+9.3%). Expenditures decreased on social policy (-3.5%), road maintenance (-5.1%), agriculture and fisheries (-15.1%), environmental protection (-36.4%) and national defense (-81.6%).

In Q1 2024, consolidated budget expenditures increased in 67 subjects of the Russian Federation with growth exceeding the rate of inflation over the same period in 50 of these subjects. Growth leaders in budget expenditures are the Maritime Territory (+34.3%, the largest increase in such areas as national defense, national economy, as well as culture and cinematography), the Yamalo-Nenets Autonomous Okrug (+30.7%, housing and utility services, culture and cinematography, healthcare, physical education and sports), the Amur Region (30.1%, water management, housing and utility services, healthcare), St. Petersburg (+28.7%, transport and road maintenance) and the Sakhalin Region (+28.5%, transport, road maintenance and housing and utility services).

Budget expenditures decreased most considerably in the Lugansk People's Republic (-38.1%), the Zaporozhye Region (-31.3%), the Donetsk People's Republic (-23.5%), the Kursk Region (-18.3%) and the Nenets Autonomous Okrug (-17.9%).

In 2023, the pattern of expenditures of the new subjects of the Russian Federation differed from that of other regions by a smaller share of expenditures on the national economy (12.7% against 18.5%) and a larger share of expenditures on national issues (12.5% against 6.8%) and healthcare (14.3% against 9.7%). If we evaluate the difference in the pattern of budget expenditures of the groups of subjects of the Russian Federation under consideration as the sum of the absolute values of deviations in the specific weights of budget expenditures across the sections of the functional classification, then according to the results of Q1 2024 it decreased almost threefold and over twofold relative to Q1 2023 and the entire year 2023, respectively. Thus, the new subjects of the Russian Federation are quite actively integrating into the general system of delineation of powers between the levels of government in Russia.

2. Regional Budgets in Q1 2024: Tax Revenues Growth Slows Down

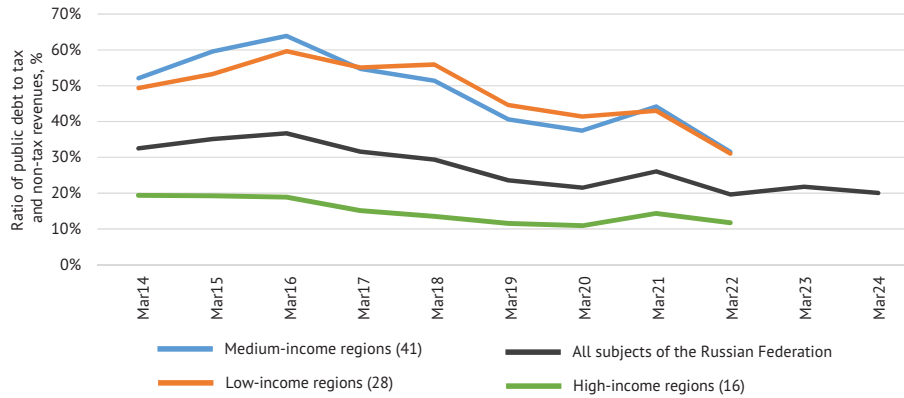


Fig. 1. Debt burden of the subjects of the Russian Federation in 2014–2024, %

Source: own calculations based on the data of the RF Ministry of Finance and the Federal Treasury.

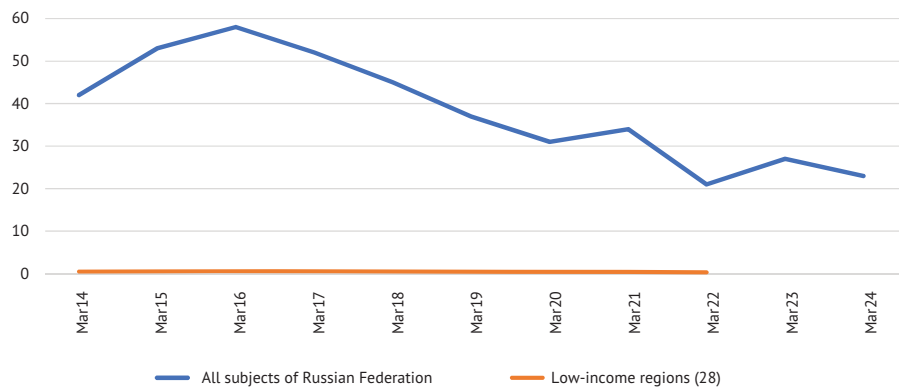


Fig. 2. The number of subjects of the Russian Federation with a debt burden of over 50% in 2014–2024

Source: own calculations based on the data of the RF Ministry of Finance and the Federal Treasury.

