



# BOFIT Forecast for Russia 2023-2024

14 September 2023  
Teams Webinar

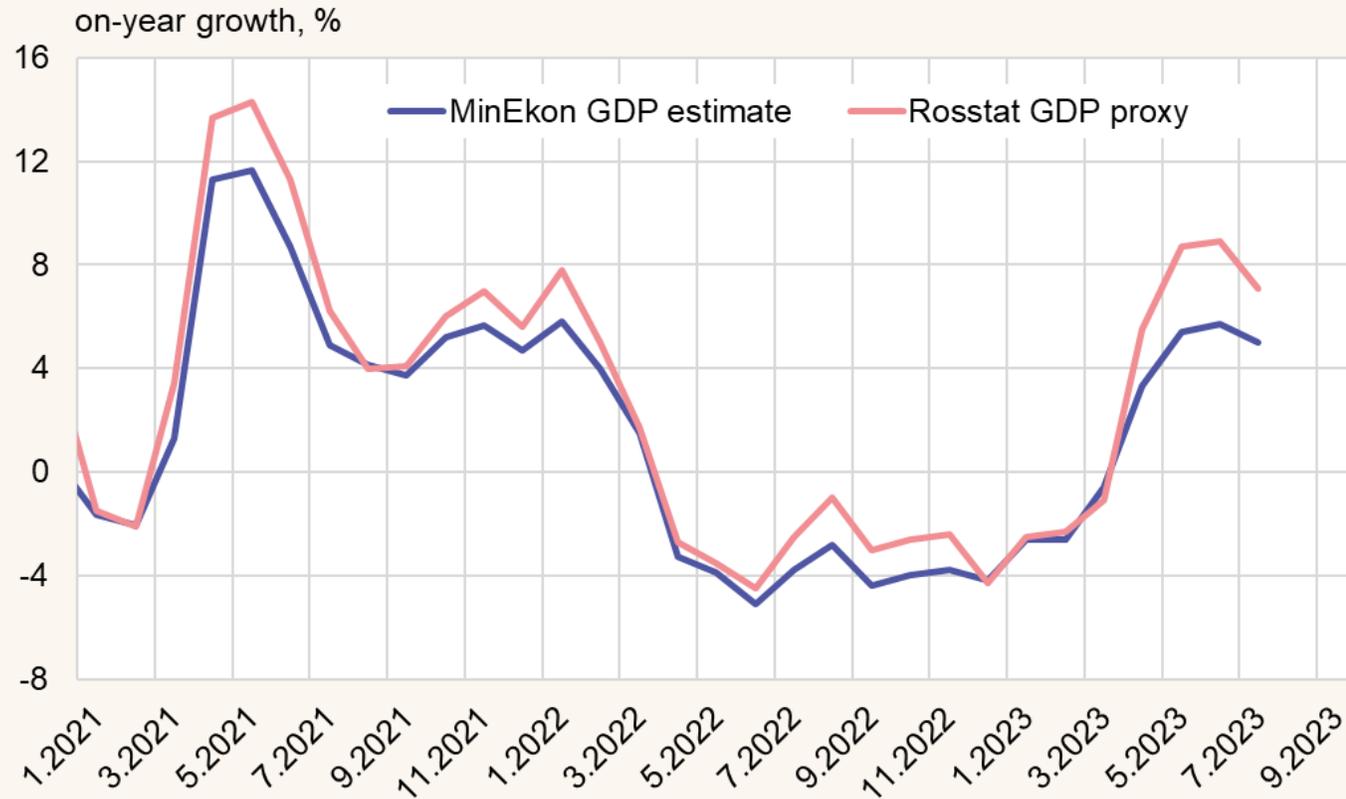


# BOFIT Russia forecast 2023-2024

14 September 2023

Laura Solanko  
Bank of Finland

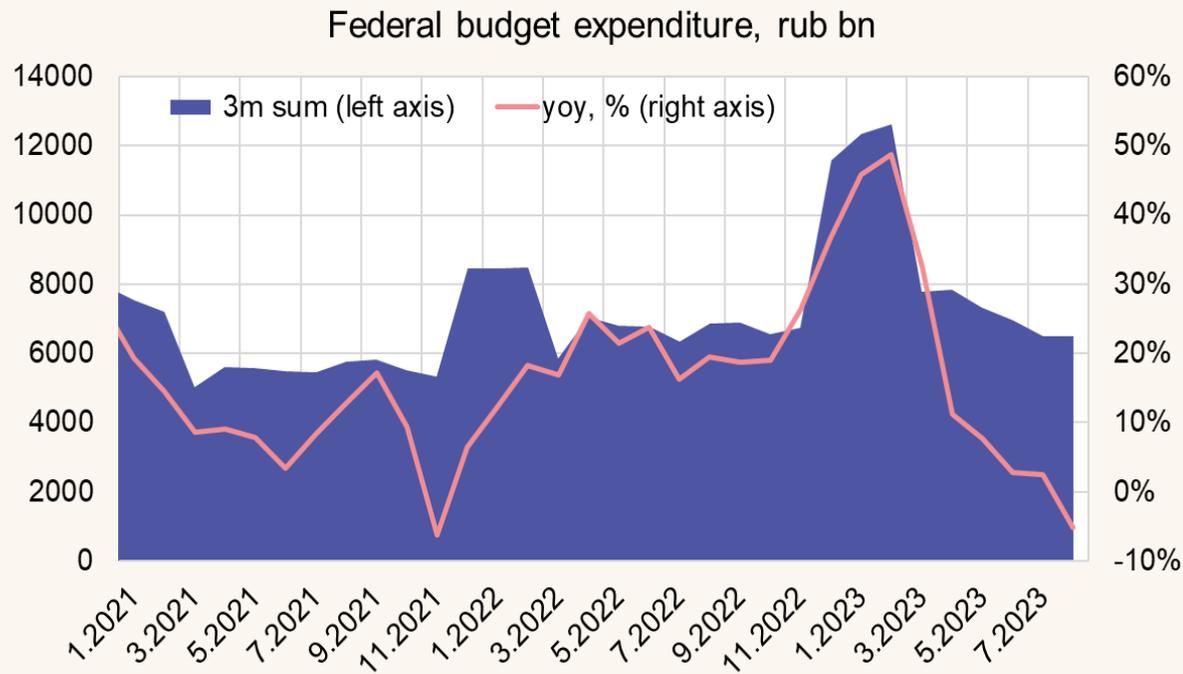
# Economic growth turned positive in 2Q2023 (the low reference base of 2Q2022 helped)



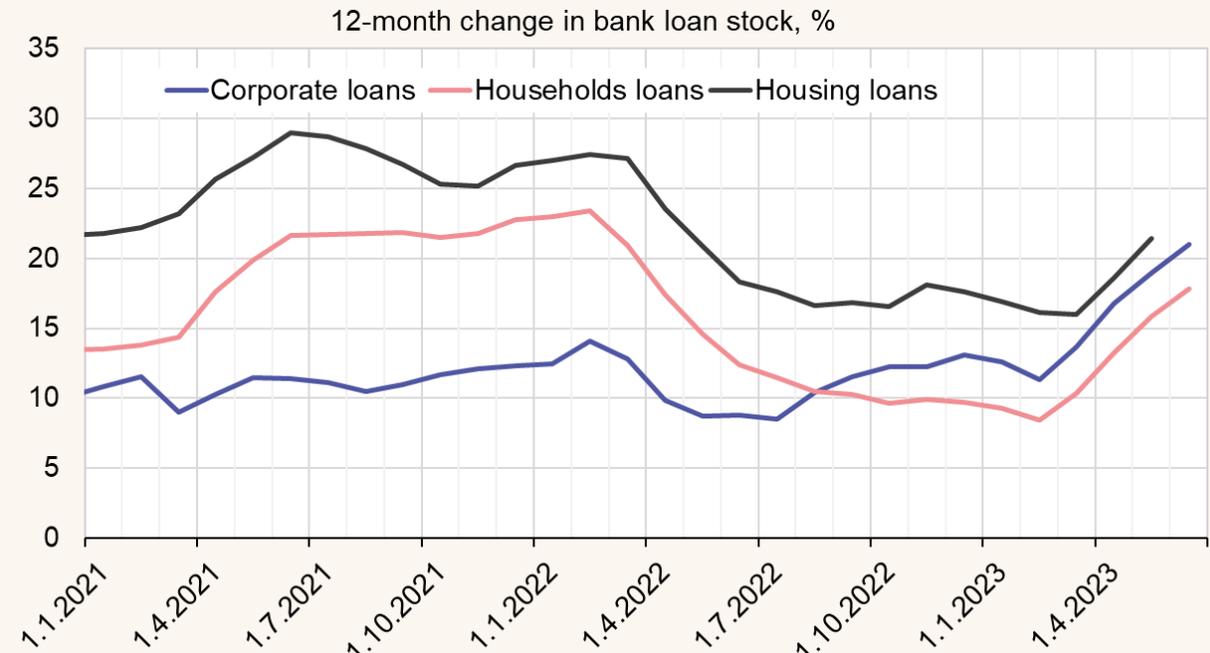
Sources: MinEkon, Rosstat, CEIC, BOFIT. Rosstat GDP proxy is the output index for key economic activities.

