

Key Updates on Russian Economy - July 22 - July 28

Prepared by KSE Institute

GDP & Budget forecasts

CBR improved growth expectations for the Russian economy in 2023. CBR noted the completion of the stage of recovery growth of the economy and improved the forecast of GDP growth this year to 1.5-2.5%. Inflation is expected at the level of 5-6.5% at the end of 2023, CBR allows further rate increases to return to the target 4% in 2024. [Source](#)

The IMF also improved its forecast of the Russian economy. April's forecast was revised by 0.8 p.p. to 1.5% GDP growth expected in 2023. Revised assessment reflects dynamics in retail trade, construction and industrial production, "which point to a strong performance in H1 2023, driven by large fiscal stimulus. [Source](#)

RF MinFin expects the budget deficit to exceed planned this year. Russia's budget deficit at the end of 2023 may amount to 2 to 2.5% of GDP. Siluanov also noted that RF MinFin expects to receive the planned 8 trln RUB of O&G revenues in the budget for 2023. [Source](#)

Bank system

Russian banks are expected to earn record profits this year. CBR expects bank profits this year at or above the 2021 record (2.4 trln RUB). Results of H1 2023 exceeded primary expectations – profits equaled 1.7 trln RUB. [Source](#)

After the US sanctioned Unistream, banks in Russia-friendly countries started to suspend operations with cards. According to media reports 6 major banks in Kyrgyzstan temporarily suspended work with Unistream, however transitions in rubles are still available ([Source](#)). Five Georgian banks also joined suspension of money transfers by Unistream ([Source](#), [Source](#)), as well as two Armenian banks ([Source](#)) and two Uzbekistan banks ([Source](#)).

Inflation

Prices are growing faster than official numbers. Price index for everyday goods that people buy, inc. food, household chemicals, medicines, and clothing, is growing much faster than official inflation. According to Romir, by the end of June 2023, the inflation of FMCG goods equaled 17% YoY, while the official CPI equaled 3.3% YoY in June. [Source](#).

Oil & Gas

Urals price exceeds price cap. Platts assessed Russia's key crude grade Urals at \$67.02/b on July 25.

Gas production is decreasing. According to Rosstat, in H1 2023 gas production in Russia equaled to 267 bn cubic meters – 14.9% less YoY. In June itself 34.6 bn cubic meters of gas were produced (-11.9% YoY and -12.5% MoM). [Source](#)

Russia intensifies energy trade with Africa. According to RF MinEnergy, in 5M 2023 Russia has tripled the volume of oil product supplies to African countries - up to 8 mln tons. In 2023, Russia also started exporting oil to African countries and supplied 200K tons in January-May. [Source](#)

Capital

Russia faces record capital outflow. Cumulative net capital outflow from Russia reached \$253 bn during Feb 2022 – Jun 2023, according to CBR and CMACF. This is four times more than a year earlier. In H1 2023, outflow amounted to an additional \$27 bn. In relative terms, the rate of capital outflow reached 13% of GDP and broke all possible records. For comparison, in 2008 and in 2014 capital outflow was about 11% of GDP (~\$150bn per year). [Source](#).

Industry

Military production fuels the recovery of Russian industry. In H1 2023, industry production in Russia grew by 2.6% YoY according to Rosstat. June numbers look even more promising (+6.5% YoY) due to the effect of the low base. For H1

23 Manufacture of fabricated metal products +29.7% YoY, Manufacture of computers, electronic optical products +30.4% YoY, Production of electrical equipment +22% YoY. [Source](#)

Russian production works at maximum capacity. Q2 2023 data shows that capacity utilization grew in all sectors in Q2, with manufacturing and construction growing particularly strongly. Capacity utilization in the economy as a whole was estimated at 80.9% – max level for the whole period of observations (since 2002). [Source](#).

Production of passenger cars in Russia stays in deep crisis. In June, only 41.9K passenger cars were produced in Russia. For comparison, in pre-crisis 2021 average production equaled 114K cars per month, and in 2019 - 127K cars per month. Production in the industry has fallen three times compared to its pre-war capabilities. And it is in no hurry to recover. [Source](#)

Migration & Labor market

Flow of Russian to Turkey tripled for the last year. Russians ranked first in the number of immigrants to Turkey in 2022. They accounted for 25% of the total number of foreigners arriving. A total of 99,786 citizens of the Russian Federation moved to Turkey. This is three times more than in 2021. Then 31,463 Russians emigrated to the country. [Source](#)

Russian regions are lacking a labor force. There is a big shortage of engineering personnel, as well as employees at manufacturing enterprises in Russian regions admitted RF Minister of Labor and Social Protection. This could lead to an increase in the average length of the working week. [Source](#)