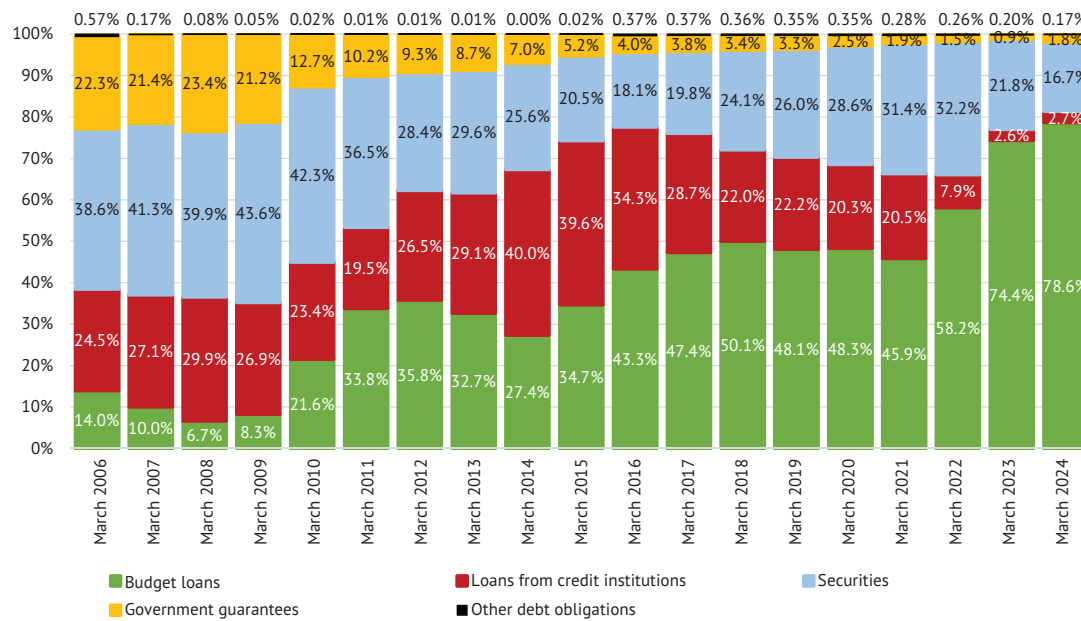


Fig. 3. The pattern of public debt of the subjects of the Russian Federation as of April 1 2006–2024, % of the total

Source: own calculations based on the data of the RF Ministry of Finance.

Balancing regional budgets and the public debt

Based on results of Q1 2024, a consolidated budget surplus was registered in 72 subjects of the Russian Federation and its total volume was equal to Rb623.9 bn (against a surplus of Rb697.1 bn in January-March 2023). Among the new regions, only the consolidated budget of the Lugansk People's Republic was executed with a deficit.

As of April 1, 2024, regions' public debt amounted to Rb3.2 trillion, an increase of 6.4% over the year.¹ Despite debt growth, on the back of higher growth rates of regions' tax and non-tax revenues over 12 months the level of regions' debt burden² decreased to 20.0% as compared to 21.7% as of April 1, 2023, remaining at the minimum and safe level in the past decade (*Fig. 1*).

The number of regions with a debt burden of more than 50% over 12 months decreased from 27 regions to 23 regions and still poses no threat to the stability of regional budgets (*Fig. 2*).

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

The Republic of Mordovia has the highest debt burden (the ratio of public debt to tax and non-tax revenues is 89.9%), the Republic of Khakassia (82.4%), the Arkhangelsk Region (79.9%), the Udmurt Republic (78.0%) and the Jewish Autonomous Region (77.8%).

In general, over the year from April 2023 to March 2024, the public debt increased in 70 subjects of the Russian Federation and the debt burden, in 44 subjects.