- Rosstat's first estimate for GDP in
  - 1q23 -1.8 % yoy
  - 2q23 + 4.9 % yoy
  - 1H23 + 1.6 % yoy
- Retail trade + 3.7%, manufacturing + 1%, household services -0.6 % mom in July

# Economic adjustment is supported by public expenditures and bank lending

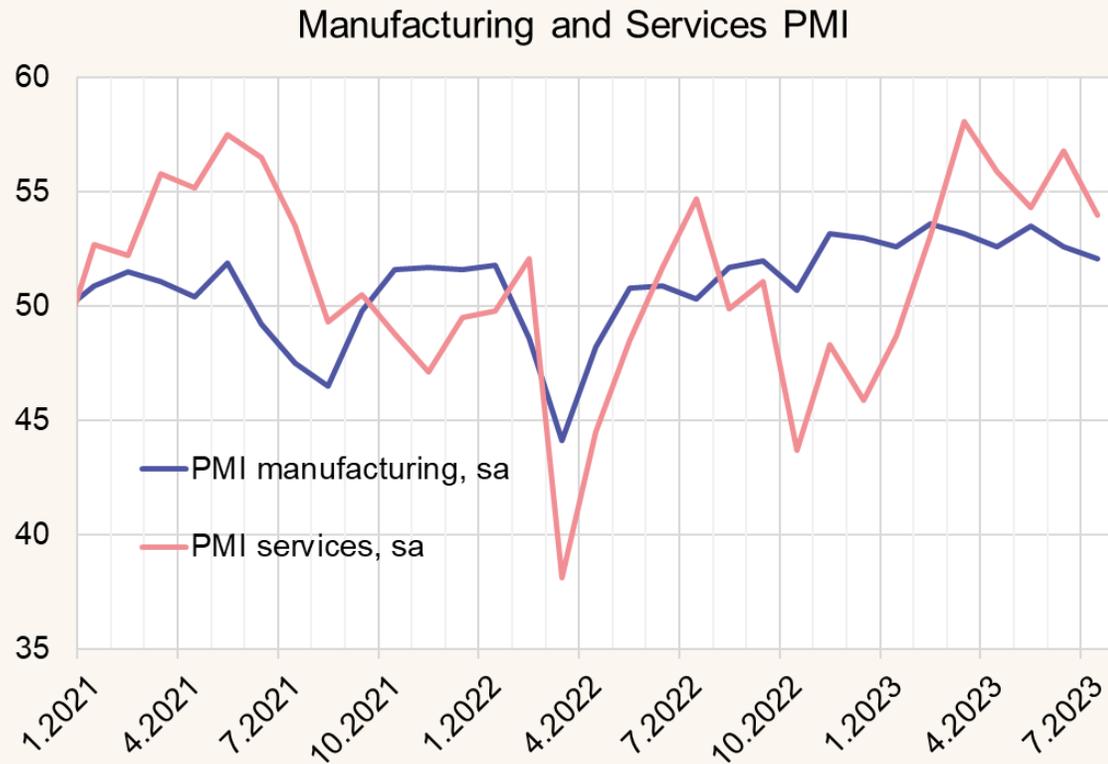


Source: MinFin, CEIC, BOFIT.

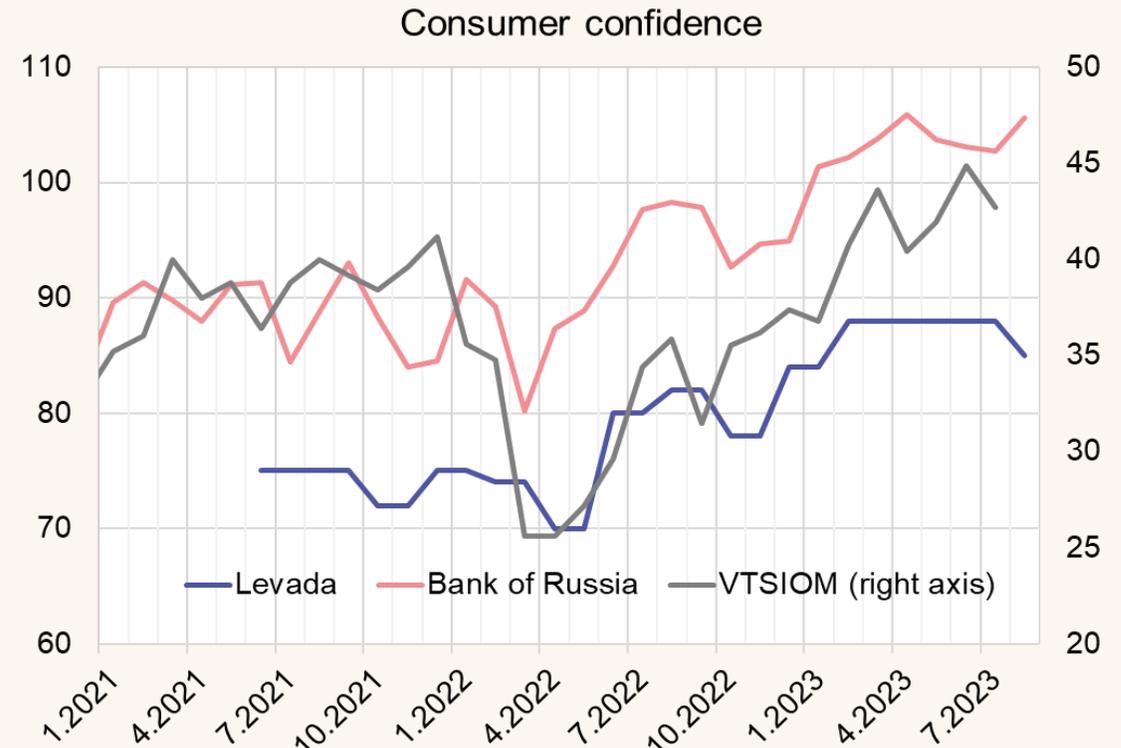


Source: CBR, BOFIT.

# At least survey respondents expect growth to continue



Source: S&P Global, CEIC, BOFIT.



