

# MONITORING OF RUSSIA'S ECONOMIC OUTLOOK:

## TRENDS AND CHALLENGES OF SOCIO-ECONOMIC DEVELOPMENT

No. 5(171) September 2024

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## Monitoring of Russia's Economic Outlook

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# 1. THE BANK OF RUSSIA RAISED THE KEY RATE AGAIN AND STRENGTHENED THE SIGNAL ON ITS FURTHER DYNAMICS

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*On September 13, the Bank of Russia raised its key rate to 19.0% per annum, noting that additional monetary policy tightening would be required to bring inflation back to the target in 2025. The signal about further focus of monetary policy has become tougher: the regulator admits the possibility of raising the key rate at the next meeting, which with high probability means its growth to 20% at the meeting on October 25. The Bank of Russia noted that annual inflation at the end of 2024 will exceed the forecast range of 6.5–7.0%, and the main reason for this it considers overheated domestic demand, which growth significantly outstrips the possibility of expanding the supply of goods and services. Our revised forecast for annual inflation at end-2024 is 8%. Next year, inflation will slow down due to restrictive monetary policy and will be around 5% per annum in December 2025.*

On September 13, 2024, the Board of Directors of the Bank of Russia at its second consecutive monetary policy meeting decided to increase the key rate by 100 b.p. to 19% per annum. At the beginning of the “week of silence”, most analysts believed that the rate would be kept at 18%, but after the publication of higher-than-expected inflation data for August and early September (in the evening of September 11) many experts revised their forecasts towards a rate increase to 19–20%.<sup>1</sup>

The CBR’s signal on the further focus of monetary policy has become more rigid, which is highly likely will result in a rate hike to 20% at the next meeting on October 25. In its press release, the CBR noted that annual inflation at the end of 2024 is likely to exceed the July forecast range of 6.5–7.0%, and the main reason for increased inflationary pressure remains overheated consumer demand with dynamics exceeding supply capacity.<sup>2</sup> The Bank of Russia has not given up hope of bringing inflation back to the 4% target next year, despite the fact that in its July forecast for the end of 2025 instead of a point forecast of 4.0% it allows inflation to be in the range of 4.0–4.5%, and the forecast for average annual inflation for 2025 has been raised to 4.2–5.8% (after 4.0–4.2% in April). However, the July revision of the key rate path for 2025 towards tightening was more significant (by 400 b.p. to 14–16% at once) than the rise in inflation. This indicates the intention to maintain significantly higher real interest rates in the economy over the next 1.5 years.

It was noted in the press release and during the press conference of the Bank of Russia Governor that fiscal policy is an important factor in rate decisions. Changes in the structure and volume of expenditures and revenues, deficit and

<sup>1</sup> URL: <https://www.interfax.ru/business/981811>

<sup>2</sup> URL: [https://www.cbr.ru/press/pr/?file=13092024\\_133000Key.htm](https://www.cbr.ru/press/pr/?file=13092024_133000Key.htm)

## Monitoring of Russia's Economic Outlook

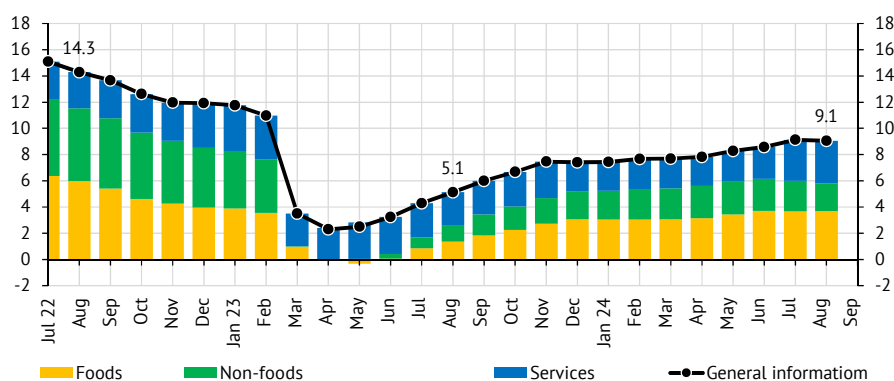


Fig. 1. Contribution of components to annual inflation, p.p.

Source: Rosstat.

speed of fiscal policy normalization have a strong impact on demand and on monetary policy (MP) decisions. The Bank of Russia will take into account the updated budget parameters, which will appear in September, when updating its forecast at the reference meeting in October.<sup>1</sup> In addition to pro-inflationary risks from fiscal policy, the CBR press release noted the growing price pressure due to deteriorating terms of trade, as well as growing inflation expectations of households, companies and professional analysts. There is still a shortage of staff in the labor market, where unemployment is at a historic low of 2.4%, forcing employers to actively raise wages, while high consumer demand allows them to transfer cost increases to the price of finished products.

Meanwhile, the Bank of Russia noted the slowdown in business activity in the Russian economy that started in Q2 and continued in the beginning of Q3. However, according to the Central Bank of Russia, the return of inflation to the target in 2025 will require additional MP tightening.

Inflation over the 12 preceding months amounted to 9.1% in August (Fig. 1), corresponding to July (a slight slowdown by 0.08 p.p. did occur, but when rounded to tenths, the annual inflation rate remains the same as in July). The largest contribution to annual inflation since December 2023 comes from the rise in the costs of food products. After the indexation of tariffs for communal services by 9.9% in July, their contribution to annual inflation began to exceed the contribution of non-food products, despite the fact that the share of the latter in the consumer basket in 2024 is higher: 34% compared to 27.8% for services.

In August, consumer prices increased by 0.2% mom. The main contribution to the August inflation belongs to growth in prices for foodstuffs excluding fruits and vegetables (0.18 p.p.) and non-food products excluding motor fuel (0.12 p.p.); the rise in prices for motor fuel added another 0.06 p.p. to the monthly inflation (Fig. 2). Prices for fruit and vegetables in August fell by 4%, which reduced the August price growth by 0.18 p.p. However, last year horticultural products fell in price by 6% in August, which reduced then monthly inflation by 0.25 p.p. Therefore, seasonally adjusted<sup>2</sup> prices of horticultural products rose by 5.2% mom (the reduction in prices of horticultural products in August corresponding to 4% excluding seasonality in annual terms (seasonally corrected index (sci)) amounts to 8.5%).

1 URL: <https://www.cbr.ru/press/event/?id=20993>

2 Indicators of seasonally smoothed price dynamics of the Bank of Russia were used. URL: [https://www.cbr.ru/Content/Document/File/108632/indicators\\_cpd.xlsx](https://www.cbr.ru/Content/Document/File/108632/indicators_cpd.xlsx)

## 1. The Bank of Russia raised the key rate again

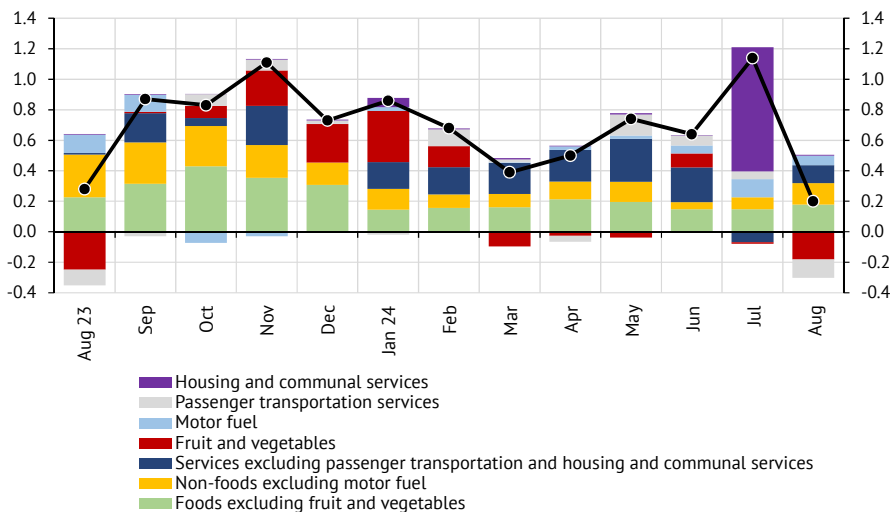


Fig. 2. Contribution of certain components to monthly inflation, p.p.