After the completion of the process of replacing loans from credit institutions with budget loans, their share in the volume of debt obligations of the subjects of the Russian Federation as of April 1, 2024 is still near the all-time low (2.7%). Also, the share of government securities kept declining (16.7%), while that of budget loans to regions from the federal budget increased from 74.4% to 78.6% over 12 months (*Fig. 3*), primarily, on the back of the provision of infrastructure budget loans. The shares of government guarantees and other debt obligations were still balancing at near-zero levels: 1.8% and 0.2%, respectively.

Thus, despite a slight increase in the volume of public debt, the debt sustainability of the regions remains at a high level owing to higher growth rates of tax and non-tax regional budget revenues.

Until the end of 2024, amid an expected decline in the growth rates of tax and non-tax regional budget revenues, the dynamics of the regions' debt burden will be largely determined by the dynamics of the total volume of their public debt which, in its turn, will depend on the dynamics of provision of new volumes of infrastructure budget loans, as well as the process of writing off a portion of budget loans (except for infrastructure loans). ▀

1 Until 2024, the data on the volume and pattern of the public debt of the Donetsk People's Republic, the Lugansk People's Republic, the Zaporozhye Region and the Kherson Region were not published.

2 The level of debt burden of a subject of the Russian Federation is determined as the ratio of the volume of public debt of the region to the volume of its tax and non-tax budget revenues.

3. DYNAMICS OF INDUSTRIAL PRODUCTION IN JANUARY-APRIL 2024

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In January-April 2024, the trend component of the industrial production index maintained growth, which was primarily secured by the manufacturing sector (the reason, among other factors, may be import substitution, including due to positive effect of production localization programs). The extractive sector continues to demonstrate a rather long downtrend. Production and distribution of electricity, gas and water in the period under review shows a slight decline.

In order to correctly interpret the available trends in individual industries, it is necessary to decompose their output into components: calendar, seasonal, irregular and trend ones.¹ The interpretation of the latter is of substantial interest. The authors identified the trend component of the series of production indices for 2003–2024² based on actual statistics published by Rosstat.

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

Trend component of the industrial production in January-April 2024 demonstrated growth (109.8% compared to January-April 2023): manufacturing sector positively contributed to dynamics. Slowdown was observed in the extractive industry and in the production and distribution of electric energy, gas and water.

Trade restrictions and prolongation of the OPEK+ agreement continue to negatively impact on the dynamics of the volumes of production in the extractive sector. Suspension of the publication on statistics on volumes of the oil extraction was prolonged by the Government of the Russian Federation until April 1, 2025.³ It was mentioned in the OPEK report published in May 2024 that average daily oil extraction in Russia in Q1 amounted to 9.4 mln barrel, which is lower by 16% compared to the similar period of the previous year (similar statistics was also presented by International Energy Agency).⁴

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

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

3 Ban on publication of oil and gas production statistics extended until April 2025 // Interfax. 07.03.2024. URL: <https://www.interfax.ru/business/949492>.

4 *Boris Solovyov*. The decline in oil production has increased the country’s revenues // Expert 15.05.2024. URL: <https://expert.ru/ekonomika/snizhenie-dobychi-nefti-uvelichilo-dokhody-strany/>.

Reduction in coal extraction in January-April 2024 follows the reduction in external demand for Russian coal. According to results of 2023, China, India and Turkey became main importers of Russian coal. In Q1 2024, according to Center of price indexes (CPI)¹, the average monthly volume of imports to these countries has been totally reduced to these countries by 3mln tons compared to the similar index in 2023², which is associated with the reduction of competitiveness of the Russian coal:

First, due to low world prices (there is an excess of coal in the market, which compels Russian producers to secure discounts for their production among other things);

Second, due to imposition of import duties in China (Indonesia and Australia Индонезия have agreements on free trade and that is why they did not experience challenges);

Third, due to reduction in demand from India because they increased their own extraction;

Fourth, due to high tariffs for transshipment, which increase the already high transport losses (logistical restrictions at the Eastern range force to transport Russian coal products through ports in the Azov-Black Sea basin and ports in the North-West. Many companies refuse to transship coal through the port in Taman from the beginning of 2024, thereby affecting the reduction of exports to Turkey.)³

1 Gazprombank set up a pricing agency that, starting from September 2022, determines quotations for commodities in rubles, yuan, and other currencies of friendly countries, including quotations for Urals oil.

