

MONITORING OF RUSSIA'S ECONOMIC OUTLOOK:

TRENDS AND CHALLENGES OF SOCIO-ECONOMIC DEVELOPMENT

No. 8(152) July 2022

1. BALANCE OF PAYMENTS IN Q2 2022 Bozhechkova A., Knobel A., Trunin P.	3
2. CORPORATE LENDING IN JANUARY-MAY 2022 Zubov S.	6
3. SANCTIONS AND RUSSIAN LABOR MARKET: THE EFFECT IS NOT YET EVIDENT Lyashok V.	10
4. THE NECESSITY TO DEVELOP PREVENTIVE MEASURES TO SUSTAIN PRICES FOR GRAIN PRODUCER Shagaida N., Ternovsky D.	15

Monitoring of Russia's Economic Outlook

Monitoring has been written by experts of Gaidar Institute for Economic Policy (Gaidar Institute), Russian Presidential Academy of National Economy and Public Administration (RANEPA).

Editorial board: Sergey Drobyshevsky, Vladimir Mau, and Sergey Sinelnikov-Murylev.

Editors: Vladimir Gurevich and Andrei Kolesnikov.



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1. BALANCE OF PAYMENTS IN Q2 2022

Alexandra Bozhechkova, Candidate of Economic Sciences, Head of the Monetary Policy Department, Gaidar Institute; Senior Researcher, the Center for Central Banks Issues, IAES, RANEPa;

Alexander Knobel, Candidate of Economic Sciences, Head of the Foreign Trade Department, Gaidar Institute; Head of the Foreign Trade Studies Department, IAES, RANEPa;

Pavel Trunin, Doctor of Economic Sciences, Director of the Center for Macro-Economics and Finance, Gaidar Institute; Director of the Center for Central Banks Issues, IAES, RANEPa

As of Q2-end 2022, the current account surplus went up 4.1-fold compared to the same period of the last year on the back of growth in the value of Russian exports amid high prices for commodities and reduction of imports under the sanctions. The deficit of the financial account of the balance of payments, including reserve assets, was formed resulting from the growth of foreign financial assets with a decrease of foreign liabilities. A significant role in the stabilization of the balance of payments and the foreign exchange market was played by strict capital flow restrictions put in place in Q1 2022, which were eased in Q2 2022 due to the rapid strengthening of the ruble to the level of H1 2015.

According to the Bank of Russia's preliminary assessment of the balance of payments, the current account balance in Q2 2022 stood at \$70.1 bn, 4.1 times the value recorded in Q2 2021 when it was \$17.3 bn. Due to less detailed statistics on the balance of payments of the Russian Federation published by the Bank of Russia than in 2021, the structure of the current account can be described only in the context of two main balances: trade in goods and services and the balance of primary and secondary income.

In Q2 2022, the balance of trade in goods and services amounted to \$80.7 bn, 2.3 times the value recorded (by \$45.9 bn in absolute value) in Q2 2021 (\$34.8 bn). The increase in the value of export of goods and services from \$127.9 bn in Q2 2021 to \$153.1 bn in Q2 2022 (by 46%) played a leading role in this increase.

Such export dynamics are due to high prices for the Russian principal export commodities (oil, gas, petroleum products, grain, coal, ferrous and nonferrous metals), redirection (albeit partial, with a price discount) of export flows from EU countries to other countries.

The decline in imports of goods and services from \$93.2bn in Q2 2021 to \$72.3 bn in Q2 2022 was due to a reduction in physical volumes of supplies amid sanction restrictions and complicated logistics. At the same time, a fall in imports of goods and services was accompanied by a strengthening of the national currency: according to the Bank of Russia, the growth of the real ruble exchange rate index against the dollar in H1 2022 relative to the same period of 2021 came to +4.9% (despite the weakening in Q1 by 9%), that is, there was a significant strengthening of the ruble, which means a relative cheapening of imports.¹ In this case, we can say that the reduction of imports due to the reduction of physical volumes contributed to the ruble's appreciation.

¹ On the influence of the exchange rate dynamic on trade see Knobel A.Yu. *Estimation of import demand function in Russia* // Applied econometrics. 2011. No. 4 (24). P. 3–26; Knobel A., Firanchuk A. *Russia in global export in 2017* // Russian Economic Development. 2018. No. 9. P. 17–21.

Monitoring of Russia's Economic Outlook

The balance of primary and secondary income has changed markedly. It was -\$10.6 bn in Q2 2022, 1.7 times the value recorded in Q2 2021 (-\$17.5 bn). It is to be noted that in Q2 2022 there was a drop both in income receivable (due to lower capital income from abroad), and income payable (due to reduction in income outflow and repatriation of profits abroad, including due to restrictions on the cross-border movement of capital). Income receivable decreased by \$9.2 bn (from \$19.6 bn to \$10.4 bn) and income payable by \$16.1 bn (from \$37.1 bn to \$21.0 bn) in Q2 2022 compared to Q2 2021.

In the coming quarters, due to continued restrictions on capital flows, difficulties with repatriation of profits from Russia by foreign investors, the EU and US restrictions on counterparties from these jurisdictions, primary and secondary income payable will continue to decline and their balance will remain at a low level.