Sources: Levada, CBR, VTSIOM, CEIC, BOFIT

# Russia's GDP in 2023 will be ~2 % higher than in 2022

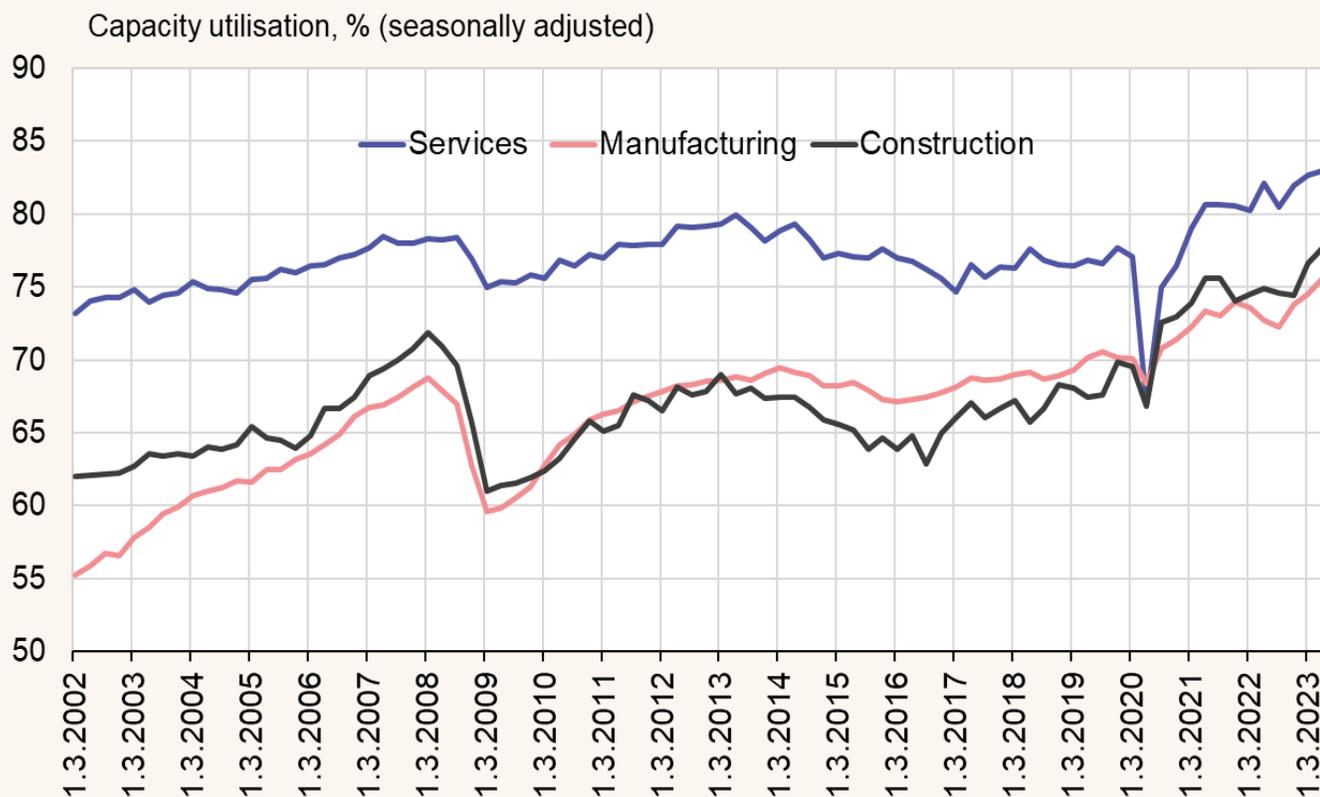
## Annual change in Russian GDP

2020	2021	2022	2023	2024
- 3 %	6 %	- 2 %	2 %	1 %

Sources: 2020-2022 Rosstat figures released on 7 April 2023; 2023–2024 BOFIT forecast on 14 September 2023

- There are risks to the upside...
  - Public investments may get an additional boost in 2H23
  - Public expenditures may continue to grow in 2024 (elections)
- ...But also serious downside risks
  - Capacity limits
  - Limits to government borrowing
  - External environment
  - Uncertainty

# Capacity constraints – labour and fixed capital

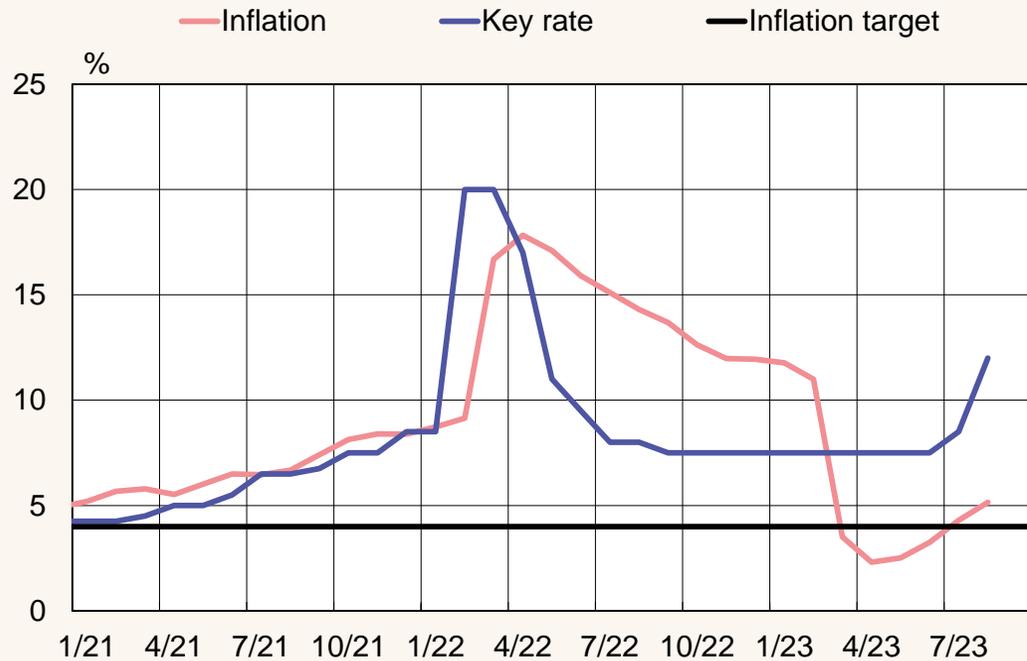


- Capacity utilization is at record high levels
- Unemployment rates at historical lows
  - wages +13 % yoy in 1H2023 (+ 20 % in some sectors)
- For growth to continue, productivity should increase

Source: Central Bank of Russia

# Limits to growth - prices

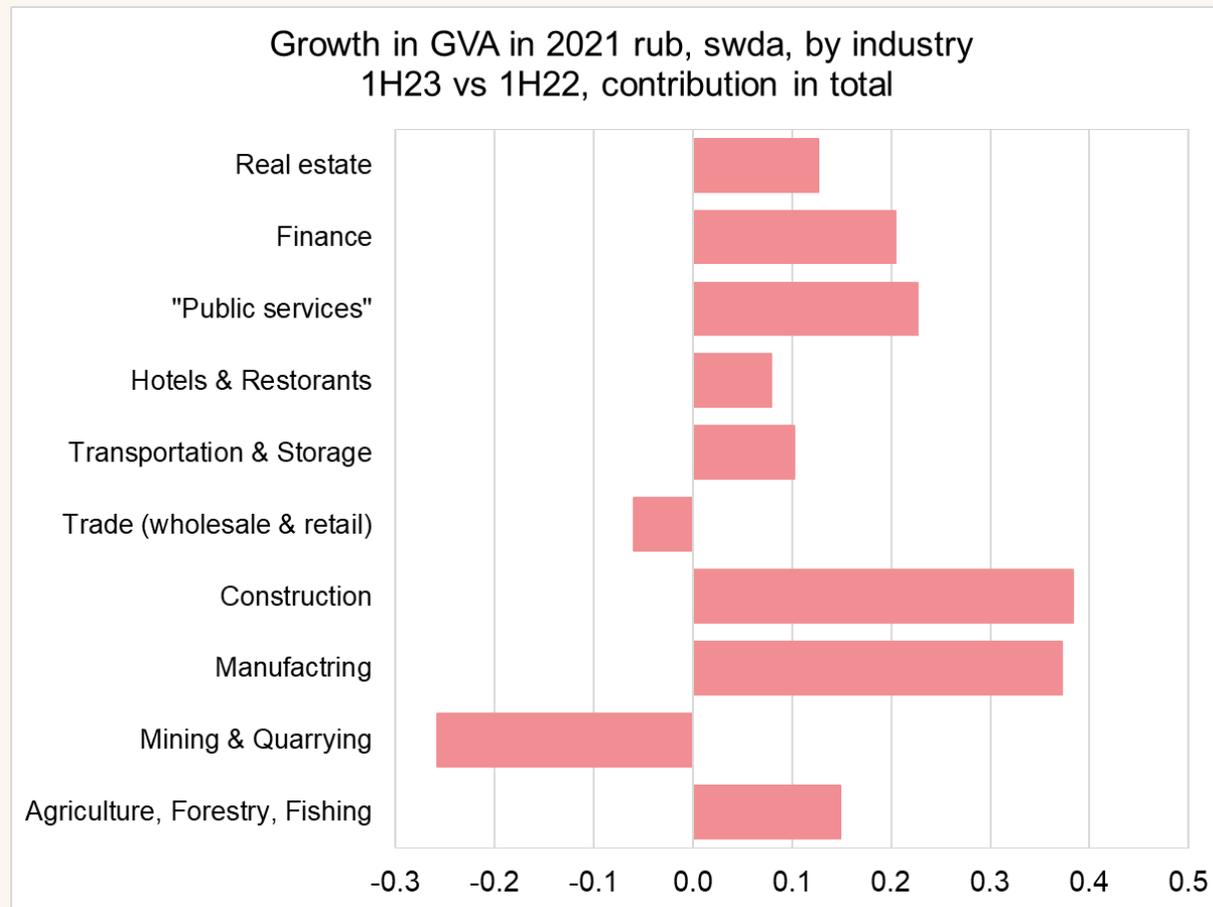
Russia's consumer price inflation and key rate



Source: CEIC/Bank of Russia and Rosstat.