Source: own calculations.

According to Rosstat, prices for services did not change in August, which is explained by a decrease in prices (by 5.4% mom) for passenger transportation services. Such an unusual result (usually August is the peak of travel demand) can be explained by the fact that Rosstat's August statistics reflect the change in prices for air travel (-13% mom in August) and rail travel (-16.4% mom in August), which will be made in September or in the following months (the statistics takes into account prices a week and a month prior to departure by air, 28 and 7 days prior to rail travel, as well as on the first day of railway ticket sales). Reduction in prices for passenger transportation services reduced August inflation by 0.12 p.p.

The seasonally adjusted annualized consumer inflation rate in August was 7.6% sci (Fig. 3), down from 16.2% sci in July and below the Q2 average of 8.8% sci, but above the Q1 2024 average of 5.9% sci. Among the components of seasonally smoothed inflation, food inflation continued to accelerate in August compared to July (to 15.6% sci), and the average growth in food prices in the summer months reached 14.5% sci. In August, growth of prices for non-food products slowed slightly (to 6.8% sci), where the absolute leader of growth in August (16.9% sci) and in summer months (21.8% sci) were oil products. Such a significant rise in prices for foodstuffs and gasoline, important for households, resulted in growth of inflation expectations of the population from 11.7% in May to 12.9% in August.<sup>1</sup>

The reduction in prices for services in August (by 1.5% sci) was due to the shift in seasonality in passenger transportation services, which has not yet been taken into account in the data smoothing methodology applied by the Bank of Russia. The growth rate of prices for services other than passenger transportation in August is estimated at 6.7% sci.

Operational data for the first 9 days of September (prices rose by 0.1%) indicate the persistence of increased price pressure: according to the estimates of the Ministry of Economic Development of the Russian Federation, by September 9, annual inflation amounted to 8.9%.<sup>2</sup>

1 URL: [https://www.cbr.ru/analytics/dkp/inflationary\\_expectations/Infl\\_exp\\_24-08/](https://www.cbr.ru/analytics/dkp/inflationary_expectations/Infl_exp_24-08/)

2 URL: [https://economy.gov.ru/material/file/d159520d17c9931ed892ac3de9eacc76%20%D0%9E\\_%D1%82%D0%B5%D0%BA%D1%83%D1%89%D0%B5%D0%B8%C-](https://economy.gov.ru/material/file/d159520d17c9931ed892ac3de9eacc76%20%D0%9E_%D1%82%D0%B5%D0%BA%D1%83%D1%89%D0%B5%D0%B8%C-)

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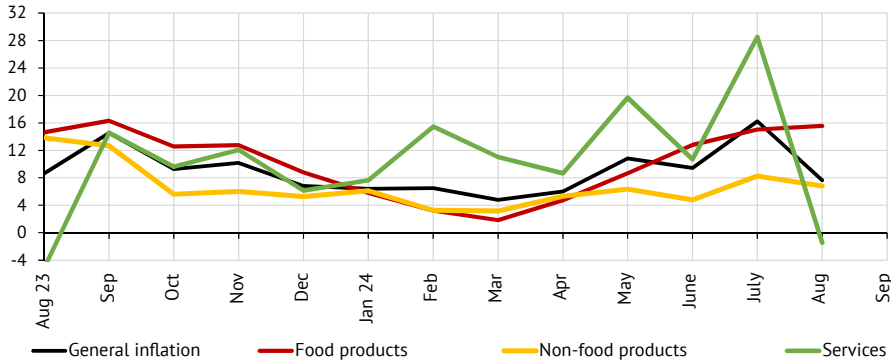


Fig. 3. Dynamics of headline inflation and its main components, % SAAR

Source: Bank of Russia.

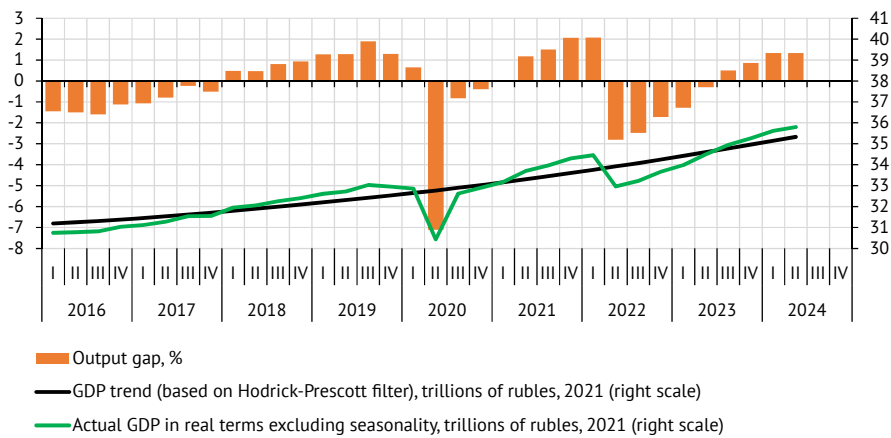


Fig. 4. Estimates of the output gap

Source: Rosstat, own calculations

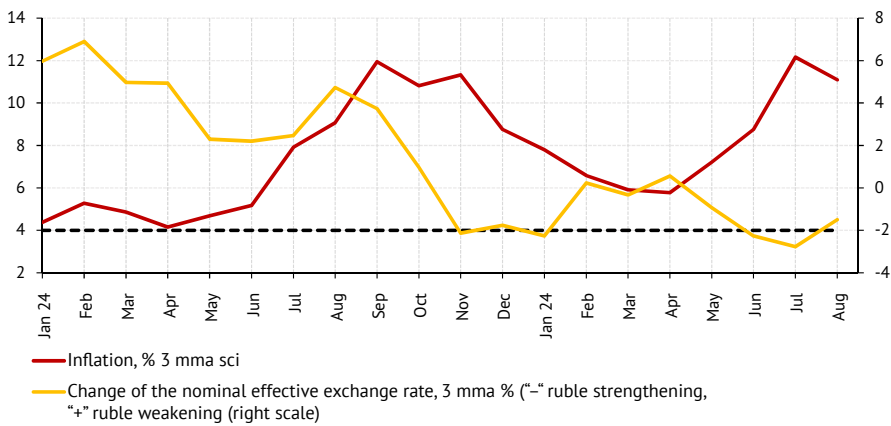


Fig. 5. Inflation and dynamics of nominal effective ruble exchange rate, mom %


Source: Rosstat, CBR.

The consumer demand remains the key factor of increased inflationary pressure. The 4.1% growth of real GDP in Q2 2024 left unchanged the positive output gap (1.3%) observed in Q1 2024 (Fig. 4)

C%86\_%D1%86%D0%B5%D0%BD%D0%BE%D0%B2%D0%BE%D0%B8CC%86\_%D1%81%D0%B8D1%82%D1%83%D0%B0%D1%86%D0%B8%D0%B8\_11\_%D1%81%D0%B5%D0%B-D%D1%82%D1%8F%D0%B1%D1%80%D1%8F\_2024\_%D0%B3%D0%BE%D0%B4%D0%B0.pdf

## 1. The Bank of Russia raised the key rate again

Despite tight MP and 7.2% ruble appreciation in May-August 2024 (*Fig. 5*), the disinflation process that took place in Q1 2024 stopped: from April to August, the three-month moving average of YoY inflation rose from 5.8% to 11.1%.