Given that the assessment of the Q2 2022 balance of payments is published by the Bank of Russia in aggregated form, the financial account is also presented by aggregated data on net external assets and liabilities of all sectors of the economy and includes changes in reserve assets.

In Q2 2022, the financial account of the balance of payments continued to form amid geopolitical tensions related to Russia's special military operation in Ukraine, the imposition of tough sanctions against Russia, the freezing of part of international reserves, as well as capital controls imposed by the Bank of Russia. Tough capital controls put in place by the Bank of Russia in Q1 2022 played a significant role in strengthening the national currency and stabilizing the balance of payments. In Q2 2022, due to the rapid strengthening of the ruble, restrictions on the movement of capital were eased. Thus, the requirement to compulsory sale of export earnings was reduced from 80 to 50%, and on June 10, the restrictions were lifted. In addition, the commission for the purchase of foreign currency on the stock exchange was abolished, limits on currency transfers abroad by individuals were significantly eased, and a number of other measures to ease capital controls were implemented.

International obligations of all sectors of the Russian economy in Q2 2022 declined by \$36.8 bn (+2.8bn in Q2 2021). As of June 1, 2022, the proportion of non-residents on the OFZ market stood at 17.7% remaining unchanged as compared with Q1-end 2022, which is explained by the effect of the respective restrictions on the movement of capital. The data on the Russian external debt as of Q2 2022 demonstrate that banks and the Bank of Russia reduced the amount of the foreign debt by \$8.4 bn. Growth in the external debt of the general government and other sectors at Q2-end 2022 amounted to \$20.5 bn and \$9.4 bn respectively, which was mainly explained by a positive foreign currency revaluation of the ruble-denominated debt.

The increase in foreign assets of all sectors of the Russian Federation in Q2 2022 amounted to \$29.5 bn (\$21.1 bn in Q2 2021). Given that foreign currency purchase operations within the framework of the budget rule have been suspended, the demand for foreign assets was predominantly generated by the private sector as restrictions on capital movement have been eased.

In April-June 2022, Russia's international reserves declined by 3.7% to \$584.1 bn as of July 1, 2022. This was mainly due to negative currency and market revaluation. Herewith, freezing of international reserves and impossibility to implement the mechanism of the budget rule in original form will result in the increased correlation between the oil price and the exchange rate, which will strengthen the susceptibility of the Russian economy to external shocks. In

1. Balance of payments in Q2 2022

this connection, the authorities and the expert community are actively working on alternative variants of the budget rule, including the accumulation of NWF funds in alternative currencies, characterized by less liquidity than the US dollar, euro and pound sterling.

Amid a considerable inflow of export revenues with a decline of imports due to sanctions, as well as capital flow restrictions, the ruble strengthened considerably Q2 2022. Thus, the average nominal ruble-dollar exchange rate in Q2 2022 stood at Rb66.01 per dollar, which is 22.1% higher than in Q1 2022. On June 30, 2022, the ruble hit a local maximum of Rb51.2 per dollar, which corresponds to the level of April-May 2015.

The current levels of the ruble exchange rate contribute to smoothing the shock of a sharp increase in the cost of imported goods for Russian economic agents, but have a negative impact on budget revenues and exporters. In the medium term, the return of the ruble exchange rate to levels around 70 per dollar will be facilitated by a gradual growth of imports as new logistical chains and parallel import supplies are set up, as well as the reduction of export revenues to the Russian Federation as prices fall and sanctions are extended. In addition, the introduction of a new budget rule may lead to the weakening of the ruble. 

2. CORPORATE LENDING IN JANUARY-MAY 2022

Sergey Zubov, Candidate of Economic Sciences, Assistant Professor, Senior researcher, Center for Structural Studies, IAES, RANEPА

Changing macroeconomic conditions owing to the imposed anti-Russian sanctions had a restraining effect on dynamics of corporate lending for legal entities. Growth in credit risk and a sharp increase in the key rate resulted in a reduction in the volume of loan applications and loan approval rate. Subsequently, gradual lowering of the key interest rate and other measures approved by the government and the Central Bank have helped to stabilize the situation in the corporate lending sector. Nevertheless, persistently high risks will have a negative impact in the near term on those indicators defining the quality of the bank's corporate loan portfolio.

The aggregate loan debt of corporate borrowers to Russian banks reached Rb44.1 trillion as of 1 June 2022. Growth of the corporate loan portfolio over the five months of 2022 was Rb1.362.6 bn, or 3.2%. A year earlier, the corporate loan portfolio of Russian banks over the same period increased by Rb1.514.8 bn, or 4.1%. In the current situation, reduction in the growth rate is largely due to the ruble strengthening: the ruble portion of the portfolio increased by 7.4% against 5.8% over the same period last year, while the debt volume in foreign currency dropped very significantly by 20.4% (down 3.9% a year ago) due to sharp ruble strengthening and negative revaluation of credit debt in foreign currency.

However, volume of loans provided for five months of this year amounted to Rb25.8 trillion, which is down 16.1% against Rb30.7 trillion in the first five months of the previous year, with the decline largely due to ruble loans (Rb21.3 trillion against Rb28.5 trillion last year). Thus, it can be concluded that growth in the aggregate loan portfolio of legal entities with the reduction in the volume of provided loans was due to debt restructuring (holidays, longer terms) in the context of the financial crisis caused by the introduction of anti-Russian sanctions.