- Supply bottlenecks lead to price pressures
- Both inflation and inflation expectations are up
- Increase in key rate translates into higher lending rates
  - Interest-rate support programmes become more expensive for the budget
  - Government borrowing costs up

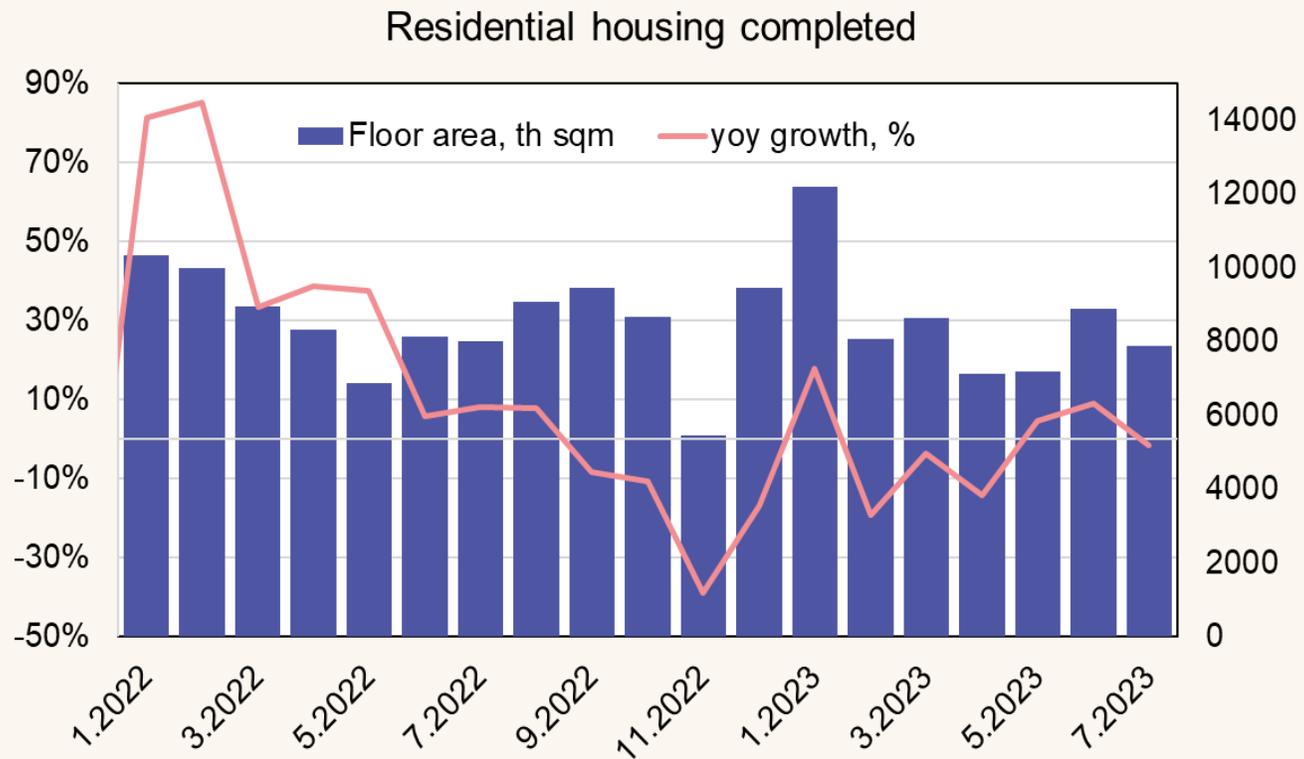
# Growth is driven by construction, manufacturing and services



Source: Rosstat 8.9.2023, CEIC, BOFIT. "Public services" is composed of public administration, health and education.

- Construction, manufacturing and services seem to drive growth
- Some caution is in order, as 1H2023 figures will certainly be subject to change.
  - And within-sector changes have been remarkable

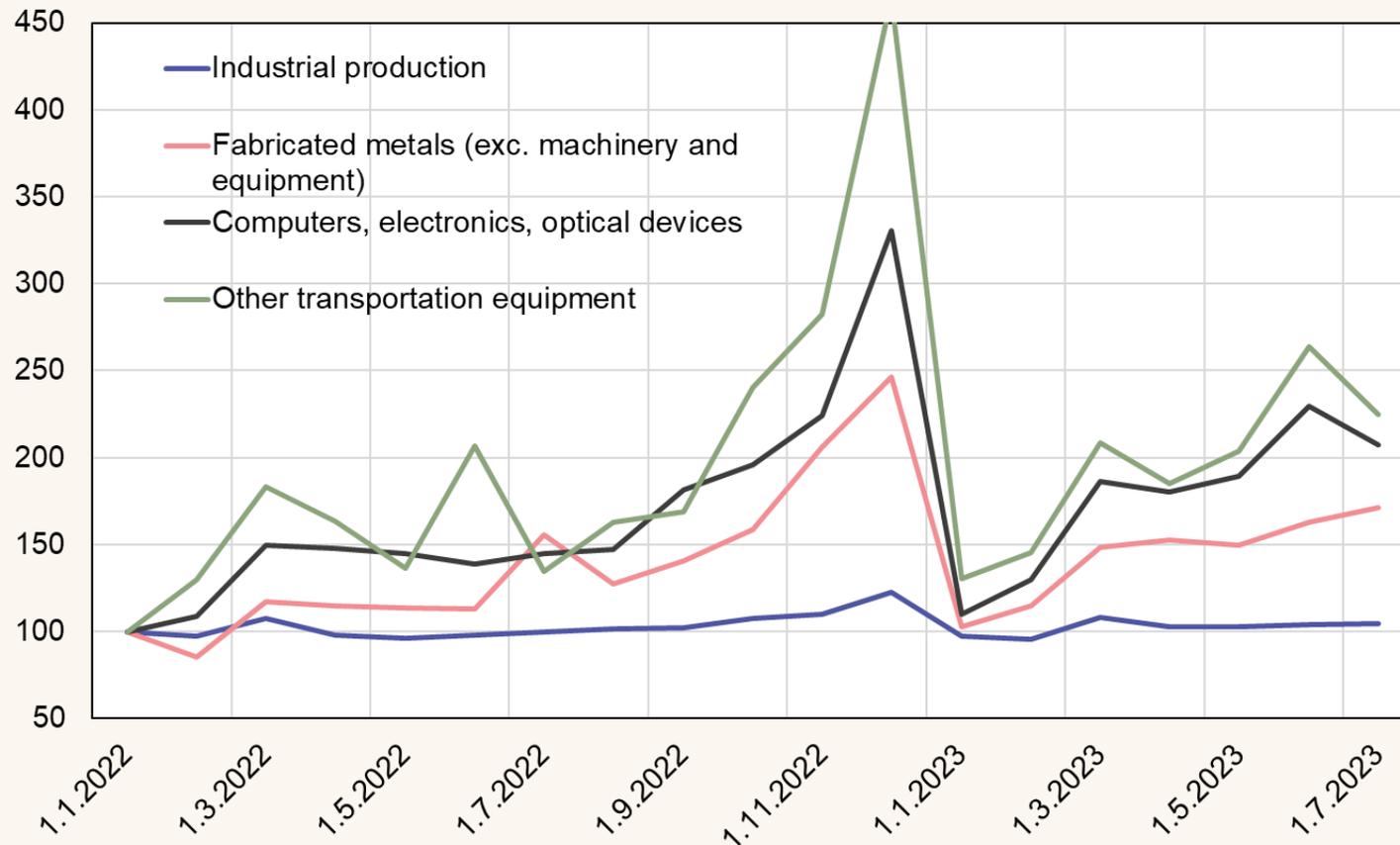
# Growth in construction not as broad-based as the headline figures would suggest



Source: Rosstat, CEIC, BOFIT.