According to our estimates, prices in September will increase by 0.5–0.6% mom, which will correspond to annual inflation in the range of 8.6–8.8%. In Q4 2024, annual and current inflation will continue to slow down with annual inflation falling to 8% by December 2024. The risks of slowdown in annual inflation are still the following: the dynamics of prices of fruit and vegetable products, which will depend on the current year's harvest coming to the market, the increase in the utilization fee from October 1, 2024, which will result in the rise in car prices, as well as the dynamics of the ruble exchange rate in response to unfavorable changes in terms of trade. In 2025, consumer and investment demand is expected to cool down due to tight monetary conditions and annual inflation is expected to slow down to 5% YoY by December. 

## 2. BASED ON THE RESULTS OF JANUARY-AUGUST 2024, EXECUTION OF THE FEDERAL BUDGET GOES AS PLANNED

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*The federal budget keeps demonstrating an uniform and synchronized implementation of the planned volumes of revenues and expenditures. A possible decline in oil prices and stabilization of the ruble exchange rate at a higher level than in H1 2024 may affect the revenues situation until the end of the year. By our estimates, at the year-end the federal budget may have a shortfall of about Rb1.3 trillion worth of expected revenues and the deficit can amount to Rb4 trillion against Rb1.6 trillion as provided for by the federal budget law for 2024. However, with the current estimate of GDP for 2024 taken into account, this size of the deficit does not put at risk the macroeconomic stability and will amount to slightly more than 2% of GDP.*

In January-August 2024, federal budget revenues amounted to Rb23.0 trillion, or about 20.0% of GDP, an increase of Rb5.5 trillion in 2023 prices as compared to the relevant period of the previous year, or 1.3 p.p. of GDP. The level of cash execution improved as well: 65.7% of the expected annual budget revenues against 58.3% a year earlier (Table 1). In other words, there is a uniform implementation of the planned budget parameters in terms of revenues: after eight months (that is, 2/3 of the fiscal year), exactly two-thirds of the planned volume of revenues of the year have been received.

Table 1  
The main parameters of the federal budget

	January-August 2023			January-August 2024			Change in January-August 2024 on relevant period of 2023		
	billion rubles	% GDP	Cash execution, %	billion rubles	% GDP	Cash execution, %	billion rubles	% GDP	In 2023 prices
<b>Revenues</b>	<b>16 991</b>	<b>18.7</b>	<b>58.3</b>	<b>23 029</b>	<b>20.0</b>	<b>65.7</b>	<b>6 038</b>	<b>1.3</b>	<b>5 533</b>
including:									
- oil and gas revenues	4 836	5.3	54.8	7 556	6.6	68.8	2 720	1.3	2 492
- non-oil and gas revenues, including:	12 155	13.4	59.9	15 473	13.4	64.3	3 318	0.0	3 040
- profit tax and personal income tax	1 256	1.4	61.0	1 571	1.4	65.1	315	0.0	289
- VAT on goods sold in RF	4 456	4.9	62.0	5 503	4.8	68.3	1 047	-0.1	959
- VAT on goods imported to RF	2 824	3.1	63.7	2 959	2.5	59.7	135	-0.6	124
- Other revenues	3 619	4.0	54.7	5 440	4.7	62.9	1 821	0.7	1 669
<b>Expenditures</b>	<b>19 119</b>	<b>21.0</b>	<b>59.0</b>	<b>23 360</b>	<b>20.3</b>	<b>62.8</b>	<b>4 241</b>	<b>-0.7</b>	<b>3 886</b>
<b>Budget surplus (deficit)</b>	<b>-2 128</b>	<b>-2.3</b>	<b>65.9</b>	<b>-331</b>	<b>-0.3</b>	<b>15.6</b>	<b>1 797</b>	<b>2.0</b>	<b>1 647</b>
Non-oil and gas deficit	-6 964	-7.6	57.8	-7 887	-6.9	60.2	-923	0.7	-846
GDP (in current prices), billion rubles.	91 000			115 000					

Source: The RF Ministry of Finance, the Federal Treasury and Rosstat, GDP for January-August of 2024 – own estimate, inflation – according to the data of the RF Central Bank, own calculations.



## 2. Based on the results of January-August 2024

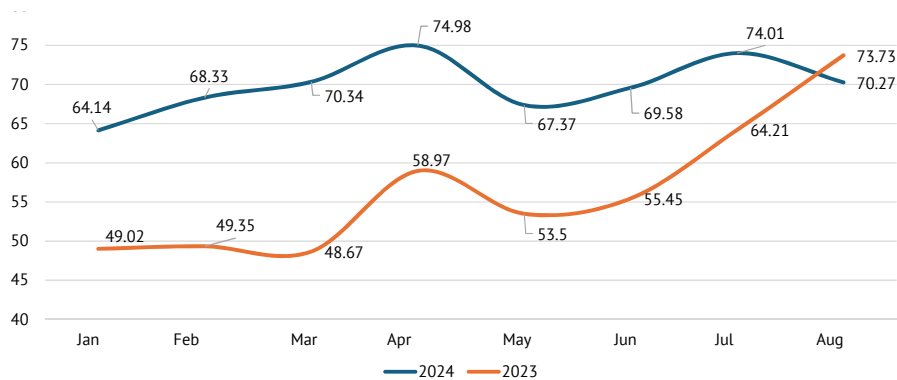


Fig. 1. Average price for Urals oil, USD per barrel

Source: The RF Ministry of Economic Development.

In January-August 2024, oil and gas revenues increased by Rb2.7 trillion in nominal terms, or by 1.3 p.p. of GDP as compared to the relevant period of 2023. As a result, their share in the overall federal budget revenues in January-August 2024 amounted to 32.8% against 28.5% in the relevant period of the previous year. Such dynamics was justified primarily by higher prices for Urals oil (Fig. 1), as well as a weaker exchange rate of the ruble against the US dollar than it was provided for by the budget law.

In terms of oil and gas revenues, in January-August 2024 the following changes are observed in their dynamics and pattern as compared to the same period of 2023 (Table 2):

- an increase in the share of the mineral extraction tax on oil in the overall volume of oil and gas revenues to 91.3% against 84.6%, with cash execution at 68.7% against 52.6%;
- a decrease of Rb300 bn in revenues from export duties, both in nominal terms and in real prices, was expected and consistent with the completion of the tax maneuver, providing for a refusal to collect export duties on hydrocarbons and petrochemicals;
- an increase of Rb1.0 trillion in nominal terms, or 0.5 p.p. of GDP in the volume of refundable (negative) excise taxes which are taken into account as part of oil and gas revenues;
- growth of 0.6 p.p. of GDP in revenues from the personal income tax with accelerated cash execution (80.2%) against 54.2% a year earlier.

Taking into account the depreciation of oil prices on the global market in recent months and the current exchange rate, it can be assumed that at the year-end the volume of oil and gas revenues is not going to exceed Rb11 trillion, that is, a shortfall of at least Rb0.5 trillion for this income category.

Despite an increase of Rb3.3 trillion in nominal terms, non-oil and gas tax revenues in contrast to revenues from hydrocarbons, in shares of GDP remained at last year's level. The main growth driver of non-oil and gas revenues is still the domestic VAT, the cash execution of which is carried out at a faster rate (68.3%) relative to the overall dynamics of non-oil and gas revenues (64.3%). Such dynamics is justified by an increase in retail trade turnover (about 9% according to Rosstat). Revenues from VAT on imported goods for the periods under review decreased by (-)0.6 p.p. of GDP, but increased by Rb135 bn in nominal terms.

