

Havlik, Peter

**Research Report**

## Russian Federation 2015: From Stagnation to Recession and Back

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# Russian Federation 2015 From Stagnation to Recession and Back

Peter Havlik





# Russian Federation 2015 From Stagnation to Recession and Back

PETER HAVLIK

Peter Havlik is Senior Economist at the Vienna Institute for International Economic Studies (wiiw) and guest research scholar at the Institute for International Applied Systems Analysis (IIASA).



# Abstract

Russia was in the direst straits even before the Ukraine crisis erupted on a grand scale in 2014. The sanctions imposed after the annexation of Crimea have deterred investments still further and instigated capital flight. The oil price slump of late 2014 and the related collapse of the rouble have inflicted additional pain and boosted inflation. Assuming that the sanctions and oil prices remain at their current (mid-2015) levels, our baseline scenario sticks to an earlier forecast of a close to 4% drop in GDP in 2015, followed by weak recovery resulting from a gradual revival in government-sponsored investment and the sluggish launch of import substitution programmes. The latter, together with more state interventions and changing the pivot from the EU to the East, could provide a modest, yet unimpressive, stimulus to the economy. Nevertheless, the chances for a successful implementation of industrial policies aiming at the diversification of the economy are now even bleaker under the regime of sanctions than in the past, and the economic prospects are accordingly gloomy.

Keywords: Russia, prices, industrial policy, foreign trade, economic integration

JEL classification: E6, F4, O4, O5



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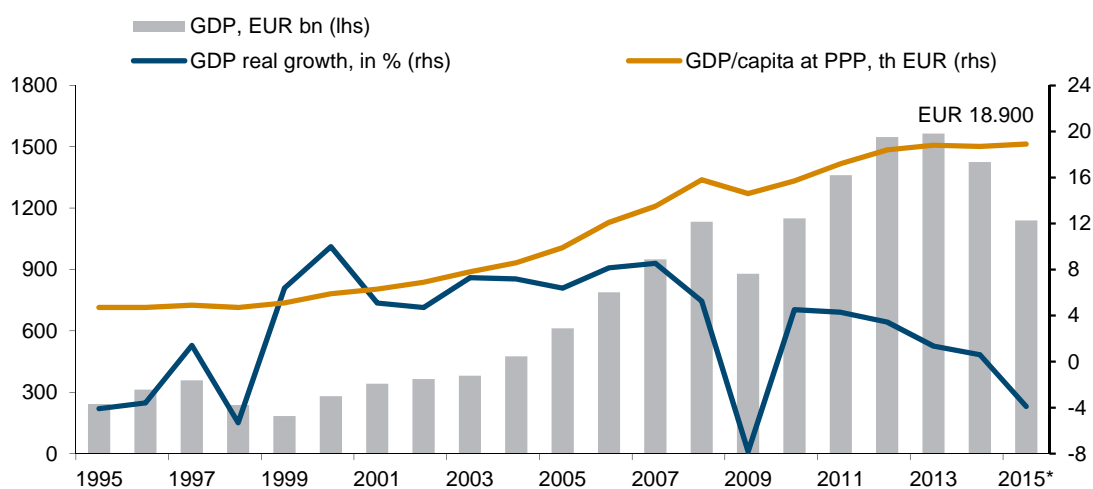
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# Introduction<sup>1</sup>

After an unimpressive and short-lived recovery from the 2009 crisis, Russian economic growth stalled just above zero in 2014 (Figure 1). The latter stagnation reflected an only modest expansion of industrial production (1.7%) and of agricultural output (3%), as well as a drop in construction (-5%). Household consumption grew by less than 2% and real wages even declined owing to accelerated inflation (see Table 2 at the end of the report for more data). Fixed capital investment dropped by 2.5% in 2014, already reflecting the increased risks owing to heightened geopolitical tensions. The growth contribution of real net exports remained positive with imports declining more than exports, not least due to sluggish domestic demand, sanctions and the weakened rouble. In nominal terms, both the trade and current account surpluses widened, the latter exceeding 3% of GDP, while net capital outflows surged above EUR 100 billion. FDI inflows and foreign exchange reserves dropped; the rouble exchange rate sharply depreciated in line with falling oil prices towards the end of the year.

**Figure 1 / Russia: GDP developments, 1995-2015**



\*) Author's forecast.

Source: wiiw Annual Database, national statistics, own estimates.

In these circumstances – and with the dramatically changed geopolitical situation which goes beyond the current conflict over Ukraine<sup>2</sup> – the long overdue ‘new growth model’ which has been in the drawing boards of Russian ministries and think tanks for more than a decade has now become even more urgent. The lasting vulnerabilities owing to the excessive reliance on energy exports (accounting for 65% of revenues from goods exports) came once more out in the open (Figure 2). Exports dropped by more than 5% in nominal USD terms while imports declined by 10% in 2014. The trade turnover with the EU

<sup>1</sup> The author thanks Vasily Astrov for valuable comments on an earlier draft, as well as Alexandra Bykova and Beate Muck for statistical assistance.

<sup>2</sup> For more on Ukraine see Adarov et al. (2015).

contracted by 8%, in particular with Finland, Poland, France, Spain, Slovakia and the United Kingdom. Trade with Ukraine was cut by nearly 30% and many important technological linkages, not only in defence-related sectors, seem to be irreparably broken (see Adarov et al., 2015 for more details). In this situation of elevated risks and generally worsened conditions of external trade and financing, which are unlikely to change soon, the already existing broadly acknowledged obstacles to investments – the poor investment climate and the reform stalemate – will be extremely difficult to overcome. The repeatedly underlined necessity to improve the institutional, administrative and infrastructure prerequisites for investments in order to support growth, to restructure, modernise and diversify the economy has become more challenging under the changed geopolitical climate with spiralling sanctions. Most importantly, the collapse of the oil price in late 2014 and reduced energy export revenues make the change in economic policy even more urgent.

Facing the acute prospect of a severe economic recession, the government rushed in late 2014 to work out urgent 'anti-crisis measures'.<sup>3</sup> The initial plan was to spend in the course of 2015 up to RUB 2400 billion (3.3% of GDP or more than EUR 30 billion) on a bank recapitalisation scheme, on financing import substitution programmes, inflation-adjusted indexation of pensions and family welfare benefits, on agricultural and interest rate subsidies, credit guarantees, etc. About half of the envisaged spending was to be used for supporting the banks (RUB 1000 billion); the recapitalisation will be financed from the previous year's budget revenues which were originally assigned to the Deposit Insurance Agency. Additional budget expenditure would thus amount to just RUB 300 billion, another RUB 550 billion were to be withdrawn from the National Welfare Fund, and RUB 160 billion are to be raised by the issue of new government bonds. Later on, the revised government budget reckoned with cutting most expenditures by 10% in 2015 (except defence outlays, social benefits, agricultural subsidies and meeting international obligations), thus saving about RUB 2000 billion and curtailing the expected deficit. In the medium run, annual government spending should be cut by at least 5% in real terms in order to balance the budget by 2017 given the expected lower (energy) export revenues.

Apart from spending cuts, the government reiterated once more the necessity to launch structural reforms in order to diversify the economy and stimulate economic growth in the medium run (this mantra has been repeated for years, so far without any apparent results). The current plan mentions again better conditions for the growth of private investments (including long overdue improvements in the business climate), using industrial policy instruments for import substitution, export support and SME development schemes, attracting 'substantial amounts' of FDI, promotion of innovation developments, etc. There is an (incomplete) list of some 200 strategic enterprises that will enjoy government support (companies with foreign participation may face obstacles in receiving such support). Besides, several huge investment projects should receive additional financing totalling RUB 500 billion from the National Welfare Fund (e.g. construction of the Yamal LNG plant, the third Moscow Ring Road, modernisation of the BAM and Transsib railways, preparations for the 2018 Football World Cup, a Space Launch Centre and, last but not least, the construction of the Kerch Strait Bridge to Crimea). A number of additional individual measures and their financing should be specified later on.

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<sup>3</sup> See RF Government decree No 98 from 27 January 2015 ([www.kommersant.ru/Doc/2655295](http://www.kommersant.ru/Doc/2655295)). Already last year the government intended to tap resources accumulated in the National Welfare Fund (at that time RUB 3100 billion or nearly 5% of GDP) in order to compensate effects of Western financial sanctions – see *Vedomosti*, 15 September 2014.

## Deteriorating economy: sanctions and beyond

Obviously, the official expectation is that both low energy prices and a 'difficult geopolitical environment' are here to stay for some time (mutual sanctions have been prolonged and expanded, respectively, in mid-2015 and the government's working assumption is that sanctions will last until 2018).<sup>4</sup> Under these assumptions, both the government and the Central Bank of Russia elaborated several scenarios of economic growth, depending on the expected oil price developments and sanctions regime. More optimistic assumptions (regarding oil prices) currently appear less likely and the respective forecast scenarios worked out last year are already obsolete.<sup>5</sup> Neither is the oil price expected to return to its previous level (USD 98/bbl on average in 2014) nor will sanctions be rapidly abolished (although the latter factor impacts GDP growth forecasts much less than the oil price). Both these factors make the current outlook much different from that in 2009 when oil prices quickly recovered and no sanctions were in place.