- Growth unlikely to be driven by residential construction
  - Floor area completed in Jan-July 2023 decreased -1% yoy, in July -1.6 %
  - Construction works value increased 8.7 % yoy in Jan-July

# Growth in manufacturing not as broad-based as the headline figures would suggest



Source: Vesala (2023): Reorientation and rocket launchers? Regional insights on Russia's wartime economy. Forthcoming BOFIT Policy Brief

- Rapid growth recorded mainly in branches associated with the military industry
- Production at some other sectors (automobiles, wood) well below pre-war levels
- Slow restructuring towards a war economy

# Our current forecast is subject to exceptionally high uncertainty.

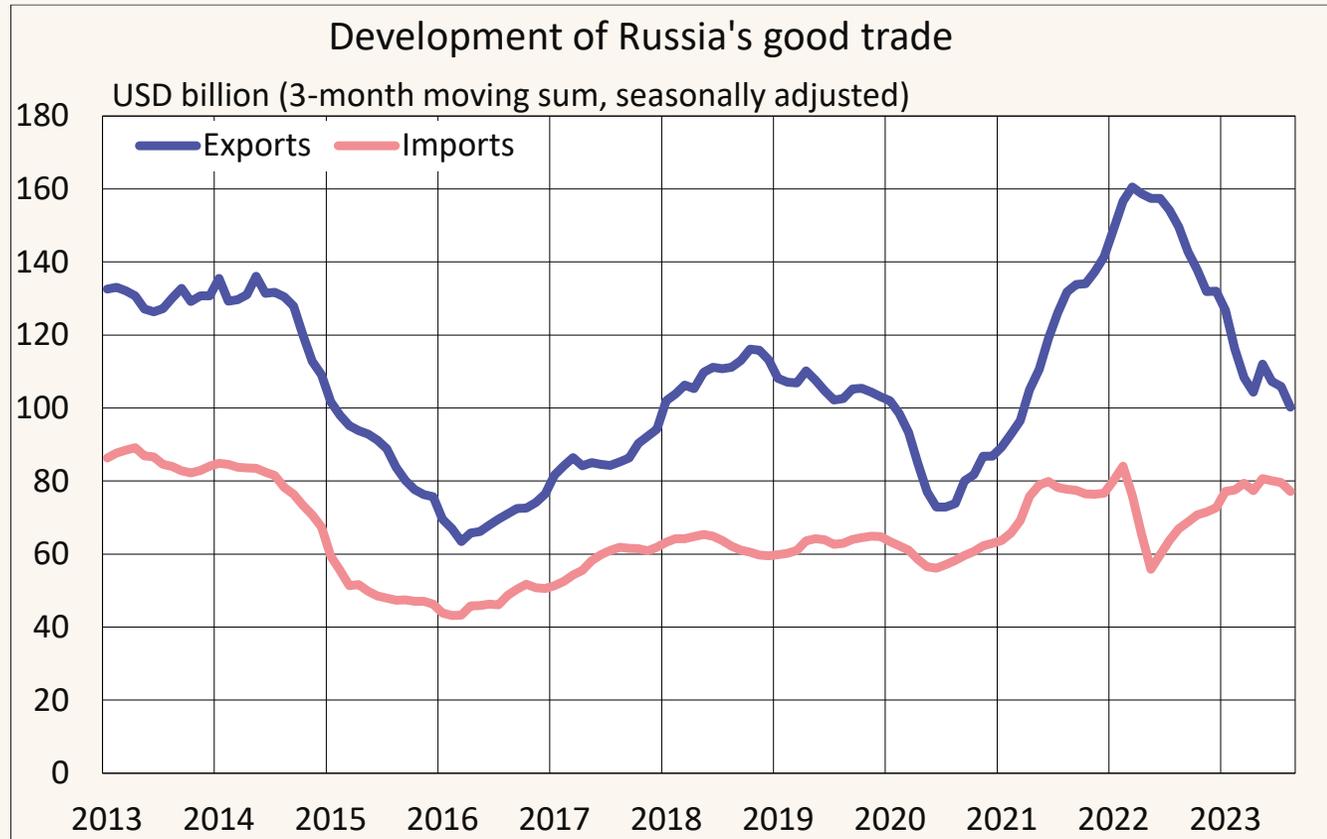
1. *Transition to a war economy has changed Russian policy priorities (fiscal expansion, capital controls, industrial policy).*
2. *Not all data is available (e.g. net exports is still a bit of a mystery)*
3. *Correctly accounting for a change in GDP structure is challenging (more arms, less civilian production)*



# Russia's foreign trade developments during the war

Heli Simola  
Bank of Finland

# Russia's foreign trade trends look very different in 2023 compared to 2022

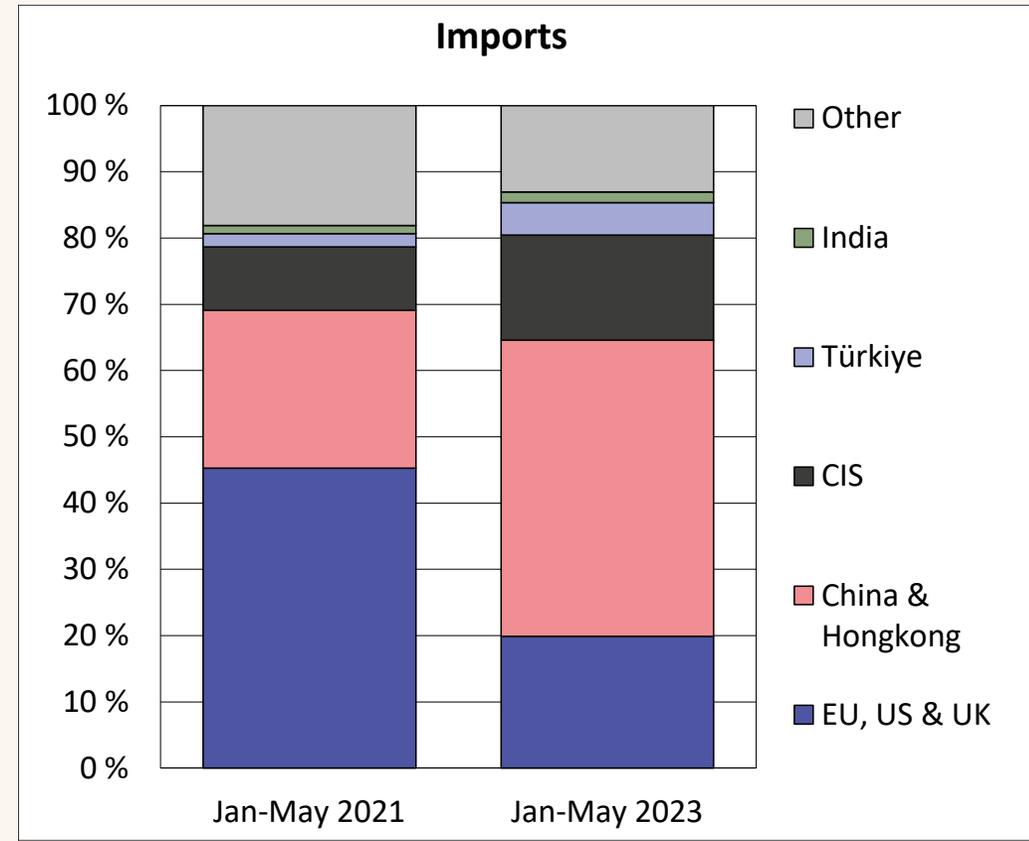
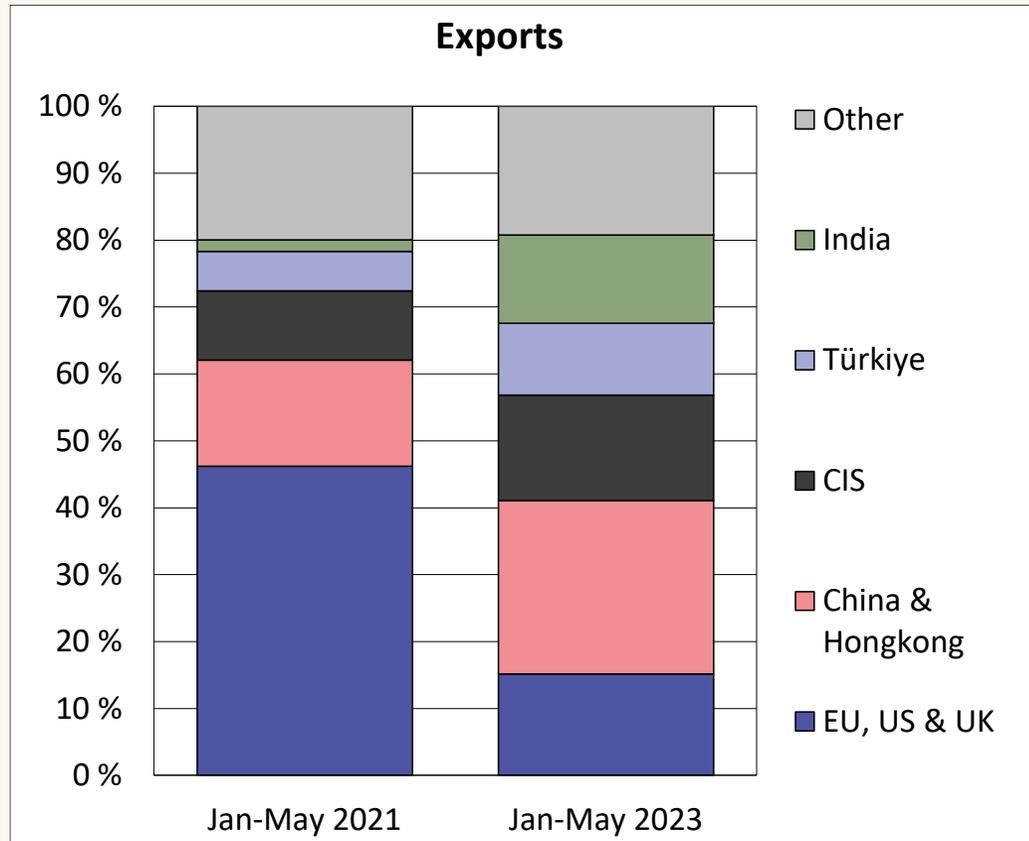