As a year before, there is an increase in revenues from other income. Taking into account the fact that their structure is not disclosed in detail in the operational

Table 2

## Oil and gas revenues of the federal budget

	January-August 2023			January-August 2024			Change in January-August 2024 on relevant period of 2023		
	Billion rubles	% GDP	Cash execution, %	Billion rubles	% GDP	Cash execution, %	Billion rubles	% GDP	In 2023 prices
<b>Oil and gas revenues including:</b>	<b>4 836</b>	<b>5.3</b>	<b>54.8</b>	<b>7 556</b>	<b>6.6</b>	<b>68.8</b>	<b>2 720</b>	<b>1.3</b>	<b>2 492</b>
Mineral extraction tax, overall, including:	5 126	5.6	54.1	8 295	7.2	67.9	3 169	1.6	2 904
- oil	4 093	4.5	52.6	6 896	6.0	68.7	2 803	1.5	2 568
- gas and gas condensate	1 033	1.1	61.5	1 399	1.2	64.3	366	0.1	335
Export duties	534	0.5	54.6	221	0.2	43.1	-313	-0.3	-287
- oil and petrochemicals	220	0.2	53.5	-10.3	0.0	89.3	-230.3	-0.2	-211
- gas	314	0.3	55.5	231	0.2	44.1	-83	-0.1	-76
Excise tax on petroleum raw materials, taking into account K dump, inv, vrk	-1 526	-1.7	52.4	-2 514	-2.2	68.2	-988	-0.5	-905
Excess-Profit tax	701	0.8	54.2	1 554	1.4	80.2	853	0.6	782

Source: The RF Ministry of Finance, The Federal Treasury, Rosstat, own calculations.

reporting, according to annual plans the main items of income classified as other income include the disposal fee (planned in the amount of Rb967 bn in 2024), dividends (Rb751 bn), income from balances in federal budget accounts and placement thereof, except for funds of the National Welfare Fund (Rb831 bn), export customs duties, with the exception of oil and gas revenues (Rb715 bn) and other regular income (Rb798 bn). Taking into account the current level of their cash execution (62.9%), as well as the growing key rate, we can expect the achievement of revenues from other income as planned for 2024.

By our estimates, on the back of a “slowdown” in the dynamics of revenues from main non-oil and gas taxes in H2 2024 the volume of non-oil and gas revenues at the year-end will amount to a little more than Rb22.7 trillion. Consequently, as of the end of the year the federal budget can be executed on the revenue side in the amount of Rb33.7 trillion instead of the planned Rb35 trillion.

In January-August 2024, over Rb23.3 trillion was spent, an increase of Rb4.2 trillion on the previous year. One can also note a higher level of cash execution: 62.9% against 59.0%, respectively. At the same time, as a share of GDP, expenses decreased by (-)0.7 p.p. of GDP.


In January-August 2024, the federal budget's program expenditures were equal to Rb12.5 trillion, or about 53.7% of the total budget allocations. Cash execution of the budget on programs (44.8%) lags somewhat behind the overall dynamics of the expenditure side, however, for the most resource-intensive programs “Social Support for Citizens” and “The Development of Federal Relations and Creation of Conditions for Effective and Responsible Management of Regional and Municipal Finances”, funds are being disbursed at an accelerated rate of 68.5% and 74.0% of the approved annual expenses or in the amount of Rb2.2 trillion and Rb1.7 trillion, respectively. Overall, in January-August 2024 they allocated Rb6.4 trillion, or 27.3% of the total expenses for social security, support and other payments to citizens from the federal budget and Rb7.3 trillion or 31.3% of the total expenditures for subsidies to budgetary institutions and organizations.

## 2. Based on the results of January-August 2024

According to the Electronic Budget website, the planned annual expenditures increased to Rb38 trillion instead of the original Rb36.6 trillion. Amid a potential slowdown of federal budget revenues, growing expenses can increase significantly the size of the annual deficit up to Rb4.3 trillion. In the meantime, based on the results of January-August 2024, the budget deficit, on the contrary, decreased substantially to Rb0.3 trillion.

The volume of funds allocated to repay the budget deficit through domestic borrowings amounted to Rb1.1 trillion in January-July 2024.<sup>1</sup> As throughout the previous year, in January-July 2024 there were no external borrowings, and Rb16.5 bn were allocated in January-July to repay previously assumed obligations with a planned annual volume of Rb33.4 bn. Funds from the National Welfare Fund were not used to pay off the budget deficit.

In January-July 2024<sup>2</sup>, the volume of the state internal debt picked up by Rb421 bn to Rb21.2 trillion with a planned annual volume of Rb26.7 trillion; the volume of external debt remains at the level of \$53.5 bn.

As regards internal borrowings, the actual placement volumes lag significantly behind the plan. In Q1 2024, the fund-raising dynamics did not cause any concern: the actual volume of placement was equal to Rb827 bn, or 103.3% of the planned volume. In Q2 2024, OFZs were placed for half the amount planned (Rb506 bn against Rb1,000 bn, respectively). As of the beginning of September, out of the new debt's quarterly volume of Rb1,500 bn, OFZs were placed in the amount of Rb471 billion. On the one hand, with the prevailing key rate one has to borrow at a high yield and this leads inevitably to an increase in interest payments over a long-time horizon. But in case of a completely balanced budget (a low current deficit), there is no urgent need for the RF Ministry of Finance to make borrowings. On the other hand, the key rate will remain at a high level until the end of the year and the gap between expenditures and revenues is likely to widen. An increase in the federal budget deficit will require an accelerated increase in the volume of borrowings, regardless of the prevailing unfavorable situation in the domestic debt market. In this regard, it is more advantageous for the RF Ministry of Finance to abandon the placement of bonds with a constant coupon income and increase the share of debt with variable coupon payments (OFZ-PK), but the latter, in turn, is less attractive to investors. 

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1 The latest available data. Source: The RF Ministry of Finance.

2 Ibid.

### 3. REGIONAL BUDGETS IN H1 2024: DECREASE IN DEBT BURDEN

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

*In Q2 2024, the revenues growth rates of consolidated regional budgets increased after a relatively weak performance of Q1 and made it possible in H1 2024 to reach approximately the level of the consumer price index and exceed the growth rates of budget expenditures. Owing to steady growth in regional budgets' tax and non-tax revenues, as well as a slowdown in the public debt growth rates, the level of regions' debt burden kept declining.*

#### **Revenues**

Based on results of H1 2024, the overall revenues of consolidated budgets of the subjects of the Russian Federation were equal to Rb11.1 trillion, an increase of 7.7% as compared to the relevant period of 2023. The transition of taxpayers from January 1, 2023, to paying taxes through a single tax account (STA), which situation led to a shift in the timing of crediting taxes to the budget to a later period (including the next month), still had a bearing on revenues dynamics.

In H1 2024, consolidated regional budgets' tax revenues increased by 9.2%, non-tax revenues grew by 52.2% and non-repayable receipts from other budgets decreased by 10.9%. These indicators look better than in Q1 2024, which fact can be explained both by a certain incomparability of the data with the relevant period of 2023 and better performance of regional budget revenues in Q2 2024. In particular, in Q2 an overall increase in consolidated regional budget revenues amounted to 11.5%, tax revenues and non-tax revenues grew by 12.3% and 62.4%, respectively, and non-repayable receipts from other budgets decreased by 4.0%. Thus, the downward trend in the growth rates of regional budget revenues seen in Q4 2023 and Q1 2024 was broken.