The current arrears rate has increased by 2.1% relative to the value at the beginning of 2022 (a decrease of 2.9% over the same period last year), reaching the level of Rb2.9 trillion, which is 6.7% of the total loan portfolio (5.9% a year ago). These figures indicate some quality deterioration of the banks' loan portfolio, but it is not critical.

The sectoral structure of corporate loans was not significantly changed compared to the previous year. In terms of debt volume as of 1 June 2022, the leaders are manufacturing companies (Rb11.2 trillion, or 25.4% of total corporate debt), finance and insurance (Rb7.1 trillion, or 16%) and wholesale and retail trade (Rb4.4 trillion, or 9.9%).

2. Corporate lending in January-May 2022

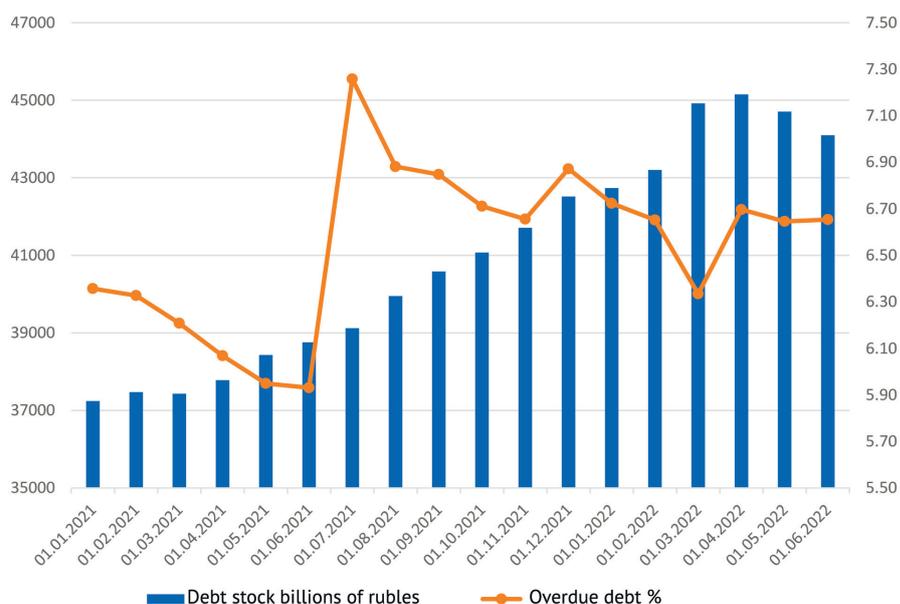


Fig. 1. Dynamics of corporate lending and overdue debt rate in 2021–2022

Source: “Information on funds allocated and raised” / Bank of Russia. URL: https://www.cbr.ru/statistics/bank_sector/sors/. Own calculations.

Leading positions belong to financial and insurance companies (Rb9 trillion, or 35% of total loans), wholesale and retail trade (Rb5.6 trillion, or 21.6%) and manufacturing companies (Rb4.8 trillion, or 18.7%) according to the volume of borrowings for five months of this year.

The decline in banks’ lending activity was largely due to a fall in demand for loans from enterprises associated to a rise in interest rates. A continuing moderate growth trend in interest rates typical for H2 of the previous year was observed at the beginning of 2022. However, after the aggravation of the geopolitical conflict and the Central Bank’s forced measures (primarily, a sharp increase in the key rate), the cost of loans rose sharply. In April and May, bank lending rates fell as the key interest rate was lowered and government subsidized programs implemented. Nevertheless, their level in Q2 remained quite high. Over five months of 2022, the average rate on short-term loans increased by 45.5% to 13.6%, while for loans longer than a year the increase was 35.3% to 11.97%. At present, approximately 60% of corporate loans are granted at fixed interest rates, which is a rather significant bank interest risk factor.

Since the end of February 2022, many companies’ supply chains have been disrupted, payment schemes have become more challenging, customer numbers have plummeted followed by issues related to repayment of debts to credit institutions. In response, the Russian government and the Central Bank have taken a number of measures to support businesses.

Until 30 September 2022, small and medium-sized enterprises are entitled to request creditors to postpone payments (loan holidays) on all loans taken before March 1, 2022. A law passed in March¹ allows banks to defer payments for up to six months. If a company has several loans, it is possible to grant a deferral for each of them (not more than once).

¹ Federal Law of March 8, 2022. No. 46-FZ “On amendments to particular legislative acts of the Russian Federation”.

Monitoring of Russia's Economic Outlook

During loan holidays, banks, microfinance institutions and credit consumer co-operatives (CCCs) should not charge penalties for overdue payments. Individual entrepreneurs and small- and medium-sized companies can apply for credit holidays if they operate in sectors under sanctions. These sectors included agriculture, catering, medicine, information technology, wholesale and retail trade, services, science, culture, tourism, etc.¹

Many banks, microfinance institutions (MFIs) and CCCs have developed their own programs that allow them to reschedule loan repayments, for example, the bank can reduce the amount of monthly repayments while increasing the repayment period and thereby reducing the debt burden on the borrower.