Sources: CEIC/Bank of Russia, BOFIT.

Last data point Aug 23

- Sharp decline in export revenues
  - Sanctions & global commodity price developments
  - But level not exceptionally low
- Strong rebound in imports
  - Pre-war level reached in value terms
  - Recently moderating development e.g. due to ruble weakening

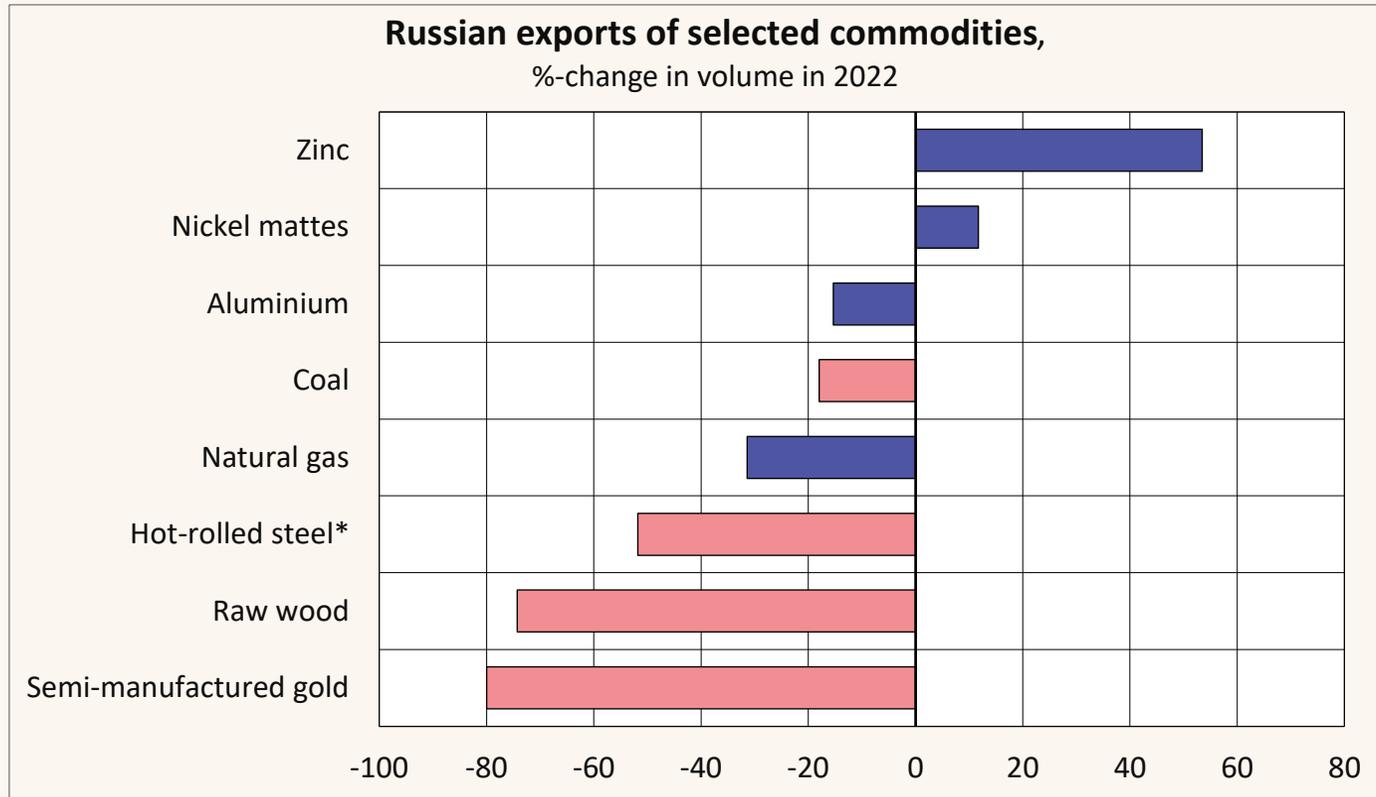
# Geographical structure of Russia's goods trade has changed substantially



Note. Here CIS includes Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyz Rep. & Uzbekistan.

Source: BOFIT calculations on mirror statistics from the IMF DOTS.

# Effect of sanctions has been visible in Russia's export volume of certain products..



- Restrictions imposed on several Russia's export goods
  - Oil, coal, gold, wood, steel etc.
- Restrictions cover e.g. 58% of EU goods imports from Russia