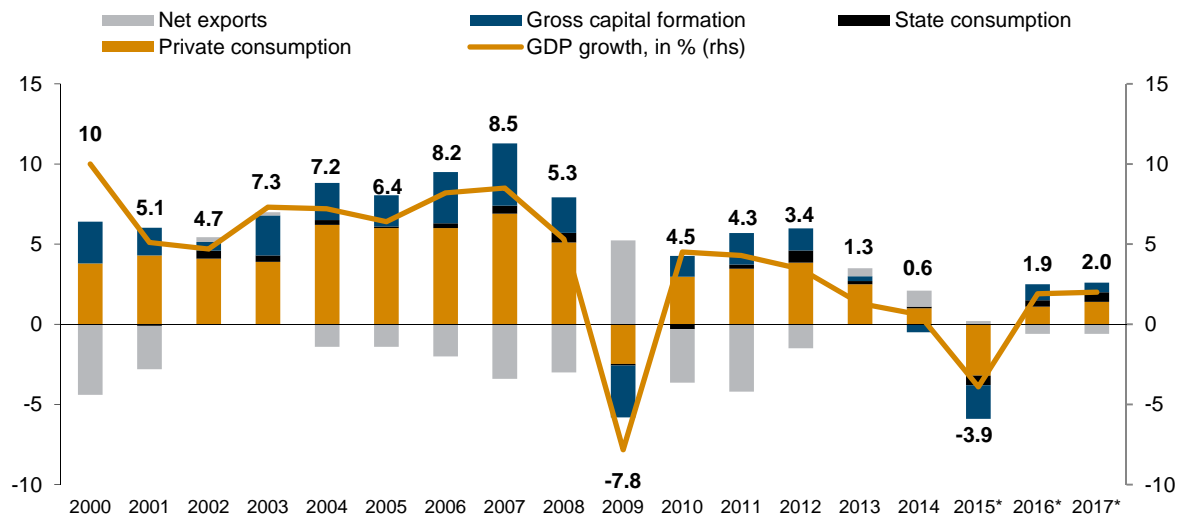
All these factors required in late 2014/early 2015 another substantial downward revision of the GDP growth forecasts.<sup>6</sup> Indeed, in 2015 the economy plunged into recession, albeit not as severe as many observers originally expected. According to Rosstat data released in early September, GDP dropped by 3.4% in Jan.-June 2015, industrial production by 3%, investments by 6% and real wages by nearly 9% (see Table 2). Household consumption – which used to be the main engine of growth until recently – shrank in real terms owing to the spike of inflation. Also government consumption dropped owing to spending cuts. Despite the announced additional financing from the National Welfare Fund, gross fixed investments are expected to drop sharply in 2015 as the necessary project preparations will take time. Moreover, the efficiency of state-sponsored industrial policies and import substitution measures is doubtful, and scepticism is justified concerning the re-launched reform declarations – in particular with respect to the success of 'new' FDI, austerity, import substitution, trade re-orientation and innovation strategies. Without (now apparently abandoned or at least much more difficult) cooperation and integration with the EU, economic growth is likely to remain more or less flat in the foreseeable future. An inward-looking development strategy, even under the working assumption that the current financial and trade sanctions will be eventually lifted, will hardly yield the envisaged modernisation results (admittedly, low energy prices over a sustained long period might support the necessary reform pressure on economic diversification). Furthermore, the contribution of net exports to GDP growth is expected to become negative again (as has been the case already for nearly a decade with the exception of the crisis years 2009 and 2014 – see Figure 2). Given the prospects for stagnating (real) exports in the medium run, and assuming only a one-off downward adjustment of imports in 2014/2015, the present sizeable trade and current account surpluses will eventually diminish.

<sup>4</sup> See <http://www.kommersant.ru/doc/2795965> and [http://europa.eu/newsroom/highlights/special-coverage/eu\\_sanctions/index\\_en.htm](http://europa.eu/newsroom/highlights/special-coverage/eu_sanctions/index_en.htm).

<sup>5</sup> For example, the CBR reckoned in its 'baseline scenario' from November 2014 with an oil price of USD 95/bbl by mid-2015 and sanctions lasting until end-2017. GDP growth would be positive in 2015 unless the oil price drops below USD 90/bbl ([www.cbr.ru](http://www.cbr.ru) from 11 November 2014).

<sup>6</sup> See Box 1 for the evolution of recent wiiw forecasts. In October 2014 wiiw still expected GDP growth close to 2% in both 2015 and 2016. This corresponded more or less to the baseline scenario published at that time by the Central Bank of Russia (see <http://www.cbr.ru>, 12 September 2014).

**Figure 2 / Russian GDP growth: current (mid-2015) scenario; contributions of components to GDP growth, in percentage points**



\*) Author's forecast.

Source: wiiw Annual Database, national statistics, own estimates and forecasts.

Weaker economic growth notwithstanding, the labour market remains strained with employment numbers nearly flat and the unemployment rate declining (the LFS rate of unemployment was just slightly above 5% in 2014 – see Table 2). Sectoral and regional labour market shortages persist (e.g. in retail trade and construction), particularly in big cities such as Moscow and St. Petersburg, but so do also huge efficiency reserves. The shadow side of the tight labour market – sizeable employment of migrant (both legal and illegal) workers and the related social, political and nationalist tensions with even racist sentiments – are posing a number of difficult challenges to the authorities. According to some estimates there have been more than 10 million migrant workers in Russia, the majority of them from the former Soviet republics.<sup>7</sup> The new challenge – though probably less complicated owing to closer cultural similarities – will be the labour market integration of (mostly qualified) Russian-speaking Ukrainian refugees who may ease the labour market shortages and potentially replace some migrant workers from Central Asia.<sup>8</sup>

<sup>7</sup> According to latest data from the CBR from early 2015, migrant workers (and their remittances) started to decline owing to less attractive conditions (a combination of additional bureaucratic obstacles and rouble depreciation).

<sup>8</sup> For a more detailed assessment of demographic developments see Eberstadt (2009).

**BOX 1 / ESTIMATED DIRECT ECONOMIC COSTS OF THE UKRAINE CONFLICT<sup>9</sup>**

An assessment of the combined effects of elevated geopolitical tensions, increased credit risks and the related higher financing costs of investments, trade sanctions and other frictions between Russia, Ukraine and the West results in lower GDP growth for the period 2014-2017. Estimated annual GDP losses due to the combined effect of lower investments, higher inflation and capital outflows are presented below.<sup>10</sup> A crude estimate of direct costs of the Ukraine conflict for Russia (based on comparing pre-conflict and GDP growth forecasts from late 2014) initially yielded around 1 percentage point of foregone Russian GDP annually during 2014-2016 (nearly EUR 20 billion per year at 2013 prices in 2014). Subsequent revisions of the growth forecasts take into account in addition the collapse of the oil price and reckon with a recession in 2015. In nominal terms (taking into account forecast changes of GDP growth between March 2014 and March 2015), the estimated cumulated loss of Russian GDP would amount to roughly EUR 250 billion over the period 2014-2016 (less than 1% of GDP).

	2013	2014	2015	2016
<b>wiiw Forecast Report Spring 2014 (March)</b>				
(1) GDP, RUB bn, curr. prices	66,689	70,000	74,800	80,500
(2) GDP, EUR bn, curr. prices	1,576	1,555	1,626	1,713
(3) Annual change in % (real)	1.3	1.6	2.3	3.0
(4) Exchange rate, RUB/EUR	42.3	45	46	47
(5) GDP, EUR bn, at 2013 prices and ER	1,576	1,601	1,639	1,688
<b>wiiw Forecast Report Autumn 2014 (November)</b>				
(6) GDP, RUB bn, curr. prices	66,755	72,000	77,500	83,000
(7) GDP, EUR bn, curr. prices	1,578	1,440	1,462	1,509
(8) Annual change in % (real)	1.3	0.5	1.3	1.9
(9) Exchange rate, RUB/EUR	42.3	50	53	55
(10) GDP, EUR bn, at 2013 prices and ER	1,578	1,583	1,603	1,634
<b>wiiw Forecast Report Spring 2015 (March)</b>				
(11) GDP, RUB bn, curr. prices	66,194	70,976	77,500	82,800
(12) GDP, EUR bn, curr. prices	1,565	1,426	970	1,100
(13) Annual change in % (real)	1.3	0.6	-3.9	1.9
(14) Exchange rate, RUB/EUR	42.3	50.5	80	75
(15) GDP, EUR bn, at 2013 prices and ER	1,565	1,600	1,530	1,560
<b>Estimated costs of the conflict, annual, EUR bn</b>				
(based on the difference between March 2014 and November 2014 forecasts: lines [5]-[10])		18	36	54
<b>Costs of the conflict, annual, EUR bn</b>				
(based on the difference between March 2014 and March 2015 forecasts: lines [5]-[15])			110	130

Source: Rosstat; own estimates and projections.

<sup>9</sup> Needless to say, there are numerous other estimates (e.g. Shirov, 2014).

<sup>10</sup> Effects of the oil price collapse are discussed separately below.

## Energy prices and economic growth

In the period 2004-2008, Russian GDP growth was driven by booming private consumption and investment. At the same time, the growth contribution of real net exports (exports minus imports, both at constant prices) was negative during 2004-2008 because the volume of exports had been growing at a slower pace than that of imports. Per definition, the methodology used for the measurement of real GDP excludes price effects – not only of the domestic inflation, but the effects of export and import prices as well (the effect of the so-called terms of trade). The latter effect, highly relevant in the current Russian context, is captured by another indicator: the real gross domestic income (RGDI).