2 In 2023, average monthly coal imports to China, India and Turkey were 14 mln tons, see e.g.: *Vasily Milkin*. In Q1, Russian coal producers reduced supplies abroad // *Vedomosti*. 16.04.2024. URL: <https://www.vedomosti.ru/business/articles/2024/04/16/1032026-rossiiskie-ugolschikisnizili-postavki-za-rubezh-za-i-kvartal>.

3 *Vasily Milkin*. Russian coal export prices fell to their lowest level in almost three years // *Vedomosti*. 11.04.2024. URL: <https://www.vedomosti.ru/business/articles/2024/04/11/1031100-eksportnie-tseni-na-rossiiskii-ugol-snizilis>.

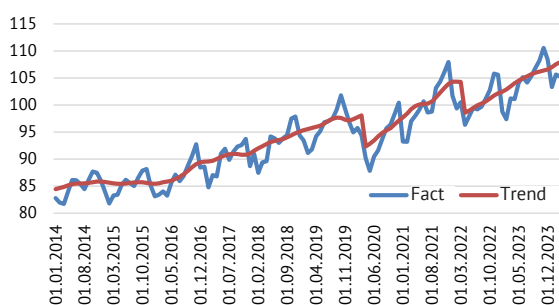
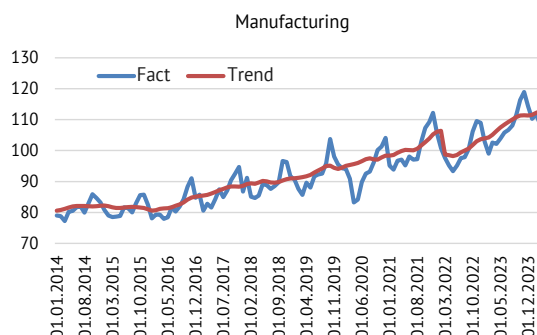
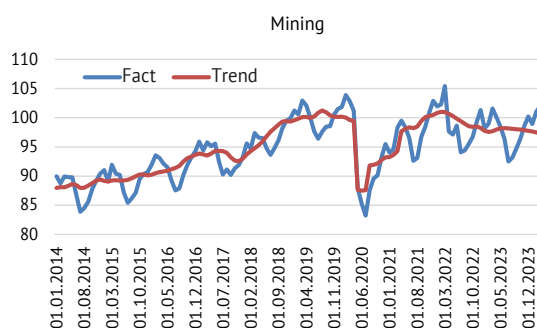


Fig. 1. Dynamics of the industrial production index in 2014–2024 (actual data and trend component), % to the average annual value in 2021

Source: Rosstar, own calculations



Production and distribution of electricity, gas and water

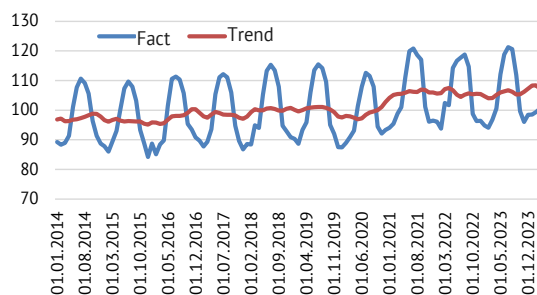


Fig.2. Dynamics of the production indexes in 2014–2024 (actual data and trend component) in % against average year value 2021