Tax revenues growth of regions' consolidated budgets in H1 2024 relative to H1 2023 was mainly driven by the personal income tax (+30.9%), the tax levied when applying the simplified taxation system (+42.2%) and the personal property tax (+113.7%). Such impressive dynamics of these taxes can be explained, in particular, by a rebound from rather low growth rates in H1 2023 (the personal income tax: +5.0%, the tax levied when applying the simplified taxation system: +8.2%, the personal property tax: -46.6%) caused by the above factors. Excises increased by 6.0%. The growth rates of other main taxes were in the negative zone: the corporate income tax and the corporate property tax were equal to -9.6% and -3.6%, respectively. In the latter case, this can also be explained by a rebound (but in the other direction) after an increase of 21.0% based on the results of H1 2023.

### 3. Regional budgets in H1 2024: decrease in debt burden

Impressive growth in non-tax revenues (+52.2%) was feasible owing to a 2.7-fold increase in revenues from the placement of budget funds.

The dynamics of non-repayable receipts from other budgets (-10.9%) turned out to be multidirectional. Thus, the volume of subsidies to equalize the budgetary provision of the subjects of the Russian Federation increased by 16.5% on the back of inclusion of new regions in the general equalization system. Accordingly, instead of subsidies to support measures to ensure budget balance (the allocated volume of which decreased by 91.4%), regions started to receive equalizing subsidies.

Subsidies and subventions increased by 5.8% and 6.1%, respectively, while other intergovernmental fiscal transfers decreased by 43.1%.

Based on the results of H1 2024, positive growth rates of consolidated budget revenues were observed in 65 subjects of the Russian Federation with the highest ones in the Nenets Autonomous Okrug (+27.1%, the main growth drivers were the corporate income tax, as well as income in terms of a share in profitable state products when implementing the production sharing agreement for the Kharyaga field project), the Udmurt Republic (+31.8%, the corporate income tax, the personal income tax, the tax levied in connection with application of a simplified taxation system and subsidies), the Magadan Region (+24, 0%, the profit tax, the personal income tax, the mineral extraction tax and subsidies), Moscow (+22.2%, the personal income tax, the tax levied when applying the simplified taxation system and income from the placement of budget funds) and the Kostroma Region (+21.2%, the profit tax, the personal income tax and subsidies).

Over the same period, the highest rates of decline in consolidated budgets' revenues were observed in the Lugansk People's Republic (-25.0%, the main reduction took place in subsidies), the Zaporozhye Region (-25.0%, subsidies), the city of Sevastopol (-19.3%, subventions and subsidies), the Donetsk People's Republic (-17.5%, subsidies) and the Kemerovo Region-Kuzbas (-16.4%, corporate income tax).

In H1 2024, the main source of revenues of the new subjects of the Russian Federation was still intergovernmental fiscal transfers from other budgets (62.8% of the overall consolidated budget revenues), including mainly subsidies for equalizing the budget provision (28.8% of the overall consolidated budget revenues), which replaced grants for budget balance, other types of subventions (17.8%), as well as subsidies (14.6%). At the same time, the share of tax and non-tax revenues is growing (35.7%, including the personal income tax (26.1%) and the corporate income tax (4.4%)); owing to the low base effect, they increased more than 2.1-fold. Based on results of H1 2023, the share of tax and non-tax revenues in the consolidated budgets of the new subjects of the Russian Federation was equal to 13.4%.

The speed-up of the growth rates of regional budget revenues observed in Q2 2024 primarily on the back of growth in tax and non-tax revenues (+15.4% on Q2 2023) provides ground for cautious optimism. Amid a record low level of unemployment in the Russian economy and, consequently, a shortage of labor resources, employers in their struggle for workers have to increase wages and, along with it, the entire wage fund, thus stimulating further growth in personal income tax revenues. So, the personal income tax, which is the main tax source for regional and local budgets, is expected to remain the main driver of their growth till the end of this year.

### Expenditures

Based on results of H1 2024, regions' consolidated budget expenditures were equal to Rb10.3 trillion, an increase of 7.3% as compared to H1 2023, which is somewhat lower than the inflation rate<sup>1</sup> and the growth rates of budget revenues (+7.7%).

The growth leaders were expenditures on national security and law enforcement (+33.4%), culture and cinematography (+23.1%), as well as social services (+17.8%). In turn, spendings decreased on national defense (-66.7%), environmental protection (-30.6%), family and childhood protection (-26.1%), pensions (-23.3%) and agriculture and fishing (-15.4%).

In H1 2024, consolidated budget expenditures increased in 67 subjects of the Russian Federation with growth exceeding the rate of inflation in 40 of them over the same period. The leaders in budget expenditures growth are the Tyumen Region (+23.8%, the largest increase in such lines as the national economy, social policy, as well as culture and cinematography), the Orenburg Region (+23.2%, transport, social policy, housing and public utilities), the Maritime Territory (+23.1%, federal spendings, national security and law enforcement and national economy), St. Petersburg (+21.7%, transport and healthcare) and the Astrakhan Region (+21.0%, transport, road facilities and housing and public utilities).

Budget expenditures decreased most substantially in the Lugansk People's Republic (-33.6%), the Zaporozhye Region (-21.2%), the city of Sevastopol (-22.2%), the Donetsk People's Republic (-19.9%) and the Kursk Region (-16.1%).

In H1 2024, the pattern of expenditures of the new subjects of the Russian Federation differed somewhat from that of other regions by a smaller share of expenditures on education (23.3% against 27.4%) and a larger share of expenditures on national issues (9.7% against 6.4%) and social policy (24.6% against 20.2%). If we evaluate the difference in the pattern of budget expenditures of the groups of RF subjects under review as the sum of the absolute values of deviations in the specific weights of budget expenditures across the sections of the functional classification, it decreased 3.6 times in H1 2024 on H1 2023. It can be stated that the differences in the pattern of expenditures of the new regions and all other regions have become insignificant and the new subjects of the Russian Federation have generally integrated into the general system of delimitation of authorities between the levels of government in Russia.

### Balancing regional budget and public debt

At the end of H1 2024, a consolidated budget surplus was observed in 58 subjects of the Russian Federation with its overall volume being equal to Rb855.6 bn (in H1 2023 the surplus was equal to Rb756.1 bn). Among the new regions, consolidated budget was executed with a deficit only in the Kherson Region.

As of July 1, 2024, regions' public debt amounted to Rb3.1 trillion, an increase of 1.0% over 12 months.<sup>2</sup> Despite a slight increase in the debt volume, owing to higher growth rates of regions' tax and non-tax revenues over 12 months the level of regions' debt burden<sup>3</sup> declined to 18.8% as compared to 21.9% as of July 1, 2023, remaining at the minimum and safe level over the past decade (*Fig. 1*).