RGDI is defined as:<sup>11</sup>

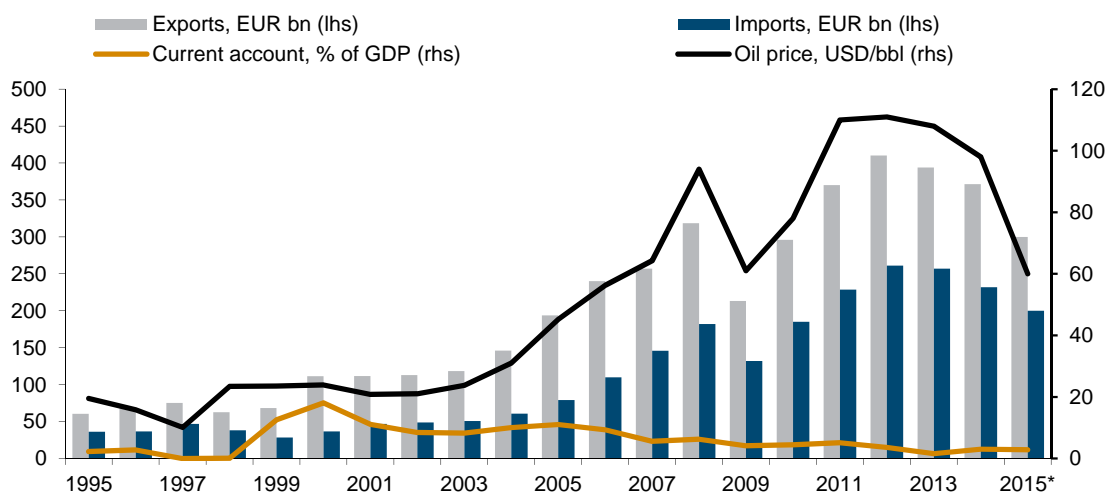
$$\text{RGDI} = \text{GDP} + \text{ToT} \quad (1)$$

where:

$$\text{ToT} = (\text{X}-\text{M})/\text{P} - (\text{X}/\text{P}_x - \text{M}/\text{P}_m) \quad (2)$$

ToT are terms of trade and X(M) are nominal exports (imports),  $P_x$  ( $P_m$ ) are deflators of exports (imports), and P is the average deflator of exports and imports. A positive (improving) terms of trade effect results in gross domestic income being higher than GDP. On the other hand, negative (worsening) terms of trade effect results in gross domestic income being lower than GDP.

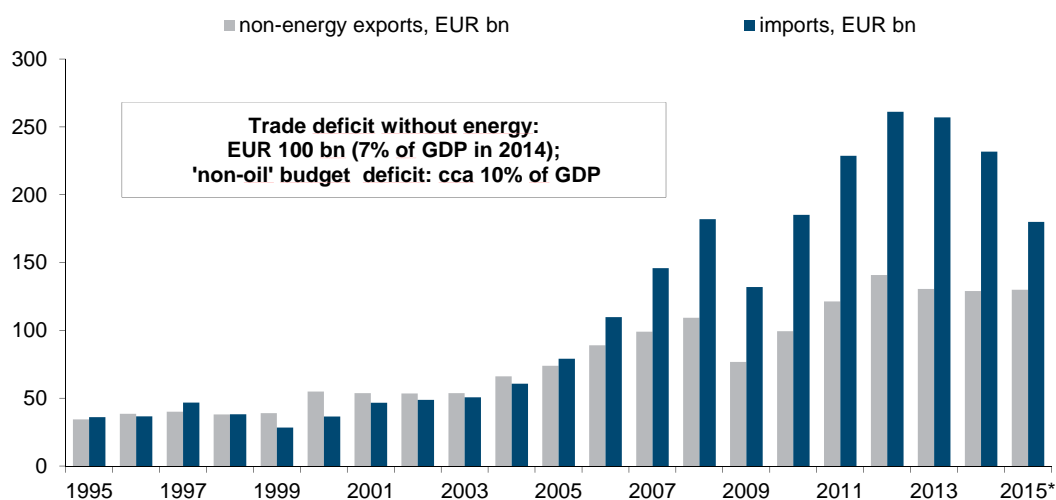
**Figure 3 / Russia: external surpluses thanks to energy**



\*) Author's forecast.

Source: wiiw Annual Database, national statistics, own estimates.

<sup>11</sup> The term 'real' does not refer here to constant prices, but the product that the country has at its disposal. It is sometimes referred to as 'command' GDP, reflecting the real purchasing power of domestic residents – see Kohli (2004). The relation between RGDI and GDP was analysed by Vintrova (2005) and Mora (2006) for Central and East European countries. For Russia, the relation was analysed in OECD (2006) and by Kuboniwa (2007), who calculated various price deflators. Table 1 provides estimates of RGDI for the years 2004-2009 using the above expression (2) and implicit price deflators of exports and imports, based on official Russian data from ROSSTAT.

**Figure 4 / Russia's external sector: deficit without energy**

\*) Author's forecast.

Source: wiiw Annual Database, national statistics, own estimates

**Table 1 / Russian GDP and estimated Real Gross Domestic Income (RGDI), 2004-2009**

Year	2004	2005	2006	2007	2008	2009
GDP (RUB bn, 2003 prices)	14197	15105	16223	17537	18515	17000
GDP growth (%)	7.2	6.4	7.4	8.1	5.6	-7.9
ToT (2003 = 100)	116.0	133.8	149.1	155.2	178.0	173.0
ToT (RUB bn, 2003 prices)	652.8	1423.5	2243.9	2916.8	4107.6	3660
RGDI (RUB bn, 2003 prices)	14849	16529	18467	20454	22623	20700
RGDI growth (%)	12.1	11.3	11.7	10.8	10.6	-8.4
ToT effect, pp	4.9	4.9	4.3	2.7	5.0	-0.5
ToT effect (EUR bn, 2003 prices)	18.8	22.2	23.6	19.4	34.3	-13

**Table 1 (ctd) / Russian GDP and estimated Real Gross Domestic Income (RGDI), 2010-2016**

Year	2010	2011	2012	2013	2014	2015	2016
GDP (RUB bn, 2008 prices)	39762	41458	42873	43411	43656	41954	42751
GDP growth (%)	4.5	4.3	3.4	1.3	0.6	-3.9	1.9
ToT (2008 = 100)	103	104.5	88.5	81.7	84.8	70.0	86.5
ToT (RUB bn, 2008 prices)	-1933.7	35.0	324.0	-356.6	-581.2	-1528	-576
RGDI (RUB bn, 2008 prices)	37829	41493	43197	43055	43075	40425	42175
RGDI growth (%)	8.8	9.7	4.1	-0.3	0.0	-6.2	4.3
ToT effect, pp	4.3	5.2	0.7	-1.6	-0.6	-2.3	2.4
ToT effect (EUR bn, 2008 prices)	-53.1	1.0	8.9	-9.8	-16.0	-42.0	-15.8

Source: Havlik (2010); own estimates and forecast based on ROSSTAT and Central Bank of Russia (CBR).



The estimates presented in Table 1 illustrate a large positive terms of trade effect in the period 2004-2008 and again in 2010-2012. In 2015, the negative terms of trade effect is expected to exceed 2% of GDP (more than EUR 40 billion at 2008 prices).<sup>12</sup> The negative terms of trade effect has been approximately twice as high in 2015 (in % of GDP) as the estimated direct costs of the Ukraine conflict shown in Box 1 above.

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<sup>12</sup> According to Rosstat, the terms of trade deteriorated by 20% in the first quarter of 2015 compared to the average of 2014 ([http://www.gks.ru/wps/wcm/connect/rosstat\\_main/rosstat/ru/statistics/publications/catalog/doc\\_1140086922125](http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/publications/catalog/doc_1140086922125); Table 5).

## A creeping reincarnation of Industrial Policy

Since the early 1990 and almost during the whole transition period from the command to a market economy, Russia witnessed heated discussions regarding the 'right mix' of market forces and state interventionism and how to avoid further de-industrialisation; the need for proper industrial policies in this process was a hotly debated issue from the very beginning of transition. Later on, calls for modernisation and diversification of the economy became more prominent topical issues in the numerous economic reform blueprints elaborated by ministries, academic think tanks and various pundits in the course of the 2000s. Probably the most influential government-sponsored reform programme explicitly mentioning industrial policy was former President Medvedev's 'Four Is' modernisation drive from early 2010. The programme focused on four broad priority development areas: Institutions, Innovations, Investments, Infrastructure (hence 'Four Is'). These development priorities were to be supported by using Industrial Policy and Public-Private Partnership tools. Simultaneously, Medvedev's priorities focused also on external policies such as the re-integrating of the CIS, negotiating a new (Strategic) partnership agreement with the EU (involving more than energy) and completing Russia's accession to WTO. A 'reset' of relations with the United States (followed by the EU) represented another important foreign policy dimension of Medvedev's reform programme.

With lasting strong export (and therefore also booming state budget) revenues, the Russian reliance on resource-intensive sectors has even increased during the early 2000s. Reforms have stalled and the investment climate was poisoned by the Yukos affair. Already at that time, there was a broad consensus – both in- and outside Russia – that economic growth is unsustainable unless the pace of structural, institutional, legal and banking sector reforms (and especially their implementation) increases substantially (the term 'stuck in transition' was used later, in the EBRD 2013 Transition Report – see EBRD, 2013). Simultaneously, the role of more liberal government reformers diminished during 2004 while that of 'siloviki' from Mr. Putin's inner circle increased. A tendency towards increasing state intervention in the economy (especially in strategic sectors such as energy) and to exert more influence on decision-making at the regional level became more apparent. As a side effect of rising economic strength, Russia's assertiveness started to increase and its external relations with nearly all partners subsequently deteriorated.

Economic policy discussions during early 2006 concentrated on the issue of how to use the Stabilisation Fund and on the extent and contents of state investment programmes. As one of the rare reform steps, an agreement on the split of the state electricity company RAO UES into power generating and distribution parts was reached in June 2006. The Russian energy and metals giants were also acquiring assets abroad, not least in the former Soviet republics. While launching the new state investment programmes (in health, education, housing and transport) and establishing special economic zones with tax privileges and legal guarantees, the government simultaneously restricted access of foreign investors to 'strategic' sectors. The energy sector in particular has become one of the contentious issues in Russian-EU relations. Nonetheless, inflows of FDI were rising, partly thanks to returning Russian offshore capital. Russia's external policies became more and more assertive from 2008: the Kremlin was gaining confidence that it could re-establish foothold in the former Soviet republics (or at least prevent a

more intensive involvement of the EU in this region). This strategy seemed then to bear some fruit, for example in Ukraine initially, but also elsewhere, as the influence of Russian investments had been rapidly increasing.<sup>13</sup> Gazprom, Rosneft and other large state-owned (or controlled) corporations started to go global. Russian energy and metals giants acquired assets abroad, not least in the former Soviet republics. Simultaneously, the inflows of FDI to Russia were rising, thanks to both the returning Russian offshore capital and the country's improved credit rating. Russia's accession to the WTO was repeatedly delayed again.