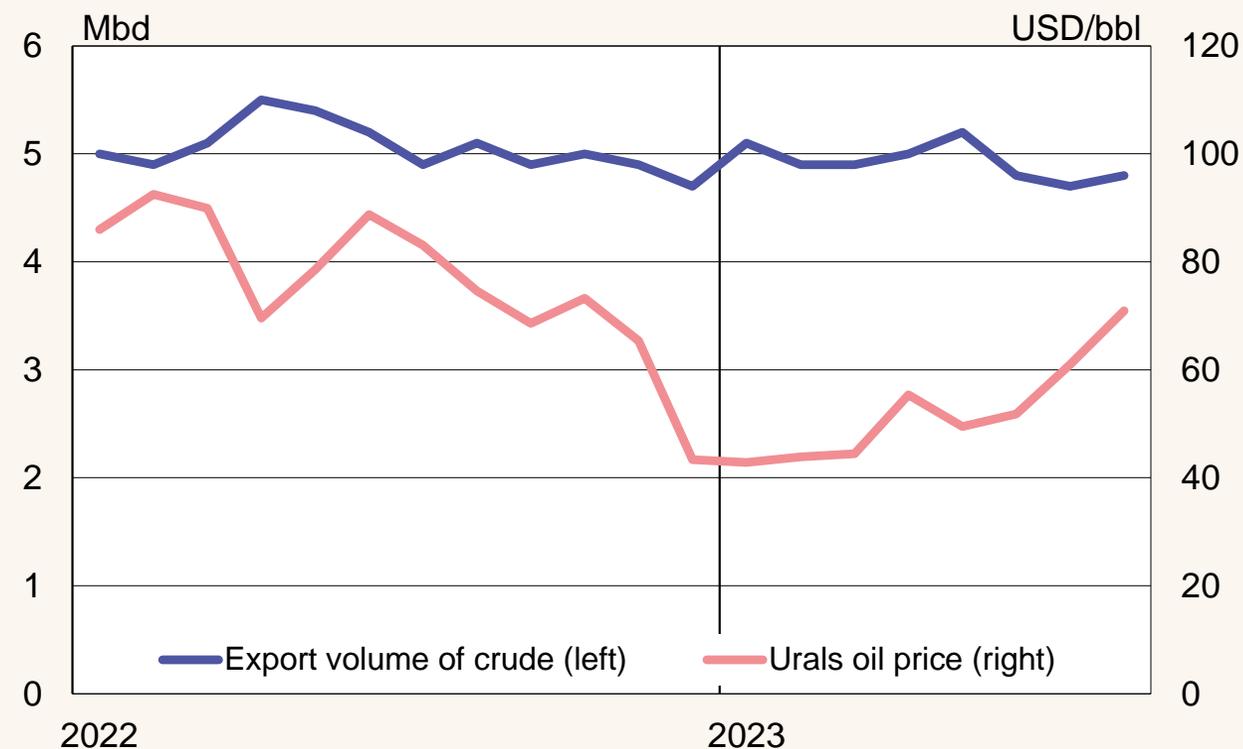
Note. Pink bars indicate goods which imports from Russia to the EU are restricted

\* HS 7208

Sources: BP (natural gas), UN Comtrade.

# ..and export prices of Urals oil

Russia's crude oil export volume and Urals oil price



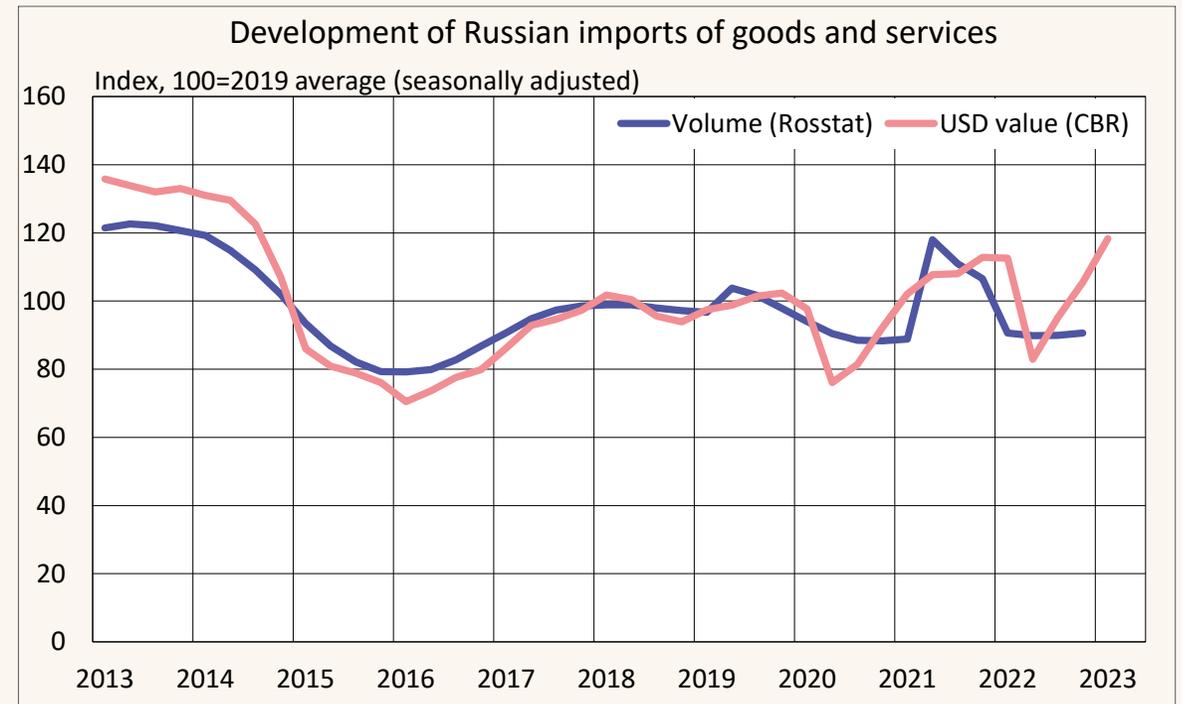
Source: IEA.

Last data point Aug 23

- EU import restrictions and G7&EU price cap mechanism
- Russian crude has been sold with a substantial discount
  - Platts estimate ~28 USD/bbl in 2023 on average
- Recently Urals oil price has climbed above the G7-EU price cap
  - Global price developments
  - Alternative service providers

# Russian imports have recovered in value terms, but development of volumes appears more sluggish

- Price developments have affected also Russian imports
  - In value terms, imports have reached pre-war level
  - In volume terms still 15 % lower at end-2022
- Higher import prices
  - Global inflation
  - More complex transport and payment schemes
  - Increased bargaining power of fewer suppliers



Sources: CEIC / Rosstat & Bank of Russia.