1 According to Rosstat's data, the consumer price index was equal to 107.93% in H1 2024 on H1 2023.

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

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

### 3. Regional budgets in H1 2024: decrease in debt burden

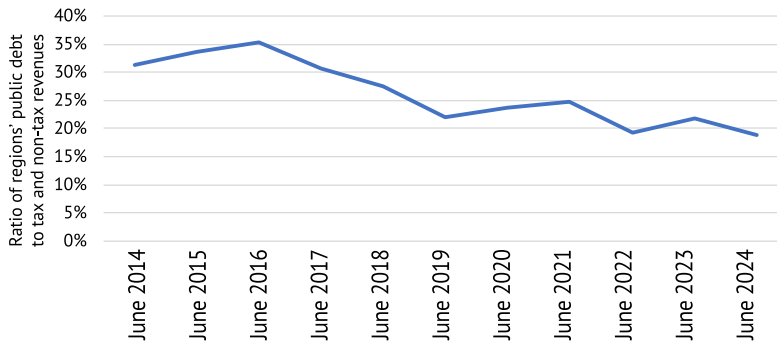


Fig. 1. Debt burden of the subjects of the Russian Federation in 2014–2024, %

Source: Own calculations based on the data of the Ministry of Finance of the Russian Federation and the Federal Treasury

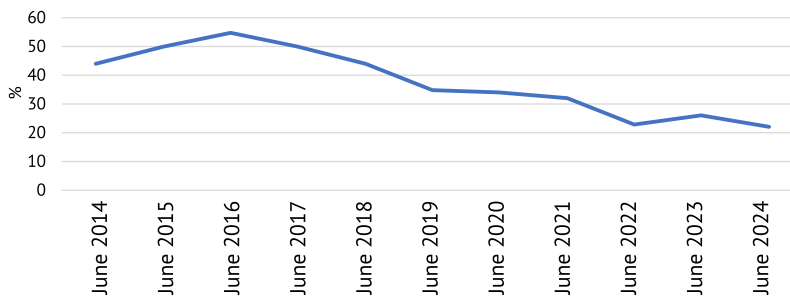


Fig. 2. The number of subjects of the Russian Federation with the debt burden level of over 50% in 2014–2024

Source: Own calculations based on the data of the Ministry of Finance of the Russian Federation and the Federal Treasury

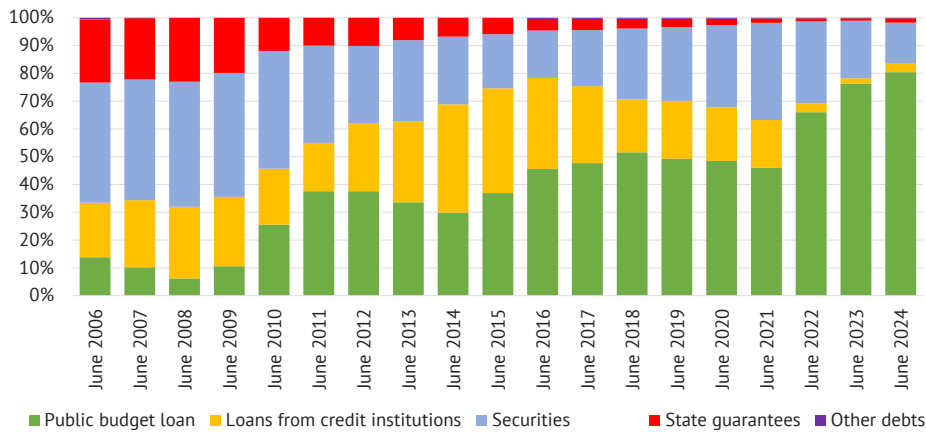


Fig. 3. The structure of public debt of subjects of the Russian Federation as of July 1 in 2006–2024, % of total

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

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Over the past 12 months, the number of regions with a debt burden of over 50% has decreased from 26 regions to 22 regions and there is no threat to the stability of regional budgets (Fig. 2).

There were no subjects of the Russian Federation with a debt burden of over 100% of the volume of tax and non-tax revenues of the regional budget as of July 1, 2024.


The highest debt burden is observed in the Republic of Khakassia (the ratio of the volume of public debt to the volume of tax and non-tax revenues is equal

to 86.2%), the Republic of Mordovia (84.3%), the Arkhangelsk Region (83.3%), the Jewish Autonomous Region (74.9 %) and the Chechen Republic (73.5%).

Overall, from July 2023 to June 2024 public debt increased in 62 subjects of the Russian Federation and the debt burden, in 34 subjects.

In the structure of regions' public debt, the share of loans from credit institutions in the volume of debt obligations of the subjects of the Russian Federation as of July 1, 2024 remains near the historical minimum level (3.3%). The share of government securities continued to decline (14.5%) and the share of budget loans to regions from the federal budget over 12 months picked up from 76.3% to 80.4% (*Fig. 3*) primarily owing to infrastructure budget loans. The shares of government guarantees and other debt obligations kept balancing at near-zero levels of 1.6% and 0.2%, respectively.

Thus, though public debt has increased slightly, the debt sustainability of regions remains at a high level owing to higher growth rates of tax and non-tax revenues of regional budgets.

Until the end of 2024, regions' debt burden dynamics will be defined by the dynamics of the total volume of their public debt, which in turn will depend on the dynamics of provision of new volumes of infrastructure budget loans and the process of writing off a portion of budget loans (except for infrastructure budget loans), as well as the dynamics of regional budgets' tax and non-tax revenues. In general, a further reduction in regions' debt burden is expected. 



## 4. RUSSIAN FOREIGN TRADE IN H1 2024: END OF THE REFOCUSING PHASE

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*In H1 2024, Russian exports amounted to \$207.1 bn (-0.4% vs. H1 2023). The share of fuel and energy products in Russian exports remained at 63%. The share of neutral markets hit a record 87% (+8.8 p.p.). Aluminum supplies to China increased (+29%), while coal supplies dropped (-15%). The discount to the price of Russian oil on the Chinese market remains at around zero.*

*Russian imports fell to \$130.4 bn (-8.1%). Supplies from China markedly replaced European goods in the group of motor vehicles, mechanical devices, plastics, medical equipment. Significant supplies from the EU of pharmaceuticals, perfumes, cosmetics and wines remain. Shipments from China recovered by July after a significant decline in March due to an increased enforcement of secondary sanctions.*

### **Russian turnover dynamic**

The value volumes of exports and imports in the first half of 2024 are near the values of pre-crisis 2021.

In value terms, **exports** in H1 2024 amounted to \$207.1 bn, remaining at the level of the previous year (-0.4%) (Fig. 1). The short-term dynamic of Russian exports is still determined by the price situation on the global energy markets. This explains the higher performance in Q1 (+8% vs. the corresponding period of 2023) and a slight decline in Q2 (-8%). The share of fuel and energy products in exports in January-June 2024 increased to 63% from 61% in the previous year.<sup>1</sup>

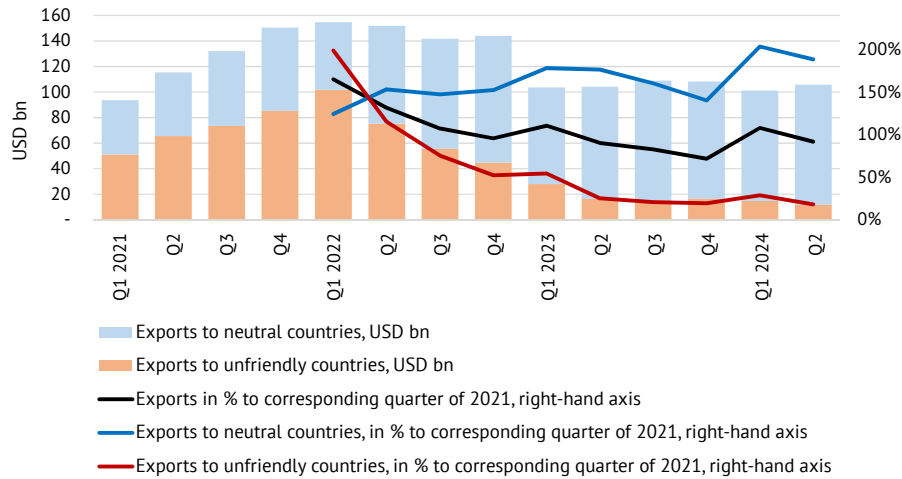
The reorientation of Russian exports continued: a significant reduction of supplies to unfriendly countries (-40% by H1 2023) was fully offset by the growth of Russian exports to the markets of neutral countries (+10%). As a result, the share of the markets of unfriendly countries shrank to 13% in H1 2024 (-8.8 p.p.), although previously they accounted for about 60% of Russian exports. A probable further decline in supplies to these markets will not have a significant impact on the total volume of Russian exports. Compared to 2021, the volume of supplies to the markets of unfriendly countries decreased by 4.7-fold, which was offset by a 2.0-fold increase in supplies to neutral countries.