Thanks to windfall gains from high world market energy prices during the 2000s (see above), the Russian government was able not only to repay nearly all of the outstanding external debts but to increase salaries in the public sector and pensions as well. In addition, several national developments projects (infrastructure, housing, health sector, education and agriculture) were initiated. The three-year budget plan for the period 2008-2010, adopted in 2007, reflected some important changes in economic policies: the future budget revenues were to depend less on energy proceeds (apart from the Stabilisation Fund, which was renamed Reserve Fund and maintained at 10% of GDP; another part of windfall proceeds from oil and gas exports started to be accumulated in the newly established National Wealth Fund). Government expenditures were to increase (even as a share of GDP) with state-sponsored priority programmes to benefit most. The long-discussed and controversial idea of Industrial Policy (IP) had apparently gained official blessing.

Before the outbreak of the 2008/2009 crisis, the Ministry of Economy and other less 'liberal' quarters of the government and the Russian economic community argued for additional spending aimed at boosting domestic investment, economic diversification and modernisation. Given the abundance of money accumulated in the Oil Funds it was difficult to resist the temptation to spend more. Indeed, the government-sponsored Industrial Policy measures offered targeted support to various public-private partnership projects in the automotive, aviation, shipbuilding and selected high-tech industries (such as nano, nuclear and space technologies). Some of these initiatives were mentioned as the key priorities in the economic programme of the newly elected Russian President Dmitry Medvedev.

Similar to the United States and the EU, the Russian government adopted, in response to the crisis of late 2008-early 2009, various rescue packages in order to improve the liquidity of the banking sector and restore confidence. The Central Bank released more than USD 100 billion out of its reserves (amounting to USD 430 billion as of end-2008) in order to provide additional liquidity and to support the rouble exchange rate. New loans to the banking sector with a maturity of up to six months were provided via the state-owned Vneshekonombank (VEB) with no collateral required. In addition, the VEB provided credits for refinancing short-term foreign loans and purchased shares in troubled companies as collateral (e.g. Mr. Deripaska's Basic Element aluminium conglomerate). The bank guarantee on private deposits was raised to RUB 700,000 (EUR 20,000). Altogether, more than USD 200 billion of state assistance in various forms was earmarked for easing liquidity in the financial sector. Critics pointed to the usual dangers of misappropriation and corruption; they also expected that the major large (or well-connected) banks would stand to gain disproportionately from this facility. The revised federal budget for 2009 thus entailed a huge fiscal stimulus: it reckoned with a rise of expenditure (+7%) despite falling revenues. As a result, the budget switched from a surplus (6% of GDP in 2008) to a deficit of 7% of GDP in 2009. In

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<sup>13</sup> Without much notice in the West, Russian capital already dominated the energy and telecommunication sectors in the post-Soviet space – see the recent paper on 'Russian investments in the CIS' available from wiiw's website (<http://indeunis.wiiw.ac.at/index.php?action=content&id=publications>).

sum, the anti-crisis measures cost about 10% of Russian GDP yet the economy resumed its growth rapidly – not least also thanks to the bounce back of the oil price.

Already from 2009, it was the EU's (and NATO's) Eastern enlargement as well as the EU's Neighbourhood Policy (ENP) vis-à-vis the CIS countries (in particular Ukraine, Georgia and Moldova) where Russian and EU interests were clashing. Russia considered its 'near abroad' as its traditional sphere of influence and the ENP was perceived as an unwelcome foreign inroad. Also the Western support of the 'colour' revolutions in several CIS countries was perceived as a deliberate attempt at regime change, ultimately aiming at the reduction of Russian influence in the region. A successful 'reset' of Russian relations with the United States was uncertain and Russian external relations have been deteriorating across the board (even with Belarus there were disputes over trade and relations with the EU). In sum, neither the economic nor the political prospects for post-crisis Russia were encouraging.

The modernisation appeal from 2009 was supposed to be backed by specific implementation plans, counting also on the participation of foreign companies and researchers. However, the sharp deterioration of Russia's relations with the West following the August 2008 war with Georgia had serious repercussions for the future path of Russian economic reforms. In analogy to the conflict with Ukraine which lurked already at that time, inward-looking and autarkic development strategies were enforced.

At the same time, as one of the few foreign policy breakthroughs,<sup>14</sup> the EU–Russia summit in Rostov-on-Don in June 2010 adopted a joint statement on a Partnership for Modernisation with both parties pledging to encourage the sectoral dialogue and the implementation of specific joint projects. The trilateral meeting of President Medvedev with his French counterpart Sarkozy and German Chancellor Merkel in October 2010 confirmed the will to 'reset' EU–Russia relations as well. Accession to WTO (postponed once again in June 2009 on the pretext of forming a Customs Union with Belarus and Kazakhstan) was put back on the agenda after the summit again.

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<sup>14</sup> Other breakthroughs included the signing of a new START Treaty by presidents Obama and Medvedev at Prague's 2010 summit, as well as marked improvements in the relations with Ukraine and Poland. Georgia (and, paradoxically, Belarus) remained almost the only sore point in Russian external relations at that time.

## Putin's changing pivots

Modernisation prospects suffered a serious blow in September 2011 after President Medvedev's announcement that Vladimir Putin should stand for the next presidential elections in March 2012. The long-lasting anxiety whether either Mr. Putin or Mr. Medvedev would become the next president was thus finally resolved. Paradoxically, this news created disappointment in both Russia and abroad.<sup>15</sup> The disappointments with this uninspiring switch in the ruling tandem resulted from a growing scepticism that Russia would turn back- and inward in the coming years, modernisation would stall and a rising number of people would give up initiative for resignation (emigration was considered by ever growing numbers of young and educated Russians).

This scepticism was fed, inter alia, by Putin's announcing the priority of EAEU integration on the post-Soviet space.<sup>16</sup> A step in this direction, at least on paper, was launched by Mr. Putin on 20 October 2011 in St. Petersburg when eight CIS republics (including Ukraine) announced the establishment of a free trade area (energy and metals were excluded). A number of worrying signals fostered the views that instead of 'forward' (Medvedev's earlier slogan 'Russia Forward') the forthcoming years of Putin's presidency would lead Russia backwards, or at least to social and economic stagnation. Simultaneously, a possible final obstacle for WTO accession was removed after Georgia gave up its veto to Russia's membership early December 2011.

The economic programme of Putin's next presidency was made public in a lengthy article published under the heading 'We Need a New Economy' in early 2012.<sup>17</sup> Apart from stressing again 'stability', as well as repeating the necessity to overcome the 'raw materials character' of the economy via modernisation and diversification while rejecting protectionism, the suggested economic reform blueprint represented a somewhat confusing mix of industrial policy measures, the rejection of 'state capitalism' (despite praising the experiences of China and – presumably South – Korea), and the support of further privatisations and foreign direct investments.<sup>18</sup> The latter should be attracted inter alia by an expansion of the 'internal market' – not least thanks to the above-mentioned re-integration of the post-Soviet space. Mr. Putin also complained in unusually harsh words about the lack of transparency, failures of the state apparatus – including customs and tax officials, the legal and court systems – mentioning even 'systemic corruption' and demanding the elimination of all remnants of Soviet legislation from the business legal codex which may hinder entrepreneurship. Within the next couple of years, Mr. Putin announced efforts aiming at the improvement of Russia's ranking in the World Bank Doing Business indicators (in 2013 at 92<sup>nd</sup> rank, an improvement from 120<sup>th</sup> place out of 183 in 2012), to reach at least the current rank of Kazakhstan (50).<sup>19</sup> Last but not least, the state's role in the economy was to be reduced (sic!) and

<sup>15</sup> See, for instance, *The Financial Times*, 29 September 2011, p. 9.

<sup>16</sup> The Customs Union of Belarus, Kazakhstan and Russia was launched in January 2010. In January 2015, the Customs Union was transformed into the Eurasian Economic Union (EAEU) and expanded by Armenia, Kyrgyzstan (and potentially Tajikistan). However, the ultimate Russian aim to get Ukraine eventually on board failed spectacularly (Havlik, 2014; Adarov et al., 2015).

<sup>17</sup> See *Vedomosti*, 30 January 2012.

<sup>18</sup> Including selling minority stakes in the natural gas monopoly Gazprom – see *Vedomosti*, 7 February 2012.

<sup>19</sup> Note that Kazakhstan ranks 50<sup>th</sup>, Belarus 63<sup>rd</sup> and Ukraine 112<sup>th</sup> (Georgia 8<sup>th</sup>) in the same World Bank ranking for 2013.

competition fostered while maintaining macroeconomic stability. Taken together, all these measures should contribute to economic diversification, productivity increases and the development of high-tech industries. In all these areas, including job creation, SMEs should play a crucial role. Apart from WTO accession, Putin also expressed the hope at that time that Russia would join the OECD in 2014 – probably an unrealistic date given the current political situation.