The Central Bank in cooperation with the Russian Government has developed three anti-crisis concessional lending programs with SME Corporation involvement, by which companies can obtain working capital loans for up to one year, as well as investment loans for up to three years.

The LIP Anti-Crisis Program provided loans and refinancing to entrepreneurs for working capital and investment purposes at an interest rate of up to 8.5% per annum. The program had a limit of Rb60 bn and was implemented in March 2022. All accredited banks, including systemically important credit institutions, participated in the program. The program was available to SMEs from the list of affected industries in accordance with Government Resolution No. 1513.²

The SME Lending Incentive Program (LIP "Investment") is aimed at creating and acquiring fixed production assets, including for modernization and technical upgrading, as well as for construction, reconstruction and modernization of capital construction facilities. The program's limit is Rb335 bn, the rate for the final borrower is 15% for small businesses and microbusinesses, 13.5% for medium-sized businesses, and the term of the loan is up to three years. The interest rate is valid for three years. The loan can be taken out for a longer term, but the bank has the right to change the rate after the expiry of the term, taking into account the market rate. The loan size starts from Rb3 mn to Rb2 bn for SME, up to Rb500.000 for self-employed.

As of 10.07.2022, 1.643 loans worth Rb27 bn had been extended under this program and 306 loans worth Rb20.5 bn restructured (based on data from 48 banks that had applied by the balance sheet date).³

The revolving loan program (the "Revolving Loan Facility") is implemented by the Bank of Russia. Under its terms, banks interact directly with the Central Bank of Russia. The program has a limit of Rb340 bn with interest rates of up to 13.5% for medium-sized businesses and up to 15% for other companies. The program is not limited in terms of lending purposes (with the exception of multi-family housing construction). In addition, loans issued at floating rates can be refinanced under this program.

As of 10.07.2022, 12.573 loans worth Rb151.5 bn had been issued under the program, and 2.622 loans worth Rb150.3 bn restructured (based on data from 73 banks that had applied for them as of the reporting date).⁴

1 For a full list, see the Resolution of the Russian government of 10 March 2022 No. 337 [URL: <http://static.government.ru/media/files/quQ3AtSRPM7RCBWSE81sAqAgNvglZywK.pdf>].

2 Resolution of the RF government of 07.09.2021 No. 1513 "On Approval of Rules for Granting Subsidies from the Federal Budget in 2021 to Small and Medium-Sized Enterprises and Socially Oriented Non-Profit Organizations Operating in Municipal Entities Affected the Most by the Worsening Situation resulted from the Spread of New Coronavirus Infection"

3 URL: <https://cbr.ru/develop/msp/>

4 URL: <https://cbr.ru/develop/msp/>

2. Corporate lending in January-May 2022

Overall, the Russian government and the Central Bank have so far managed to minimize banking risks in a critical situation and prevent a sharp collapse in lending to the corporate sector. However, tense geopolitical situation and a number of other negative factors are a potential source of systemic risk for the domestic banking sector. In this context, the coming months will be a challenge for the Bank of Russia to developing various instruments (new guidelines) to support banks' lending activity under sanctions pressure. 

3. SANCTIONS AND RUSSIAN LABOR MARKET: THE EFFECT IS NOT YET EVIDENT

Viktor Lyashok, Candidate of Economic Sciences, Senior researcher, Department of Pension Systems Research and Actuarial Forecasting of Social Sphere, IAES, RANEPА

The unemployment rate continues to fall, reaching 3.9% by May. This trend generated by international sanctions in the context of the economic crisis, can be explained by two reasons. On the one hand, it is a poor initial effect of sanctions, which will nevertheless intensify in the future. On the other hand, sanctions primarily affect medium and large companies, which in times of crisis are much less inclined to lay off employees compared to small businesses.

The effect of sanctions at the labor market is still largely invisible. Total employment remains at pre-sanctions levels and unemployment has been updating historic lows every month since February, falling to 3.9% by May (Fig. 1). The number of unemployed registered with the employment offices has also remained low, at around 0.7 mn since January 2022.

There is no significant growth in unemployment, especially registered unemployment, which happened during the first wave of the COVID-19 pandemic. This can be explained by several reasons.

First, the effect of economic sanctions is more long-term, diffused and less cumulative than those of the pandemic and the severe restrictive measures it imposed, which caused many enterprises and organizations to cease operations