**Imports** in H1 2024 fell to \$130.4 bn (-8.1% to H1 2023), dropping slightly below the pre-crisis 2021 values (\$136.6 bn) (Fig. 2). Following the collapse in imports in H1 2022, there was a recovery lasting three quarters. In Q1 2023, imports reached 112% of the Q1 2021 level due to the pent-up demand and a relatively strong ruble exchange rate. Since Q2 2023 import volumes did not exceed the 2021 level. Considering the accumulated inflation of international trade in 2023 to 2021, which according to the WTO estimates amounted to 6%,<sup>2</sup> the value volumes stagnation indicates a reduction in physical volumes of imports relative to the pre-crisis level.

<sup>1</sup> The share of Mineral products group (25-27) in Russian exports is taken.

<sup>2</sup> WTO Stats: Merchandise trade - indices and prices <https://stats.wto.org/>

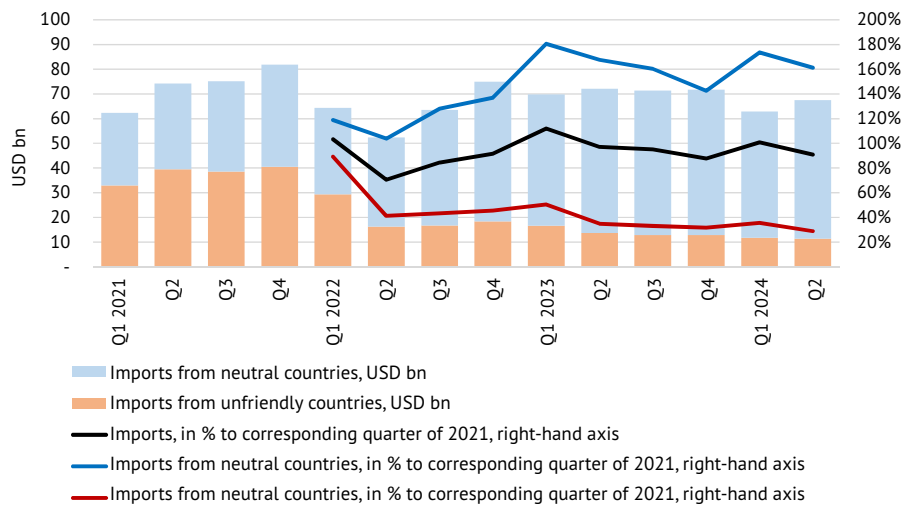
## Monitoring of Russia's Economic Outlook



**Note.** Since 2022, the given authors' estimates are based on imports data from Russia of major unfriendly countries and aggregate exports according to the Federal Customs Service and the Bank of Russia.

Fig. 1. Export dynamic in 2021–2024

Sources: Own calculations on data from FCS, Bank of Russia, Eurostat, COMTRADE.



**Note.** Since 2022, the given authors' estimates are based on exports data to Russia of major unfriendly countries and aggregate imports values according to the Federal Customs Service and the Bank of Russia.

Fig. 2. Exports dynamic in 2021–2024

Sources: Own calculations based on data from FCS, Bank of Russia, Eurostat, COMTRADE.

The reorientation of imports has largely been completed. Estimates based on export data from the main unfriendly countries indicate that their share in Russian imports has fallen by around 2-fold: from 50–55% in 2019–2021 to 17–19% in the last five quarters. It should be noted that the estimate of current value volumes may be understated for two reasons: the data on exports from unfriendly countries do not take into account the growth in the value of Russian imports due to the increasing complexity of logistics, and also do not include supplies made through third countries intermediaries.

### Substitution of European goods by shipments from China

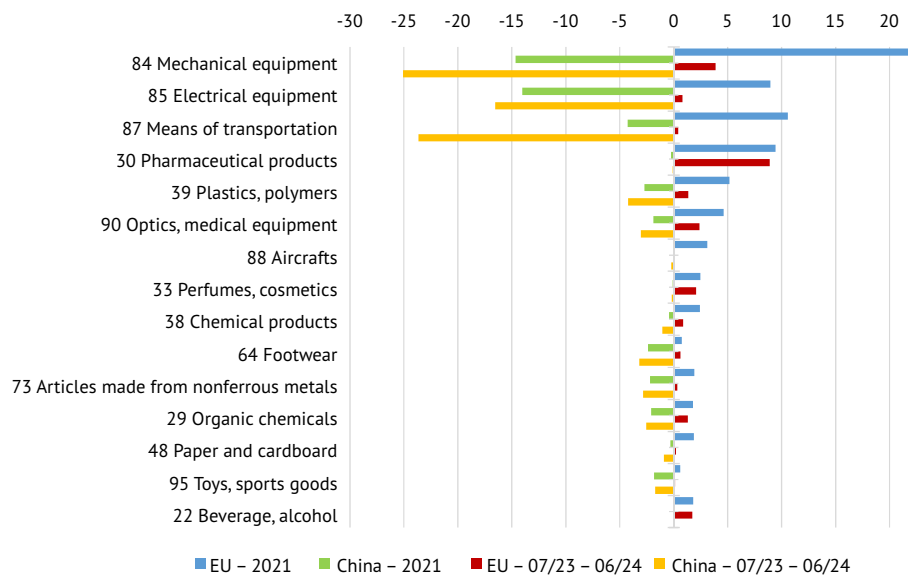
China has become the main source of substitution of falling imports from unfriendly countries, primarily the EU, which was the largest supplier to the

## 4. Russian foreign trade in H1 2024: end of the refocusing phase

Russian market. At the same time, the degree of substitution (reorientation) by Chinese goods of European goods is heterogeneous by sectors (*Fig. 3*). The multiple growth of supplies of transportation vehicles from China doubled the drop in car imports from the EU. The growth of supplies from China in July 2023 – June 2024 amounted to \$23.6 bn, exceeding the volume of 2021 by \$19.4 bn over these 12 months. This growth is due to the pent-up demand on the back of to low values of total imports in 2022, as well as to the decline in car production in Russia owing to problems with the supply of imported components.

In most major commodity groups, there was a partial compensation of the reduction of supplies from the EU by imports from China. In the mechanical equipment category, the increase in shipments from China amounted to \$10.4 bn (from \$14.7 bn to \$25.1 bn), which accounts for more than 50% of the decrease in imports from the EU in July 2023 – June 2024 relative to 2021 levels. In the optics and medical equipment category, the increase in shipments from China by \$1.1 billion (from \$1.9 bn to \$3.0 bn) covered about half of the decrease in imports from the EU. Similar data in the group plastics and polymers: the increase in supplies from China by \$1.5 bn (from \$2.7 bn to \$4.2 bn) offset around 40% of the decrease in imports from the EU. In the ferrous metal products group, a \$0.6 bn increase in shipments from China (from \$2.2 bn to \$2.8 bn) also offset about 40% of the decrease in imports from the EU.

In several commodity groups, there was no significant growth (in absolute terms) in imports. Imports from China of aircraft and their parts increased only by \$208 mn, perfumes and cosmetics category – by \$77 mn, beverages and alcohol category – by \$45 mn, and pharmaceutical products – decreased by \$147 mn. Apart from aircraft, supplies of European goods from these groups amounted to 85–95% of the level of 2021. In addition, in these categories, supplies from China remain many times less than supplies from the EU. Consequently, the Russian market continues to depend on European pharmaceuticals, perfumes, cosmetics and beverages (wines).