In early 2013, the Russian government announced new ambitious plans to privatise – either fully or by selling minority stakes – a number of state-owned companies such as Sovkomflot (sea cargo transport), Sberbank, VTB, Rosnano, Russian Railways, Aeroflot, Sheremetyevo Airport, Rosneft, Transneft, etc. Meanwhile, in the field of economic policy, there were clear signs that more anti-liberal approaches had started to gain upper hand in 2012 at the latest – at least at the level of ongoing discussions (the eventual implementation perhaps facing a similar fate as the previously attempted modernisation efforts) though the ultimate outcome was uncertain. The new economic reform strategy, which aimed at ‘achieving sustainable growth in a period of global instability’, was drafted by an expert team headed by Putin’s newly appointed advisors, academicians Glazyev and Nekipelov, who both hold more ‘interventionist’ and less ‘liberal’ views regarding economic policies.<sup>20</sup> Their expert group presented specific policy recommendations aiming at significantly boosting economic growth by way of a stronger role of the state in the economy, more interventionist industrial policies and a relaxation of monetary policies. The authors of the new Russian pro-growth reform strategy rejected the previous ‘imported’ development models à la Washington Consensus and doubted the usefulness of restrictive monetary and fiscal policies, of trade and price liberalisations and even of privatisation. Instead, they called for an increased role of the state and for a significant breakthrough in investment activity with the aim to create a ‘technologically advanced manufacturing industry which has a strong export potential and relies on high-technology innovative companies’. As previous ingenious successful modernisation examples they quoted the Soviet electrification plan GOELRO of the 1920s, Stalin’s industrialisation and post-war reconstruction drives of the 1930s-1940s, the Soviet nuclear and space programmes of the 1950s-1960s and the exploitation of northern Russian energy resources of the 1970s. As external successful modernisation examples they quoted the industrial policies of post-war Japan and present China. The acceleration of GDP growth (to at least 5% per year) should be accompanied by a significant boost in investments (lifting their share in GDP to at least 30-40% in the medium perspective) in order to accomplish economic restructuring and modernisation. R&D expenditures should increase substantially as well (to at least 4% of GDP). The financing of such a massive investment programme should proceed from existing savings, in particular by using reserves accumulated in foreign exchange and reserve funds. Moreover, monetary policies should be relaxed, liquidity increased and interest rates cut. Other elements of the monetary policy include targeting a ‘stable real exchange rate’ and the introduction of capital flow controls. In order to stimulate innovation activities various tax incentives and preferential depreciation schemes should be used; external financing was to be gradually cut.

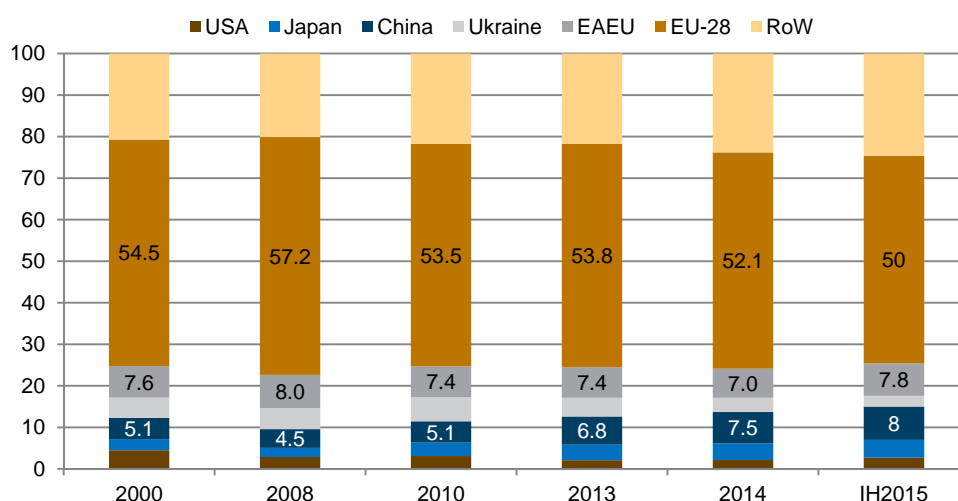
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<sup>20</sup> Mr. Glazyev, who acts as Putin’s economic advisor and has been on the Western sanctions list from the very beginning of the Ukraine conflict, has repeatedly criticised the CBR’s monetary policy, calling for monetary expansion, lower interest rates and the introduction of capital flow controls (see <http://www.gazeta.ru/business/2015/08/31/7732703.shtml>).

## Trade collapse after sanctions, lower energy prices and rouble devaluation

The combined effect of the Western sanctions imposed after the annexation of Crimea in March 2014 (which their subsequent expansion and tightening after the crash of a Malaysian airliner in eastern Ukraine in July 2014), the Russian counter-sanctions affecting Western agro-food exporters imposed in August 2014,<sup>21</sup> but especially the collapsing oil price later that year resulted in an unprecedented drop in exports and – even more so – in imports because of the related rouble devaluation. In 2014, goods exports dropped by 6% and imports by nearly 10% compared to the previous year. Trade with the EU was hit particularly hard: EU exports to Russia declined by 14% (German exports fell by 19%). Yet the trade with Ukraine (and surprisingly also with Belarus) suffered most, especially in terms of imports. On the other hand, imports from the United States grew by more than 10% in 2014. Still, the EU remains the key export market for Russia with more than 52% of Russian exports and 41% of imports in 2014. China is rapidly catching up, especially as a source of Russian imports (note that China has become the single most important import partner, though partly also thanks to differentiated rates of trade contraction), yet the envisaged reorientation of Russian exports away from the EU will neither be easy nor fast, not least due to infrastructure bottlenecks and the associated investment requirements (see Paik, 2015; Valdai, 2015). Figures 5-8 provide detailed information about the regional composition of trade.

**Figure 5 / Russia: regional composition of exports**



Source: Rosstat; wiiw calculations.

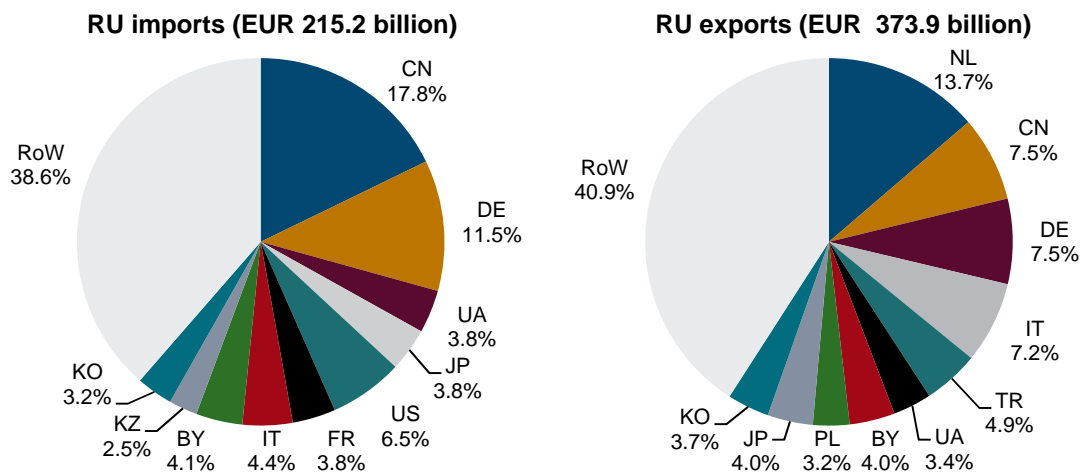
The trade decline has dramatically accelerated in 2015 as the effects of the oil price drop and of devaluation struck fully: data for the first half of 2015 indicate a huge drop in both exports (-28.5%) and especially imports (-38.6%) compared to the previous year period. The trade turn over with the EU

<sup>21</sup> See Havlik (2014) for more details.

declined by 37%, trade with China by 29% and with Ukraine even by 60%. More detailed data provided by the Analytical Centre (2015) for the Russian Government on the effects of the Russian embargo on food imports conclude that apart from fuelling inflation (food prices shot up by more than 20% in May 2015 year on year) there have been no visible effects as far as import substitution are concerned. Among the explanations the authors quote the lack of free production capacities, the scarcity of investments and risks. Meat, fish and milk imports dropped substantially in the first months of 2015; the Russian food import ban seriously affected Denmark (cheese), Poland (apples) and Norway (fish). The main beneficiary of the food import sanctions has been Belarus, the main loser Ukraine. In general, the absence of visible evidence for a more substantial import substitution – at least until mid-2015 – confirms the earlier expected scepticism (Deutsche Bank, 2014).

In real terms, the volume of exports somewhat increased, that of imports dropped by more than 25% (see Table 1 on p. 7 for the estimated terms of trade effects). The trade contraction affected intra-CIS and the ‘far abroad’ destinations almost equally, suggesting that – more than sanctions – sluggish domestic demand and the rouble devaluation were the main culprits. However, exports to the EU contracted by about 34% in the first half of 2015 (imports by 45%, both in current USD terms), yet the most pronounced contraction was recorded in trade with Ukraine – a drop by more than 60%. Owing to a less pronounced trade contraction, China gained additional market shares in 2015 in both exports and imports (Figures 5 and 7).

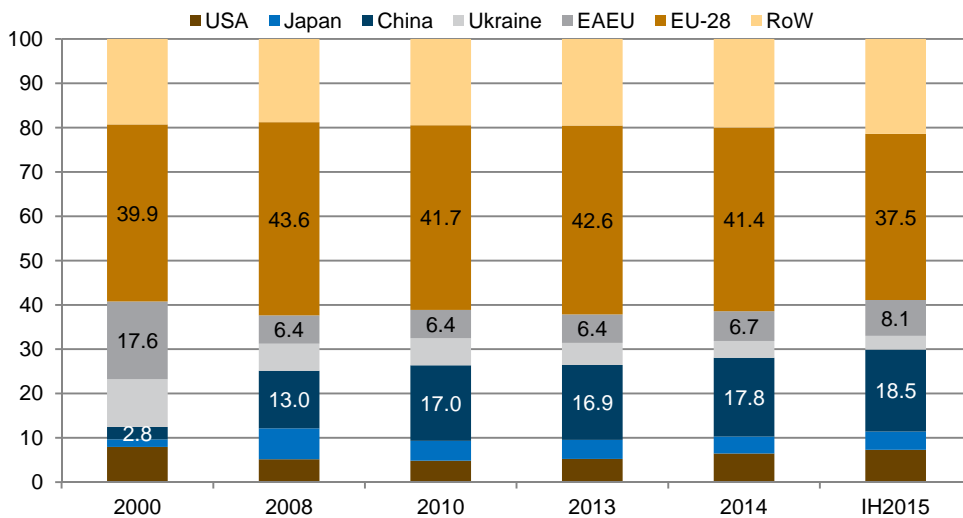
**Figure 6 / Russia's main trading partners, 2014, in % of total**



Source: Rosstat; wiiw calculations.