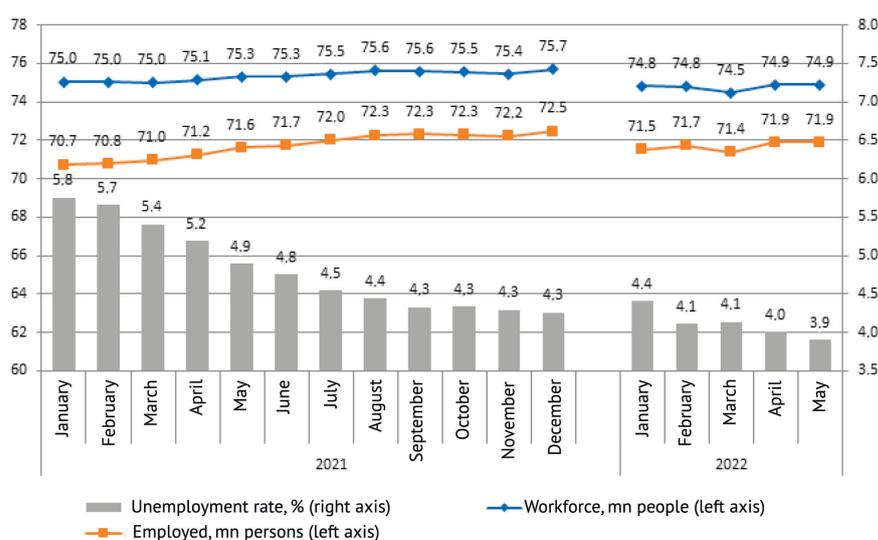


Fig. 1. Dynamics of the size of labor force, employment and unemployment rate in 2021-2022

8(152) 2022

3. Sanctions and Russian labor market: The effect is not yet evident

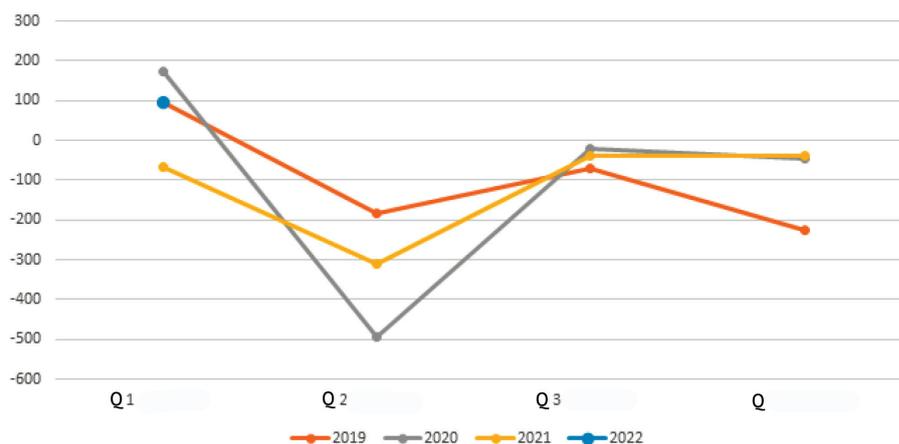


Fig. 2. The net balance of hiring and attrition of employees at large and medium-sized enterprises on a quarterly basis in 2019–2022, thousands of people

temporarily. Second, large and medium-sized companies (enterprises), which are less inclined to lay off workers, were the first to take the brunt of the economic blow compared to the peak of coronacrisis. Moreover, they have a more substantial margin of safety, allowing them to pay salaries for several months, even with a significant decline in operational profits.

According to Rosstat, neither a significant number of redundancies nor a compression of recruiting was observed in Q1 2022: the release of 2.2 mn workers was offset by 2.3 mn hires (Fig. 2). Generally, the overall inflow of employees to medium and large-sized companies was in line with the situation at the beginning of 2019 and 2020, when the hiring/dismissal turnover was around 2.0 to 2.1 mn hired/dismissed employees. As evidenced by employment services and labor force surveys, there may have been an increase in both hired and laid-off workers in April and May, i.e. the demand for labor is still sufficient to absorb all departing employees. The acceleration of labor turnover can be explained by the start of the crisis restructuring of the economy.

Thus, the economic effect of sanctions in the employment market can so far be considered minimal. Most employers have not attempted to reduce labor costs. Moreover, employers' willingness to maintain hiring rates at previous years' levels shows that sanctions have not resulted in a change in their staffing policy, i.e. they do not expect a significant deterioration in market conditions in their sectors. Attrition exceeding recruitment were observed only in a small number of sectors: healthcare (-13.000), public administration (-12.000), finance and insurance (-6.000), and real estate (-5.000).

However, the number of vacancies published by main job search portals ("Rabota Rossii" and hh.ru) has been declining since March-April 2022. Throughout last year, the demand for labor was growing at a high rate, recovering after 2020, but it started to gradually fade since summer 2021 (Fig. 3). Since the beginning of this year, the number of vacancies has actually stabilized, and in May-June it even started to decline against the same periods in 2021. In May, the number of vacancies posted on the Rabota Rossii website, which publishes data from public employment services, fell by 11% compared to May 2021. The number of vacancies on HeadHunter hh.ru, the largest private employment agency, fell by 22% in May 2022 compared to a year earlier. Accordingly, it can be assumed that since Q2 of this year employers have gradually started to change their hiring