*Fig. 3. Supplies dynamic of the largest commodity groups from EU and China to Russia in 07/23 – 06/24 vs. 2021*

Sources: Own calculations on data released by General Administration of Customs of China and Eurostat.

## Shipments to China

The booming growth of exports to China on the back of the reorientation of oil and coal supplies from the markets of unfriendly countries has come to an end.

In the first 7 months of 2024, China's imports of Russian **crude oil** continued to grow, reaching \$37.34 bn (+14.5% vs. the same period of 2023) at a total volume of 62.58 mn tons (+3.2%). The share of Russian oil in the Chinese market increased to 19.3% (+1.1 p.p.). China's import of Russian light **distillates** amounted to \$1.39 bn (+54%) at the volume of 1.99 mn tons (+29.2%), which allowed to increase the share in the Chinese import to 27.4% (+6.5 p.p.). Shipments of heavy distillates remained at the same level: \$3.44 bn (+3.6%) and 6.56 mn tons (-4.1%), but their share in Chinese imports slightly decreased to 27.9% (-3.3 p.p.).

Imports of Russian **coal** decreased to \$6.19 bn (-33.8%) with exports falling to 50.9 mn tons (-15.2%), and its share in Chinese imports in volume terms amounted to 26.5%, having lost 10.0 p.p. over the year.

Imports of liquefied **natural gas** from Russia decreased to \$2.54 bn (-16.7%) at a volume of 4.42 mn tons (-3.3%), which led to a decrease in the Chinese market share to 6.7% (-1.0 p.p.). **Pipeline gas** supplies from Russia continued to grow, reaching \$4.69 bn (+19.0% vs. the same period of 2023).

Due to the de facto ban on **aluminum** exports to the markets of major unfriendly countries, aluminum supplies to the Chinese market soared – up to 720,000 tons (+28.6%) and \$2.02 bn (+54.0%), while its share in Chinese imports of this metal amounted to 22.4% (+1.8 p.p.). **Nickel** shipments amounted to 24,000 tons (+6.9%), but the value volumes decreased to \$373 mn (-35.5%). Shipments of **ferrous metals** stagnated, amounting to 0.62 mn tons (+0.1%) and \$497 mn (+5.3%). The share of ferrous metals from Russia in the Chinese market remained at the insignificant level of 2.0% (+0.2 p.p.). **Copper** shipments also showed near-zero growth – to 169,000 tons (+0.3%) and \$1.50 bn (+7.1%), with the share of Russian copper decreasing to 3.7% (-0.3 p.p.).

Imports of **timber** and wood products from Russia remained stable at 7.90 mn tons (-3.5%) and \$3.13 bn (-4.7%), with the share remaining at 10.7%. Shipments of **chemical products** to China increased to \$2.81 bn (+29.5%) with the share growing to 1.9% (+0.5 p.p.).

## Discounts on Russian crude oil

Discounts to the price of Russian oil to China were offered as early as March 2022 (Fig. 4). In the summer of 2022, the discount hit 16%, but by the end of

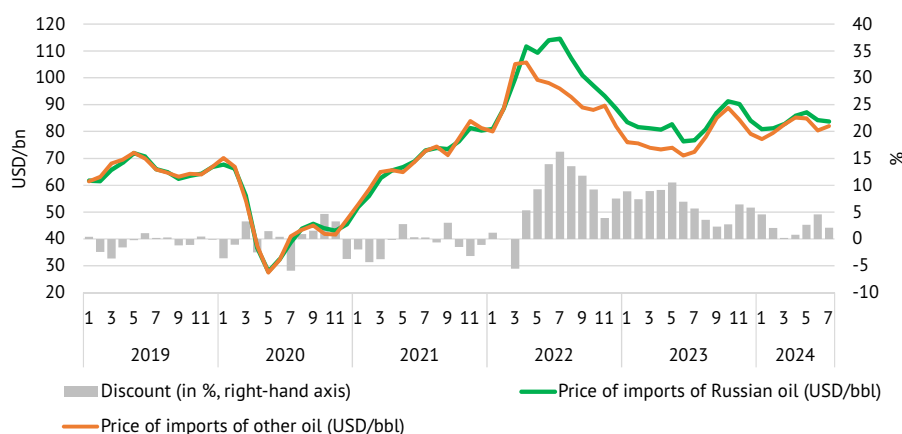


Fig. 4. Prices and discounts on Russian oil shipped to China

Source: Own calculation on the data released by the General Administration of Customs of China.

## 4. Russian foreign trade in H1 2024: end of the refocusing phase

2022 it dropped to 4–9%. After the European Union imposed an oil embargo, the discount went up again to 11% by May 2023. In the first seven months of 2024, it is consistently below 5–2.4% on average. Such differences in the average prices can be explained by the difference in grades of oil coming from Russia and other countries. The average monthly price of Russian oil has not fallen below \$70/bbl all this time, despite attempts to impose a “price cap”.

### Shipments from China and secondary sanctions

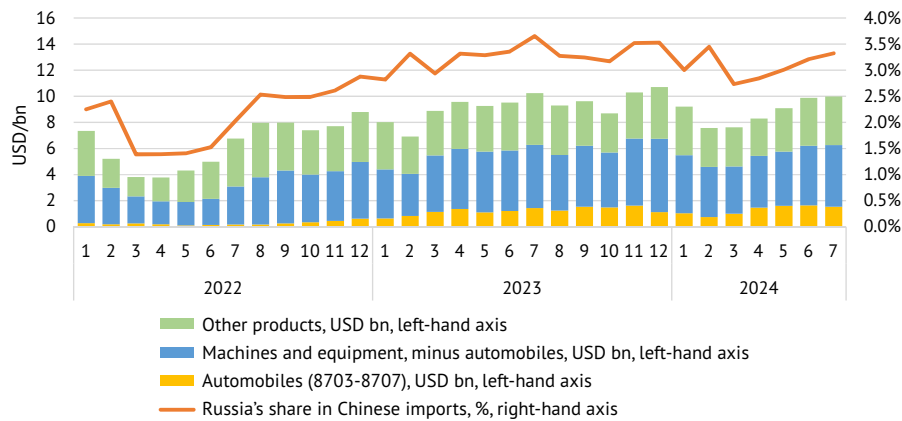


Fig. 5. Shipments of Chinese goods to Russia in 2022–2024

Source: Own calculations based on data released by General Administration of Customs of China.

In order to analyze the likely impact of the threat of secondary sanctions on Chinese shipments, we should consider the dynamic of the Russian market share in Chinese exports, as this indicator better takes into account seasonality.<sup>1</sup> Despite the U.S. President’s decree on the introduction of the secondary sanctions mechanism issued at the end of December 2023,<sup>2</sup> shipments from China grew steadily (+12.5% year-on-year) in January-February 2024, while the Russian market’s share remained stable (Fig. 5). The absence of any visible impact on supplies can be explained by the weak implementation of secondary sanctions until the end of February 2024. In March, there was a noticeable decline in supplies from China to Russia (-14.2%), and the share of the Russian market fell below 3% for the first time in a year – to 2.7% (-0.7 p.p. vs. February 2024). Already since April there has been a steady recovery of shipments. China’s monthly exports to Russia in July 2024 approached the maximum values, amounting to \$10.0 bn.

1 China has floating holidays (usually in February), while Russia’s share is traditionally lower in January due to the longer New Year holidays.

2 URL: <https://www.whitehouse.gov/briefing-room/presidential-actions/2023/12/22/executive-order-on-taking-additional-steps-with-respect-to-the-russian-federations-harmful-activities/>