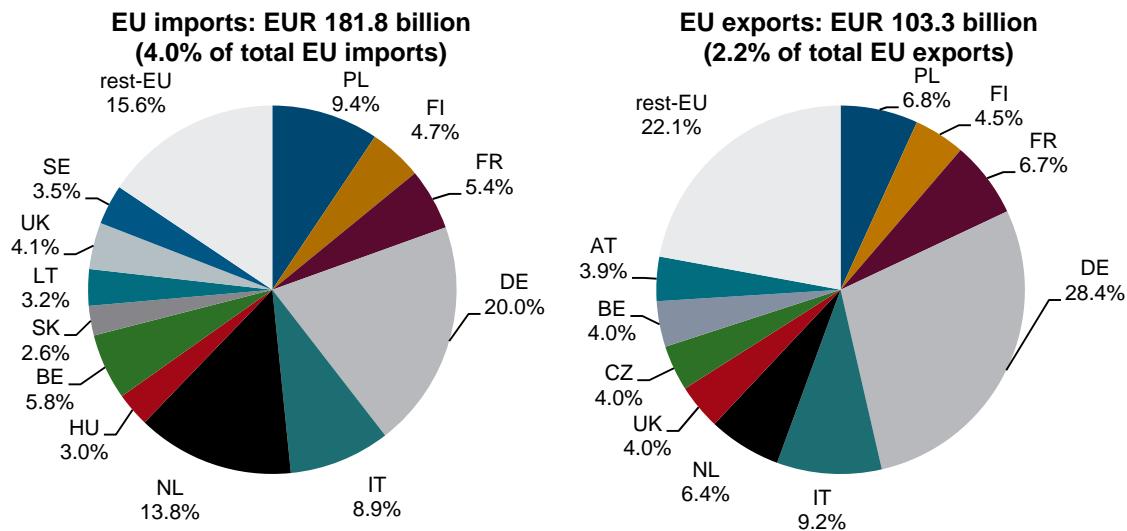


Figure 7 / Russia: regional composition of imports



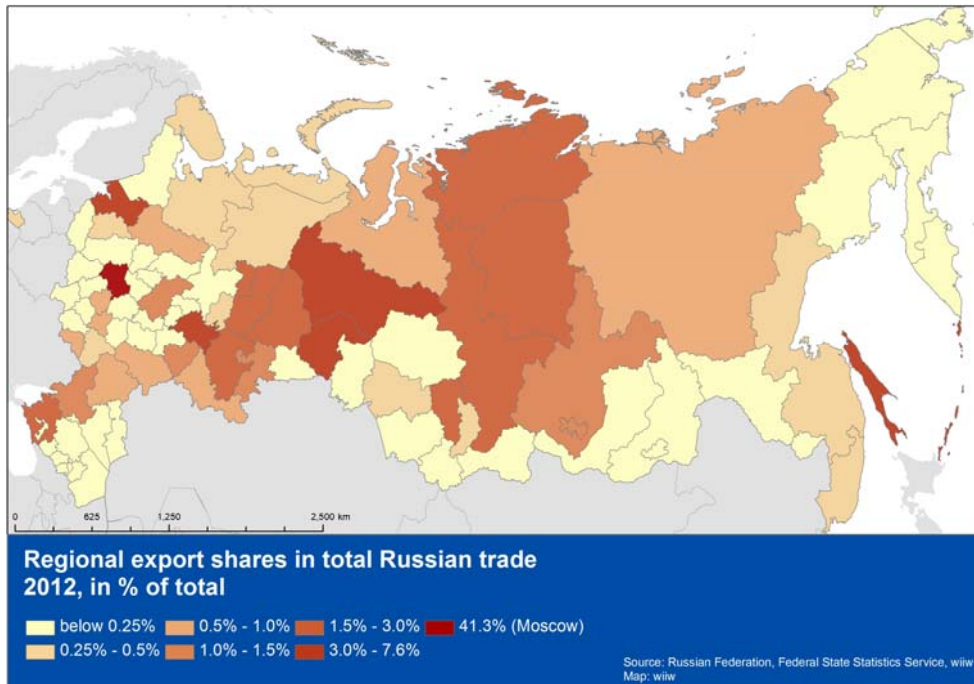
Source: Rosstat; wiiw calculations.

Figure 8 / Russia's main trading partners in the EU, 2014, in % of total EU trade with Russia



Source: Rosstat; wiiw calculations.

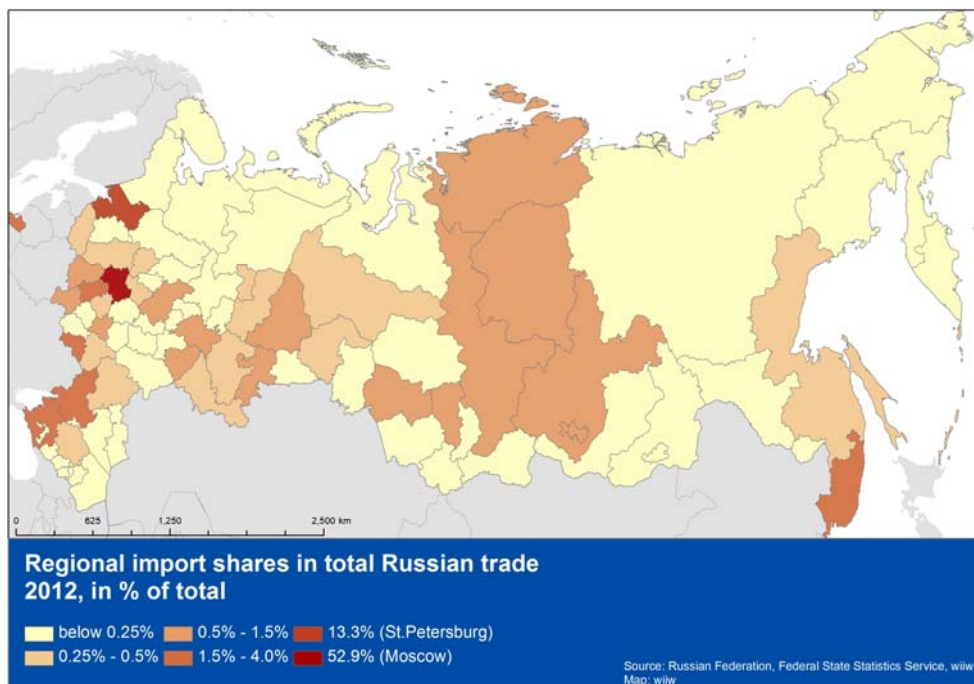
**Figure 9 / Regional export shares in total Russian trade 2012, in % of total**



Source: Russian Federation, Federal State Statistics Service, wiiw.

Map: wiiw.

**Figure 10 / Regional import shares in total Russian trade 2012, in % of total**



Source: Russian Federation, Federal State Statistics Service, wiiw.

Map: wiiw.

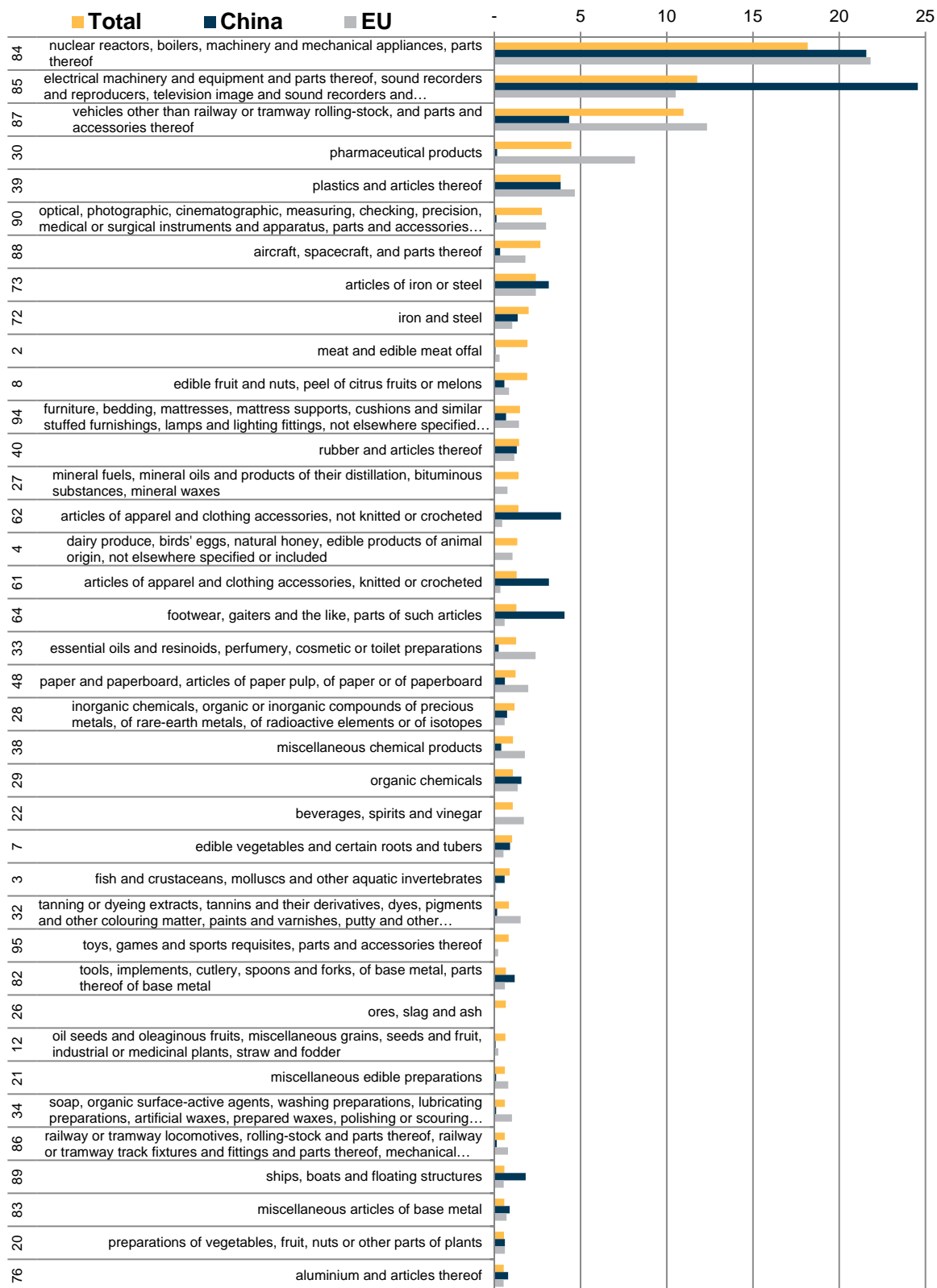
Last but not least, in this brief analysis of foreign trade development patterns, we shall look at the detailed commodity composition (by 2-digit HS commodity groups) in order to identify the potential scope of a declared trade reorientation from the EU to the east (mostly China). As shown in Figures 5-8, China has become the single most important trading partner of Russia as far as imports are concerned (17.8% of total imports in 2014). In exports, China was on par with Germany with 7.5% of exports each. (The figure for the Netherlands, nominally the biggest Russian export market with a 13.7% export share in 2014, is affected by Rotterdam port where a lot of Russian oil is traded and reloaded.) The question to be asked in this section is: Can China replace the EU as a source of Russian imports? What are the commodities where trade reorientation and substitution potential exists?<sup>22</sup>

