

# Key Updates on Russian Economy - July 15 - July 21

Prepared by KSE Institute

## Budget

**Money cut on roads after collapse of revenues.** The annual volume of investments in the national project "Safe Quality Roads" in Q2 2023 was reduced by 4.1%, to 451.9 bn RUB. This is the 1st decline in three years, and has usually been rising, even with budget cuts in 2020 and 2022. [Source](#)

**RF GoV prepares budget cuts to keep financing the war.** Reportedly, RF GoV approved a plan to sequester the budget for 2024 by 10% or 450 bn RUB. Neither numbers nor expenditures items subject to cut are final. [Source](#)

**Wagner's riot will cost Russian taxpayers \$14 bn.** Strengthening security measures around Moscow, as well as additional allocations for the army, will require additional spending of 1.3 trln RUB, or \$14 bn, this year. The funds will be needed to increase the number of employees in the security forces, and this will further exacerbate the "manpower shortage" in the economy, which, according to government estimates, lacks 600K workers in the industrial sector alone. [Source](#)

**Excess profit tax in the final stage.** Bill, which envisages withdrawal of 300 bn RUB, was approved in the 2nd reading. One-time tax will be levied in 2024 (10% of difference between profits of companies in 2021-22 & 2018-19). Since RF MinFin wants to get money this year, companies are offered to pay only 5% during the window from Oct 1 to Nov 30, 2023. [Source](#)

**On the contrary, taxes for multimillionaires were reduced.** The State Duma adopted reduced taxes for "personal funds" - personal trusts for multimillionaires. Instead of 20% income tax, personal funds will be able to pay 15%, provided that almost all of their income (from 90%) is received as rentiers - from dividends, interest, royalties or rental property. [Source](#)

## Monetary policy & Inflation

**Due to inflation acceleration, CBR increased key rate by 100 b.p. to 8.50%.** Decision was motivated by growing inflation; an increase in domestic demand that exceeds the possibilities of expanding production; lack of free labor resources; the dynamics of domestic demand and the weakening of RUB. [Source](#)

**Strongest jump in prices since the beginning of the war is likely to approach.** The summer devaluation of the ruble brought it into the top-3 weakest in the world and made it the world leader in terms of volatility. Inflation is increasing - the prices of cars (+15-20%), juices and water (10-20%), household appliances and gadgets (10-20%), air flights and tourist services (up to 40%) are growing. The freight transportation prices have risen by 38% since 2023. [Source](#) [Source](#)

## Trade

**Share of counterfeits on Russian marketplaces has doubled over the year.** The share of fake smartphones now reaches 31% of offers, laptops - 30%, smart watches - 63%. Most often counterfeit electronics Apple, Samsung and Xiaomi. Since the beginning of 2023, the share of counterfeit audio electronics in Russia has grown from 10% to 25% YoY. [Source](#)

**Trade turnover between Russia and China grew by 40.6% YoY or \$114.54 bn in H1 2023.** China exported goods to Russia worth \$52.28 bn, which is 78.1% more than in H1 2022. Imports from Russia increased by 19.4% to \$62.26 bn. In June, trade between the countries amounted to \$20.83 bn. [Source](#)

**Russia for the 1st time entered the top-3 largest trade partners of India.** Trade turnover between countries in 5M 2023 increased by 3.8 times and amounted to \$27.1 bn. India purchased Russian goods for \$26.5 bn, which is 3.9 times higher than last year. Russia also imported Indian products worth \$639 mln (a 2.6-fold increase). [Source](#)

## Oil

**Russia is moving to newer tankers to transport oil.** By June 2023, the average age of tankers decreased to 15 years, against 19 years in Oct 2022. Carriers began using new tankers after increased inspections of such vessels in Asia. Source.

## Losses & Depts

**Russian Post losses keep growing.** Russian Post, 100% 2nd largest employer (300K people), posted a record loss of 30 bn RUB in 2022, and additional loss of 5 bn in Q1 23. To save SOE, Russian authorities are considering the introduction of a new tax on online-trade – 0.5% of the turnover of large marketplaces is planned to be allocated to support unprofitable post offices. Source

**Depts of Russians keep growing.** According to CBR, depts of Russian households grew by 611 bn RUB in May or by 15.4% YoY. A month earlier depts grew by 527 bn RUB (+12.9% YoY). Source.

## Other

**From now on, access to electricity is not available to all Russians.** The average price of connecting to power grids for the population in Russia increased 136 times after the cancellation of the preferential program. Since 2009, the fee has been maintained at the level of 550 RUB, but in July 2023, the average price grew to 75K RUB. Source.