Monitoring of Russia's Economic Outlook

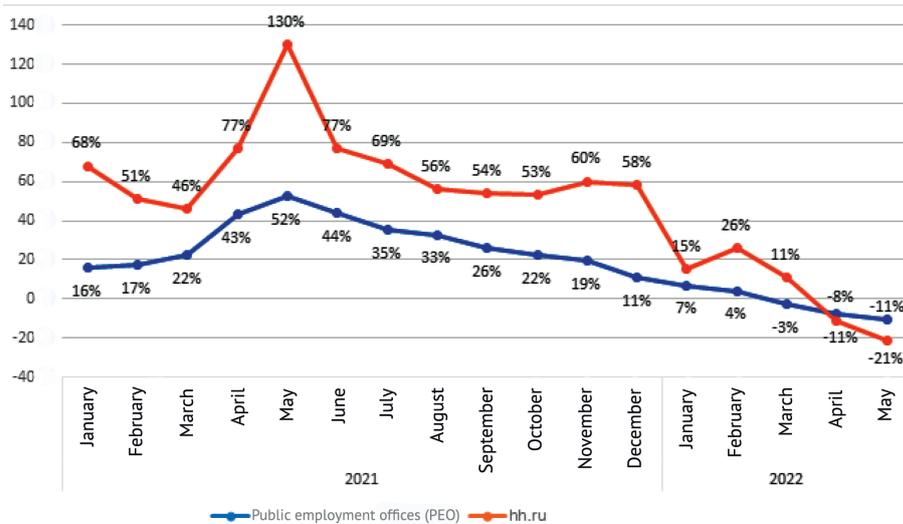


Fig. 3. Dynamics in the number of vacancies, % relative to the corresponding period of the previous year

strategy, reducing hiring turnover, which should lead to a gradual increase in unemployment. Apparently, it should not rise significantly until early autumn, as it is usually lower in summer than in other periods due to the seasonality factor.

Another way to reduce labor costs is to transfer employees to part-time work. Indeed, in Q1 2022 the share of employees on idle time at the employer's initiative and for reasons beyond control of either the employer or the employee has almost doubled compared to Q4 of the previous year (Fig. 4). Nevertheless, the value of this indicator remains relatively low when compared to Q2 2020. However, it should be taken into account that the available data reflect part-time employment in Q1 on average, while the majority of companies (enterprises) did not start switching to downtime until March of this year at the earliest. It can be assumed that in Q2 2022 the share of workers switched to such mode will

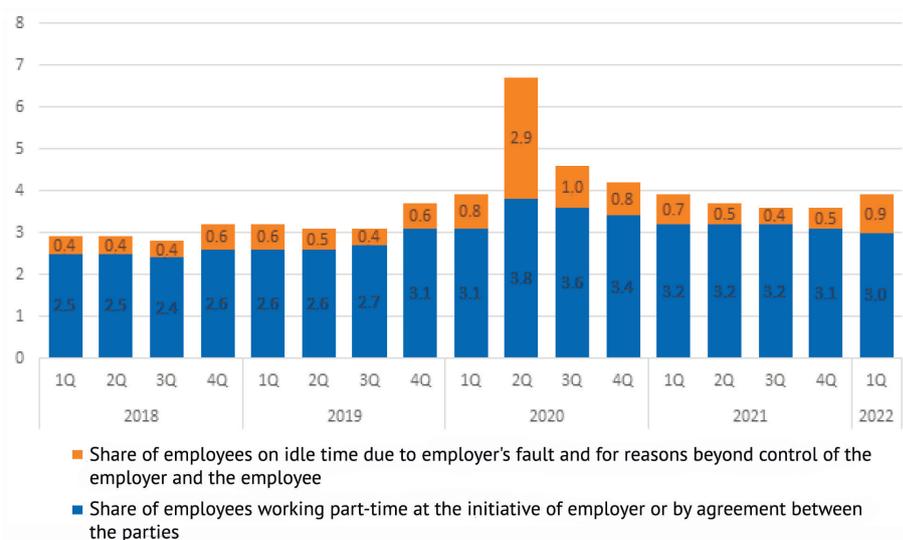


Fig. 4. Share of employees on idle time or working part-time

3. Sanctions and Russian labor market: The effect is not yet evident

be significantly higher than in Q1, although hardly higher than in Q2 of the “pandemic” year 2020.

At the same time, Rosstat shows significant inter-sectoral differentiation in idle time, with the highest rate of idle time occurring in the automotive industry (25.8% of all employees), hotels and catering (11.9%), textiles (6.4%) and tobacco (5.4%), and air and space transport (4.3%).

Other scenarios related to reduced working hours (switch to part-time work and unpaid leave) were less frequently chosen by employers than usual.

Likewise, in Q1 2022, the share of those employed in the informal (non-corporate) sector has dropped to 18.4% from 19–20% in 2015–2021. On the whole, it is safe to speak with some caution about the emerging trend towards a decline in the share of the informally self-employed and growth in employment in small businesses. Most likely, this is the effect of the implementation of various government and municipal support programs in this sector.

There was a significant growth in nominal wages (20.9% year-on-year) observed in March 2022, which allowed wages to remain flat in real terms even amid a sharp acceleration in inflation (*Fig. 5*). Overall, average wages rose by 15% in Q1 of this year and by 3.1% in real terms. Data from the Federal Tax Service of Russia on PIT receipts indicate the accelerated growth of individuals’ incomes in Q1 of this year: they amounted to Rb1.2 trillion, which is 25.4% higher than in Q1 of the previous year. Specifically, Rb0.5 trillion was received in March 2022. This is 21.3% higher than the corresponding figure for the same period in 2021.¹ However, already in April, wages in nominal terms had almost returned to their January-March level; as a result, they had fallen by 7.2% in real terms by that time, apparently due to accelerated inflation.