Figure 11 shows the relative specialisation of Russian imports, comparing the overall import structure (by HS 2-digit commodity groups) with those of two major suppliers: the EU and China (together accounting for 60% of Russian imports in 2014). As can be seen, imports are heavily concentrated: the top 3 commodity groups account for more than 40% of the total (the concentration of imports from both China and the EU is even higher). Where is the largest potential or vulnerability for switching imports from the EU towards China? Figure 12 illustrates this by comparing major imports from the EU with those from China. The largest import gaps are in three commodity groups: nuclear reactors, boilers (HS84); other vehicles (HS87); and pharmaceuticals (HS30). Pharmaceuticals, in particular, are imported almost exclusively from the EU (imports worth almost USD 10 billion in 2014, more than 8% of imports from the EU) and would be most difficult to replace by imports from China where they represented less than 0.2% of total imports in 2014.

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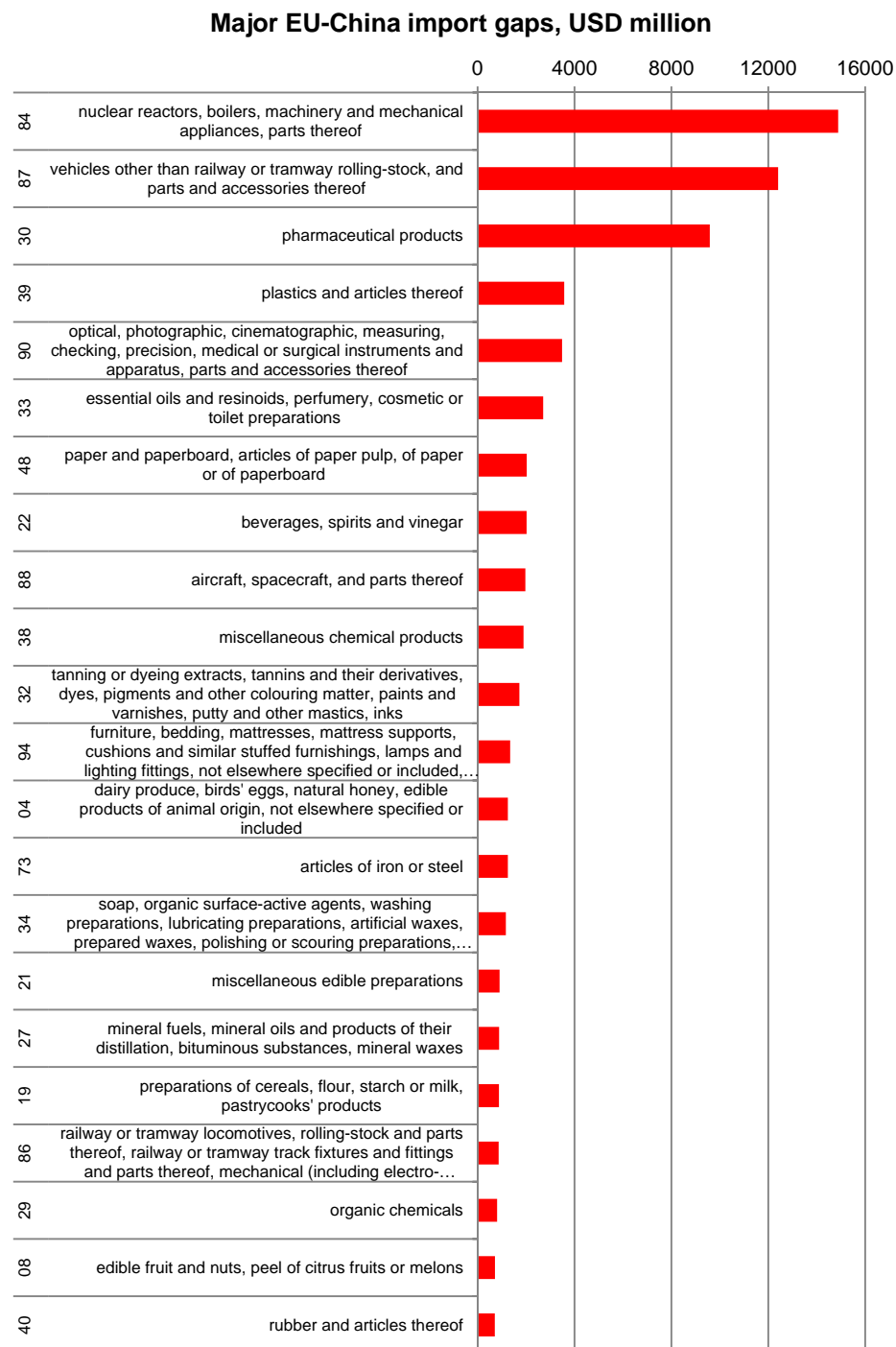
<sup>22</sup> We analyse here Russian imports only. As far as exports are concerned, mineral fuels dominate Russian exports to both destinations (more than 80% in exports to the EU and 74% in exports to China). At this stage, we do not discuss the issue of import substitution proper, e.g. the replacement of imports by domestic production (more on this see Deutsche Bank, 2014). Furthermore, we point out that Russian imports dropped by nearly 10% in 2014 compared to 2013.

**Figure 11 / Composition of Russian imports by HS 2-digit commodity groups (shares of selected commodity groups in total imports, imports from China and the EU), 2014**



Source: Own calculations based on Russian Customs Statistics.

Figure 12 / Russian imports by HS 2-digit commodity groups: EU vs China, 2014



Source: Own calculations based on Russian Customs Statistics.

## Gloomy prospects

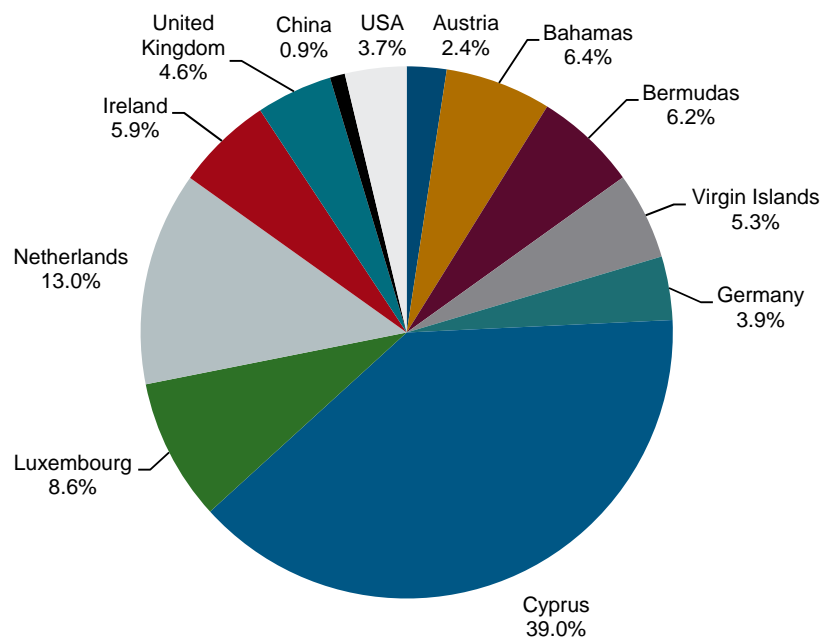
Russian economic prospects (and not only those) remain gloomy. The economy has been suffering from long lasting structural deficiencies, especially regarding the excessive dependence on energy, and from serious institutional bottlenecks which deter investments and stimulate capital flight. Recently, more assertive external policies represent another bottleneck for economic development. The sore point in external relations with adverse economic consequences has been Russia's bullying of Ukraine (as well as of Armenia, Georgia and Moldova) related to the signature of an Association Agreement/Deep and Comprehensive Free Trade Agreement (AA/DCFTA) with the EU at the Vilnius Eastern Partnership Summit in November 2013. Several crude attempts by Russia to prevent Ukraine from signing the AA/DCFTA with the EU prior to the Vilnius Summit, together with efforts to 'lure' Ukraine into joining the Russian-dominated Customs Union (CU) with Belarus and Kazakhstan instead, have led to a veritable tug-of-war with the EU. The latter, while claiming that 'this is not a choice between Moscow and Brussels' and presenting the AA/DCFTA as 'a contribution to creating the area of free trade between Lisbon and Vladivostok', was promising a speedier DCFTA implementation (see Havlik, 2013 and Adarov et al., 2015, for a more detailed discussion). The lacking progress in the diversification and modernisation of the economy, growing public apathy and widespread corruption, together with the slowdown in economic growth and dismal prospects, represent mutually interlinked features of the development problems of Putin's Russia. The country has been 'stuck in transition': without a new decisive reform push economic growth would remain unimpressive even under 'normal' circumstances.<sup>23</sup> As discussed above, voices advocating more anti-liberal approaches – also in the economy – have been gaining upper hand in Russia. In the context of strained external relations, industrial policy tools, mainly in the form of increased state interventions in the economy and import substitution efforts, are expected to be more broadly used.