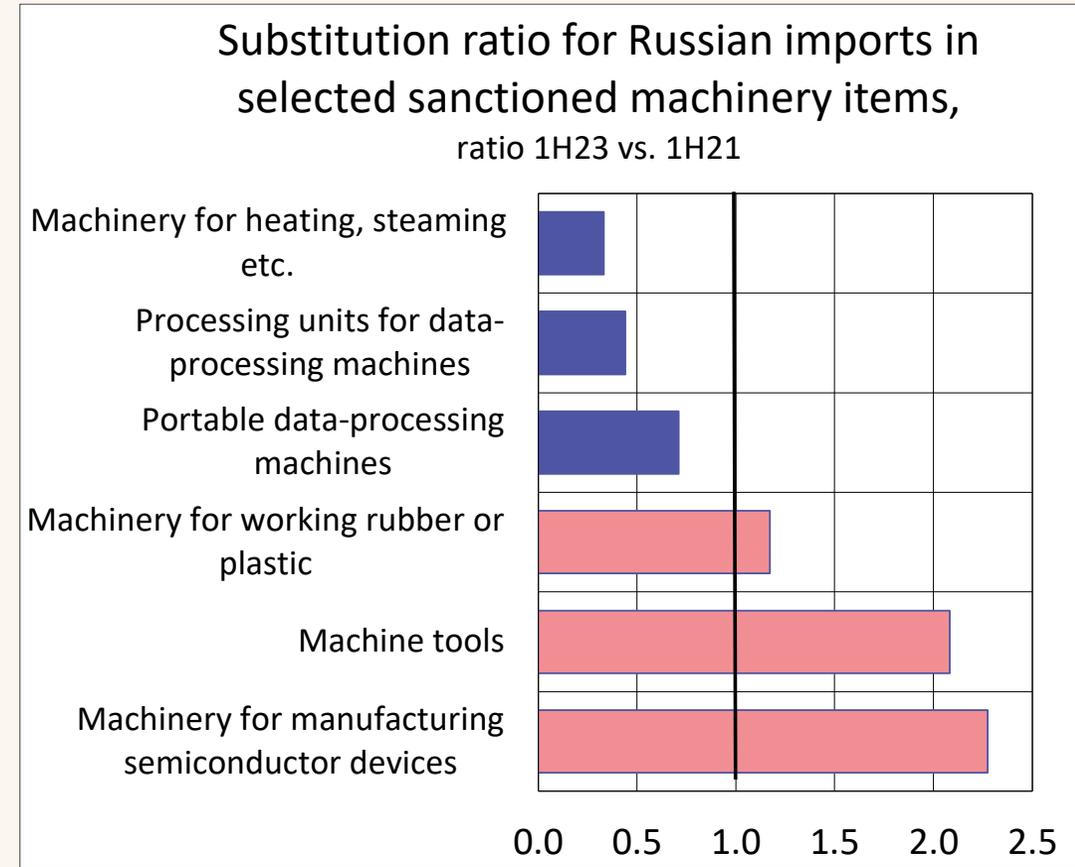
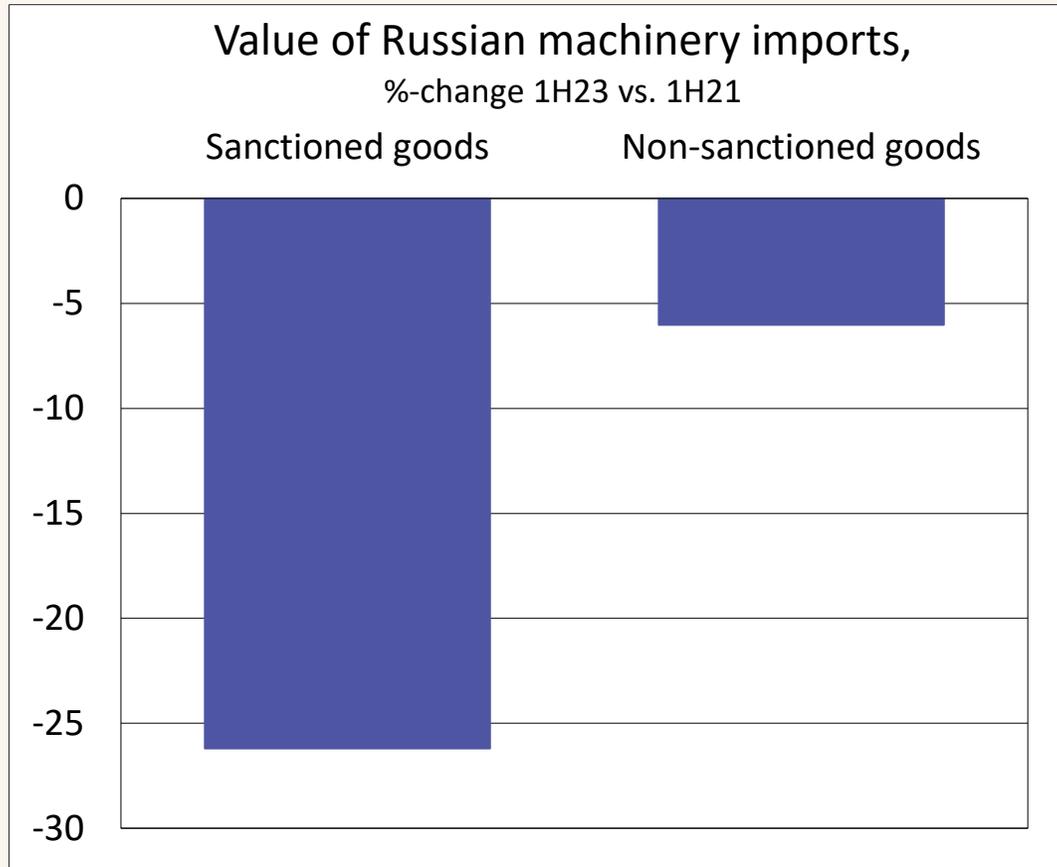
# Imports of capital goods & transport equipment most heavily down



Source: Worldbank WITS.

- Export restrictions cover e.g. 48% of EU goods exports to Russia
- Key aim to restrict capabilities of Russia's military industry
  - Focus on transport equipment, machinery & equipment

# Sanctions have cut Russian imports of numerous technology goods, but not all

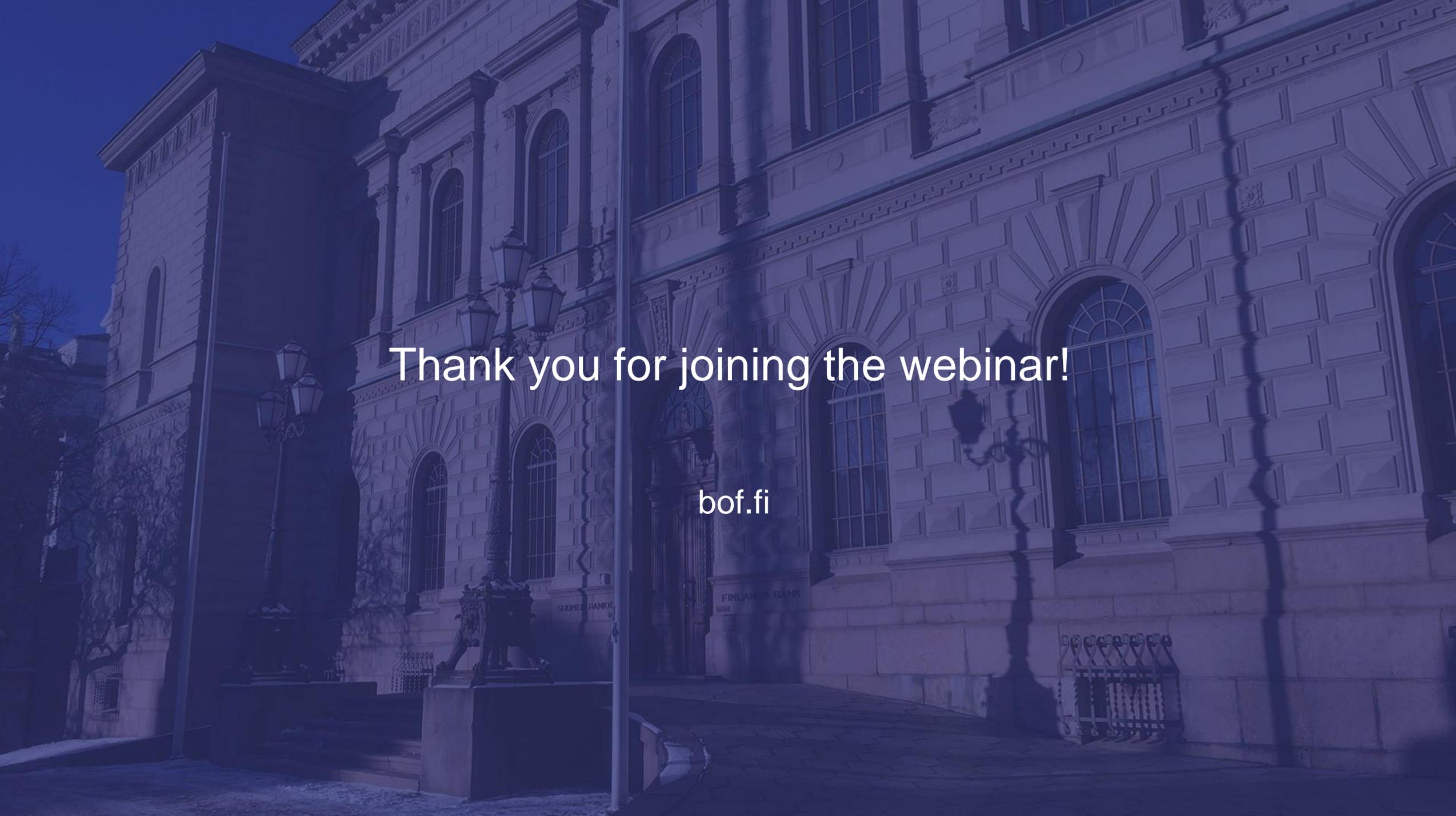


Note. Calculated from mirror statistics. Machinery refers to HS2 group 84.  
 Source: BOFIT calculations based on Global Trade Tracker data.

A blue-tinted photograph of the Finnish Bank building. The building is a grand, classical-style structure with multiple stories, arched windows, and a prominent entrance. In the foreground, there are ornate street lamps and a lion sculpture. The text 'THANK YOU' is overlaid in white, bold, sans-serif font in the center of the image. Below it, the website 'bof.fi' is also overlaid in white, sans-serif font. The overall mood is professional and appreciative.

THANK YOU

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Thank you for joining the webinar!

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