According to Rosstat, the largest growth in wages was observed in March in the sectors of export-oriented mining, namely coal, oil and metallurgical ores (by 35–37% in nominal terms compared to the same period of the previous year); in the export-oriented or export-related industries this is coke production (38.8%), metallurgy (50.8%) and transport – pipeline (32.5%) and waterborne (35.8%). In services, the largest growth was seen in information and communication (44.1%), finance and insurance (38.6%) and wholesale trade



Fig. 5. Dynamics of nominal and real wages, %

¹ FTS. PIT receipts in Q1 2022 exceeded those of the previous year. URL: https://www.nalog.gov.ru/rn12/news/activities_fts/12143549/

(31.3%). In most other service sectors wages increased much less, especially in the public sector: culture and sport (6.3%), public administration (7.4%), health care (8%) and education (10.8%). The FTS of Russia cites similar figures, pointing to the main sources of growth in PIT revenues: metallurgy, wholesale and retail trade and banking sector.¹ Growth in tax revenues from small and medium-sized businesses was much lower.

It is reasonably safe to assume that significant and short-term growth in wage income in March this year was due to payment of remuneration and bonuses for 2021, which were paid out a month earlier than usual. It is also possible that growth could have been caused by severance payments to employees of foreign enterprises that closed down in Russia in March. Although the number of these workers was not high enough to result in a noticeable growth in the unemployment rate, they received wages significantly higher than the national average.

Thus, the Russian labor market is largely moving in line with trends established up to February of this year. Unemployment rates continue to fall, reaching historic lows on a monthly basis. Sideline, employment in the informal sector is also falling. In nominal terms, level of wages maintained their growth rate, but this did not help to compensate for accelerated inflation. Growth in wages observed in March is due to the earlier payment of remuneration and bonuses and possibly severance payments. Employers have so far had little recourse to various mechanisms to reduce labor costs and will not yet seek to do so, as labor costs have fallen substantially as such in real terms over the past few months due to accelerating inflation. ▀

¹ FTS. PIT receipts in Q1 2022 exceeded those of the previous year. URL: https://www.nalog.gov.ru/rn12/news/activities_fts/12143549/

4. THE NECESSITY TO DEVELOP PREVENTIVE MEASURES TO SUSTAIN PRICES FOR GRAIN PRODUCERS

Natalia Shagaida, Doctor of Economic Sciences, Head of the Agrarian Department, Gaidar Institute; Director of the Center for Agri-Food Policy, IAES, RANEPa;

Denis Ternovsky, Doctor of Economic Sciences, Leading Researcher, the Center for Agri-Food Policy, IAES, RANEPa

At present, grain stocks have been demonstrating an anomalous upward movement pattern. After the start of mass harvesting, the risk of overstocking and grain prices for producers sliding below a comfortable level has been high. In this connection, urgent measures preventive are required to support the domestic market.

Data on their movement pattern indicate that, as of the end of the calendar year 2021, the relative indicators of grain stocks in the Russian Federation did not go beyond the range of their long-term fluctuations. At the same time, the indicators as of the end of the 2021/2022 crop year hit their record high of the past decade (Fig. 1). The increase in grain stocks is obviously the upshot of shrinking exports: while as of February 1, the FAS USDA (Foreign Agricultural Service, US Department of Agriculture) predicted Russia's wheat exports for the 2021/2022 harvest season to be at the level of 35 mn tons, later on, as of June 2022, the estimate was reduced to 33 mn tons. As a result, the forecast for ending stocks of wheat was increased from 10.6 mn tons to 12.1 mn ton.

The share of exports in the grain output distribution structure exceeds 1/3, and in some years it stood near 50%. Its replacement in the short and medium term is impossible for a number of reasons: the achievement of a rational consumption rate for bread products, and an excess over the norm in

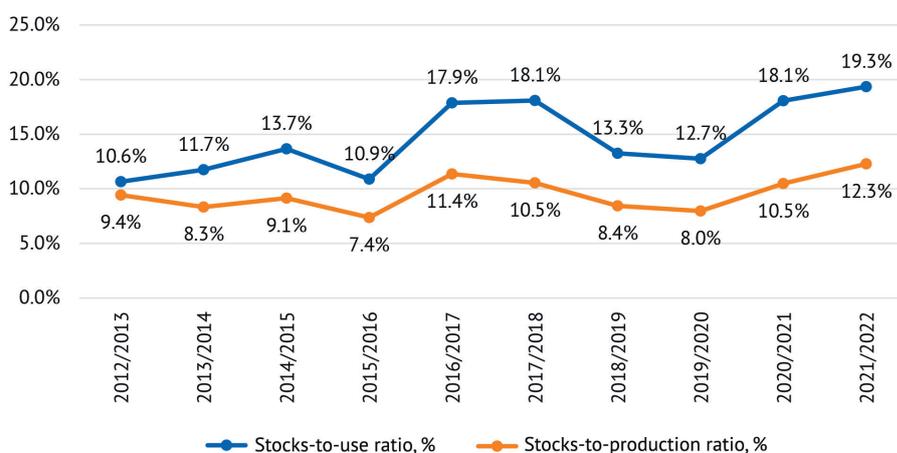


Fig. 1. The movement pattern of relative indicators of grain stocks in the Russian Federation, 2013–2022 (as of crop year end: June of each calendar year)