Apart from the sharply worsened investment climate, it has been the missing progress in the long overdue diversification and modernisation that has been the main obstacle to a revival of economic growth. The conflict over Ukraine (which may be frozen with a ceasefire but not fully resolved in the foreseeable future) and ever more assertive domestic and external policies represent an even more serious modernisation bottleneck. Nevertheless, and despite rising tensions, Russia succeeded as planned in launching the Eurasian Economic Union (EAEU) on the basis of the Customs Union with Belarus and Kazakhstan in January 2015. Besides the free trade area in goods (with some important exceptions such as energy), the agreement envisages also free movement of labour, capital and services among the participating countries (Armenia already joined the EAEU in January 2015 and Kyrgyzstan joined in mid-2015 as well). In theory, coordinated economic policies among EAEU members will use 'Maastricht-like' indicators such as limits on budget deficit, government debt, inflation and interest rates. Needless to say, Russian policies towards Ukraine and the unilateral (without consent of other EAEU partners) imposition of import restrictions elevated the conflict potential in EAEU integration. The current recession affecting all EAEU member states and trade disruptions due to unilateral Russian actions have not been instrumental to the smooth functioning of the EAEU either.

<sup>23</sup> The terms 'stuck in transition' was used first by the EBRD, referring to the majority of transition countries in general (EBRD, 2013).

The collapse of the oil price, depreciation of the rouble and the related spike of inflation once more underlined Russia's long lasting structural vulnerabilities. In this context, industrial policy tools, mainly in the form of increased state interventions in the economy, will be more broadly used. However, turning inward, hampering or even abandoning the integration with Europe, and reducing foreign investment and technology imports will additionally impair the envisaged modernisation and diversification strategies. Without a 'reset' of external relations with Europe and a resolution of the Ukraine conflict, the success chances for a sustainable Russian development in the medium and long run are rather poor.

**Figure 13 / Russian inward FDI stocks: USD 566.5 billion, end-2013**



Source: wiiw FDI Database incorporating national statistics (CBR); own estimates.

Summing up, Russia is facing a recession (GDP is expected to drop by nearly 4% in 2015) and prospects for sustainable recovery have markedly deteriorated. Apart from lasting Western sanctions – which result in a sharply deteriorating investment climate, higher risks and capital outflows – it is especially the collapse of the oil price and the associated rouble depreciation which cause the most economic damage. Even barring a further escalation of the Ukraine conflict, modernisation ambitions will doubtlessly suffer also in the medium and long run due to lower FDI inflows and reduced imports of advanced technologies – despite efforts to mobilise additional domestic resources and import substitution programmes. Hopes that more serious damage to the relations with the EU and other neighbours of Russia could be avoided have not materialised so far. Still, the resolution of the conflict at the negotiation table – where topics may include the implementation of the EU's Association Agreements with Georgia, Moldova, and Ukraine, as well as the future cooperation between the EAEU and the EU – remains preferable to further escalation.<sup>24</sup> In any case, the serious and most likely lasting damage to Russian external relations with Ukraine and the West will be very difficult to repair, hindering the future development of the whole post-Soviet space.

<sup>24</sup> The full implementation of the AA/DCFTA between the EU and Ukraine was delayed until end-2015 according to the trilateral agreement between Russia, Ukraine and the EU from 16 September 2014 – see [http://europa.eu/rapid/press-release\\_STATEMENT-14-280\\_en.htm](http://europa.eu/rapid/press-release_STATEMENT-14-280_en.htm).



**Table 2 / Russia: selected economic indicators**

	2010	2011	2012	2013	2014 <sup>1)</sup>	2015	2016	2017
						Forecast		
Population, th pers., average <sup>2)</sup>	142,861	142,961	143,202	143,507	144,000	144,000	144,000	144,000
Gross domestic product, RUB bn, nom.	46,309	55,967	62,147	66,194	70,976	77,500	82,800	89,300
annual change in % (real)	4.5	4.3	3.4	1.3	0.6	-3.9	1.9	2.0
GDP/capita (EUR at exchange rate)	8,000	9,600	10,900	10,900	9,800	.	.	.
GDP/capita (EUR at PPP)	15,600	17,000	18,400	18,800	18,700	.	.	.
Consumption of households, RUB bn, nom.	23,618	27,193	31,019	34,672	38,099	.	.	.
annual change in % (real)	5.5	6.8	7.8	5.0	1.9	-6.0	2.0	2.5
Gross fixed capital form., RUB bn, nom.	10,014	11,950	13,639	14,487	14,690	.	.	.
annual change in % (real)	5.9	9.1	6.6	1.4	-2.5	-10.0	5.0	3.0
Gross industrial production <sup>3)</sup>								
annual change in % (real)	7.3	5.0	3.4	0.4	1.7	1.0	3.0	3.0
Gross agricultural production								
annual change in % (real)	-11.3	23.0	-4.8	5.8	3.7	.	.	.
Construction output								
annual change in % (real)	5.0	5.1	2.5	0.1	-4.5	-10.0	5.0	5.0
Employed persons, LFS, th, average <sup>2)</sup>	69,934	70,857	71,545	71,391	71,524	71,000	71,500	72,000
annual change in %	0.8	1.3	1.0	-0.2	0.2	-0.7	0.7	0.7
Unemployed persons, LFS, th, average <sup>2)</sup>	5,544	4,922	4,131	4,138	3,889	4,000	4,000	4,000
Unemployment rate, LFS, in %, average <sup>2)</sup>	7.3	6.5	5.5	5.5	5.2	5.3	5.3	5.3
Reg. unemployment rate, in %, end of period <sup>2)</sup>	2.1	1.7	1.4	1.2	1.2	.	.	.
Average monthly gross wages, RUB	20,952	23,369	26,629	29,960	32,000	34,000	.	.
annual change in % (real, gross)	5.2	2.8	8.4	5.2	-1.0	-4.5	.	.
Consumer prices, % p.a.	6.9	8.5	5.1	6.8	7.8	11.0	8.0	6.0
Producer prices in industry, % p.a. <sup>4)</sup>	14.9	17.3	6.8	3.4	6.1	6.0	5.0	5.0
General governm.budget, nat.def., % of GDP								
Revenues	34.6	37.3	37.2	36.9	37.2	.	.	.
Expenditures	38.0	35.7	36.7	38.2	38.3	.	.	.
Deficit (-) / surplus (+)	-3.4	1.5	0.4	-1.3	-1.2	-3.0	-5.0	-2.0
Public debt, nat.def., % of GDP <sup>5)</sup>	8.4	9.0	10.0	10.5	11.8	15.0	15.0	13.0
Central bank policy rate, % p.a., end of period <sup>6)</sup>	7.75	8.00	8.25	5.50	17.00	10.0	.	.
Current account, EUR mn <sup>7)</sup>	50,853	69,855	55,452	25,701	42,665	30,000	35,000	40,000
Current account, % of GDP	4.4	5.1	3.6	1.6	3.0	3.1	3.2	3.1
Exports of goods, BOP, EUR mn <sup>7)</sup>	296,041	370,131	410,300	393,911	371,423	320,000	330,000	350,000
annual change in %	38.8	25.0	10.9	-4.0	-5.7	-13.8	3.1	6.1
Imports of goods, BOP, EUR mn <sup>7)</sup>	185,221	228,764	261,202	256,951	231,763	200,000	220,000	240,000
annual change in %	40.3	23.5	14.2	-1.6	-9.8	-13.7	10.0	9.1
Exports of services, BOP, EUR mn <sup>7)</sup>	37,062	41,680	48,495	52,787	50,115	45,000	47,000	50,000
annual change in %	12.7	12.5	16.4	8.8	-5.1	-10.2	4.4	6.4
Imports of services, BOP, EUR mn <sup>7)</sup>	56,753	65,706	84,736	96,657	91,200	80,000	80,000	85,000
annual change in %	24.7	15.8	29.0	14.1	-5.6	-12.3	0.0	6.3
FDI inflow (liabilities), EUR mn <sup>7)</sup>	32,545	39,557	39,353	53,187	20,000	20,000	30,000	50,000
FDI outflow (assets), EUR mn <sup>7)</sup>	39,668	48,008	37,980	65,275	45,000	50,000	60,000	50,000
Gross reserves of CB, excl. gold, EUR mn <sup>8)</sup>	335,251	350,786	367,323	341,787	279,383	.	.	.
Gross external debt, EUR mn <sup>7)</sup>	369,219	416,416	480,440	530,481	493,528	.	.	.
Gross external debt, % of GDP	32.1	30.4	30.9	33.9	35.1	.	.	.
Exchange rate RUB/EUR, average	40.3	40.9	39.9	42.3	50.5	80.0	75.0	70.0
Purchasing power parity RUB/EUR <sup>9)</sup>	20.7	23.1	23.6	24.5	26.4	.	.	.

1) Preliminary and wiiw estimates. - 2) According to census October 2010. - 3) Excluding small enterprises. - 4) Domestic output prices. - 5) wiiw estimate. - 6) From 2013 one-week repo rate, refinancing rate before. - 7) Converted from USD and based on BOP 6th edition. - 8) Including part of resources of the Reserve Fund and the National Wealth Fund of the Russian Federation. - 9) wiiw estimates based on the 2011 International Comparison Project benchmark.

Source: wiiw Databases incorporating national statistics. Forecasts by wiiw.



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