Source: Rosstat, own calculations

3. Dynamics of industrial production in January-April 2024

Table 1

Change in the index of output as per economic industries

Industry	Share in the index of industrial production	April 2024 vs April 2023, %	April 2024 vs December 2023, %	Changes in the last months
Index of industrial production		104.0	101.5	Slow growth
Extraction of minerals	34.54	98.8	99.0	Slow decline
Manufacturing, including:	54.91	106.7	101.7	Slow growth
Production of foods, including drinks and tobacco	16.34	114.6	105.2	Growth
Textile and dress making production	1.14	107.5	99.7	Stagnation
Production of leather, leather items, and production of shoes	0.27	111.1	102.2	Slow growth
Wood manufacturing and production of wood items	2.02	103.2	100.2	Slow growth
Cellulose – paper production	3.35	84.1	93.8	Decline
Production of coal, petroleum products	17.25	97.8	99.7	Stagnation
Chemical production	7.56	114.2	104.1	Growth
Production of resin and plastic items	2.14	102.3	100.8	Slow growth
Production of other non-metallic mineral products	4.02	102.3	103.6	Growth
Metallurgical production and production of finished metallic items	17.42	126.7	110.6	Growth
Production of machinery and equipment	6.97	100.8	99.6	Stagnation
Production of electric equipment, electronic and optical equipment	6.27	119.1	106.5	Growth
Production of transport vehicles and equipment	6.75	143.9	113.9	Growth
Other productions	2.42	113.5	107.4	Growth
Electric energy, gas and water	13.51	101.0	98.8	Decline
Wholesale trade		109.6	102.4	Slow growth
Retail trade		108.8	103.3	Growth
Cargo turnover		99.3	99.4	Slow decline
Construction		104.1	101.0	Slow decline
Agriculture		101.1	100.6	Stagnation
Paid services provided to households		106.0	102.2	Slow decline

Source: Rosstat, own calculations

After a decline in gas production in 2022–2023, the industry saw a positive trend in Q1 2024 mainly due to attractive prices. Growth in demand from the EU (via the Turkish Stream pipeline and through Ukraine), China (exports in 2024 via the Power of Siberia pipeline are forecasted at 30 bcm, up 7 bcm from 2023) and Uzbekistan, as well as growth in domestic demand (due to continuation of the domestic gasification program).


Growth of the manufacturing industry in January-April 2024, as well as in 2023, was mainly associated with the production of intermediate products for the defense industry and import substitution.¹ Since the beginning of 2024, production of motor vehicles and computers, electronic and optical products demonstrated high growth rates, which is associated with the low base of the previous year and, possibly, the positive effects of production localization programs (which, inter alia, creates a reserve for demand growth in the industries producing components).²

1 A. Boyko, V. Milkin, D. Iljushenkov. Why industrial production grew by 3.5% in the previous year // Vedomosti. 01.02.2024. URL: <https://www.vedomosti.ru/economics/articles/2024/02/01/1017832-pochemu-promishlennoe-proizvodstvo-viroslo>.

2 D. Iljushenkov. What happened to localization of domestic vehicles after withdrawal of foreigners // Vedomosti. 03.09.2023. URL: <https://www.vedomosti.ru/auto/articles/2023/10/03/998383-chto-proizoshlo-s-lokalizatsiei-otechestvennih-avtomobiley>.

Monitoring of Russia's Economic Outlook

In other sectors of the economy (trade due to sale of non-food products, including products of new foreign partners, construction due to restoration of infrastructure and housing construction, including growth of individual housing construction) in January-April 2024 growth of the trend component was observed, except for freight transportation (as in H2 2023 due to limitation of throughput capacity of railroads to the APR countries), agriculture and other paid services to households (due to the high base of the previous year).

According to analysis of dynamics of the production indexes in 2023, it was found that industries focused on external markets have suffered most of all due to imposed sanctions (extraction of oil and gas, production of petroleum products, wood processing), while restrictions in the industries focused on domestic consumption and production of intermediary products for defense industrial industry were not a deterring factor¹. Analysis of the dynamics of trend components of the production indexes in January-April 2024 allows to suggest the industry capacity associated with entering niches in the domestic market by Russian producers followed by withdrawal of foreign producers, has not been fully implemented, which may allow to maintain positive growth rate until the end of the year, if there no any additional economic restrictions. 

1 *Andrey S. Kaukin, Evgeniya M. Miller. Sector 3.2. Dynamics of industrial production by industries // Russian economy in 2023. Trends and prospects. (Edition 45) / [Edited by Aleksey L. Kudrin, Doctor of Economic Sciences, Vladimir A. Mau, Doctor of Economic Sciences, Alexander D. Radygin, Doctor of Economic Sciences, Sergey G. Sinelnikov-Murylev, Doctor of Economic Sciences]; Gaidar Institute. – Moscow: Gaidar Institute Publishing House, 2024. – 456 p.*