Source: data released by FAS USDA.

the grain-fed meat production; small volume of meat exports and difficulties in their growth; the volume of flour exports that is incomparable with that of grain exports. Export is a necessary channel for disposing of surplus grain. Gross harvest growth (forecast to be up to 139 mn tons, or +15% by 2021) coupled with the impossibility to export the surplus is fraught with a high risk of a downfall of domestic prices, with extremely negative effects for agricultural producers. Many of them have taken bank loans, so the falling grain prices will put some of them in a critical situation. Similar conditions were observed in 2017, when after a record high harvest (*Fig. 2*), the domestic price in October 2017 lost 26.3% relative to October 2016, while the price in foreign markets in ruble terms gained 2.8%. The price crises of 2017 and 2020 were smoothed out by the situation on the resource market, where prices were at their local lows, thus reducing costs and increasing producers' profits. This is currently not the case.

There is now a relative consensus concerning the downward movement of grain prices.¹ One exception is the forecast released by the Department of Agriculture of Australia. Over the course of the next year, the decline of wheat prices is projected to be within the range of 9% (TD Bank Group), 15% (World Bank), and 20% (Agriculture and Agri-Food Canada). The EU estimates a 20% reduction over the next 2 years. Within 3 years, the decrease is predicted to be from 15% (USDA) to 30% (FAO² and OECD). Although some of these estimates were made before the launch of the special military operation in Ukraine, they point to a big risk of a price reduction, not so much on the external market as on the domestic one, because producers lack sufficient storage capacities and are burdened with debts to banks.³ Credit institutions can initiate a debt recovery

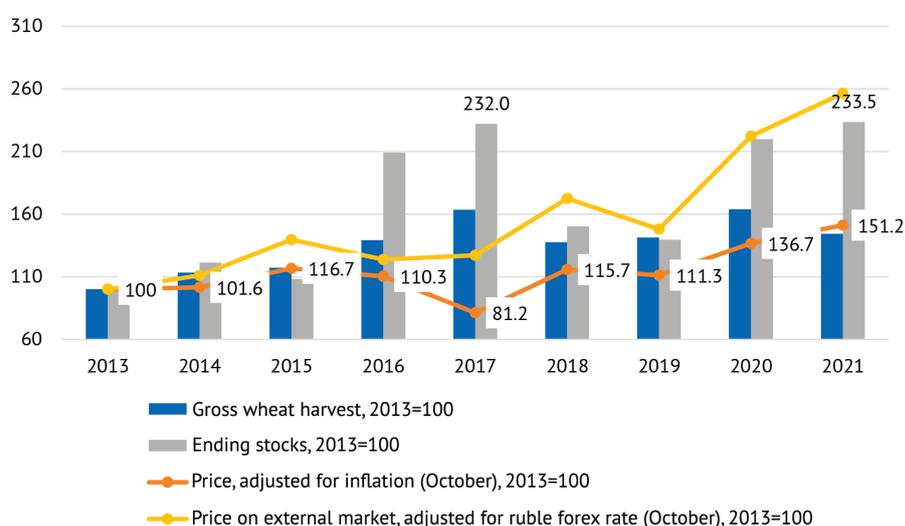


Fig. 2. The movement pattern of the wheat market in the Russian Federation, 2013–2021

Source: data released by the FAS USDA; Rosstat; Bank of Russia.

1 Some of the forecasts were released prior to the start of the special military operation in Ukraine, so they do not take into account its impact on the global grain market.

2 The Food and Agriculture Organization (FAO) of the United Nations.

3 In 2011, a grain export ban was introduced, resulting in unrepaid loans and the subsequent negative developments. URL: <https://v1.ru/text/business/2011/10/26/56690981/>

4. The necessity to develop preventive measures

process, targeting their liquid assets other than produced grain (equipment and machinery), thus undermining future opportunities for increasing grain growth.

Under these conditions, it would be advisable to put this issue on the agenda and plan the possible countermeasures, should this risk become a reality. The planned measures could be as follows.

Operational (current) measures: to conduct an audit of the government reserve system's capacities, in order to purchase surplus grain for government reserves, for its possible subsequent export; to envisage the introduction of a program, from August 1, 2022, for subsidizing the costs associated with the purchase of grain by flour-grinding organizations of various forms of management for a period of 3–6 months, thus promoting the production of flour in order to create grain reserves; to ensure prompt resolution of the problems in the grain traceability system, and in an event of its massive failures, it would be feasible to abandon this system; to provide for the possibility of postponing the repayment of bank loans taken against the future income from the sale of grain, in the event of a significant drop in domestic prices.

Medium-term measures: to promote the creation of storage capacities by anchor entrepreneurs (with an obligation to serve a group of farmers; it is necessary to enter the relevant provision into the State Support Program) and on a cooperative basis; it is necessary to consolidate by legislation the mechanism of warehouse receipts/certificates. 