

# Key Updates on Russian Economy - July 29 - Aug 4

Prepared by KSE Institute

## GDP

**Russia's GDP growth accelerated in Q2 23.** According to CBR, GDP grew in Q2 by 4.8%, further growth of 3.6% and 1.5% in Q3 and Q4 is expected. RF MinEcon estimate is a bit lower – 4.6% in Q2 23, and 1.4% cumulatively for H1 23. Such results are due to low base and high government expenditures. [Source](#) [Source](#)

## Budget

**Oil & Gas revenues grew in July.** According to RF MinFin, O&G revenues equaled 811 bn RUB, which is +5.3% YoY and +53.3% MoM. July growth of O&G revenues mostly comes from Additional Income Tax, which is paid once a quarter. It amounted to 294 bn RUB, the lowest collection of this tax since 2020. Cumulatively for 7M 2023 O&G revenues are -41.3% YoY. [Source](#)

**Russia doubles defense spending: war will cost \$100 bn this year.** According to data leaked to Reuters, in H1 2023 Russia spent 12% (or 600 bn RUB) more on defense than 4.98 trln RUB (\$54 bn) initially planned for the whole 2023 – defense spending in H1 2023 equaled 5.6 trln RUB (37.3% of a total 14.97 trln RUB expenditures in H1 2023). Russia's budget plan envisages 17.1% of total funds spent on "National Defence". Reuters calculations based on leaked data showed that Russia had spent 19.2% on defense in H1 2023 of all initially planned budget expenditure for 2023 as a whole. Also, the document provided a new estimate for annual defense spending of 9.7 trln RUB – 1/3 of the total spending target of 29.05 trln RUB, which would be the highest share in at least the last decade. [Source](#)

## BoP

**CBR expects a 30% drop in exports and up to 15% growth in imports this year.** According to CBR estimates, exports will equal \$414 bn in 2023 compared to a record \$591 bn in 2022. CBR again worsened its estimate: back in February, it expected \$507 bn of export revenues, in April it worsened the figure to \$435 bn. Imports are expected to grow by 14.4% from \$277 bn to \$317 bn in 2023. As a result, current account balance is expected to plummet almost 10 times – from \$236 bn to \$26 bn. [Source](#)

## Oil

**Urals price exceeded price cap in July.** According to RF MinFin, the average price of Urals in July equaled \$64.37/bbl. This is 1.2 times lower than in July 2022 (\$78.41/bbl), but higher than the price cap set by the G7 countries. In January-July, the average price per barrel of Urals amounted to \$53.94. [Source](#)

**Record pace for oil-drilling despite production cuts.** According to Bloomberg, rigs drilled 14.7K kilometers of production wells in Russia from January to June 2023. This is 6.6% more than planned and 8.6% more than the same period in 2022. [Source](#)

**Gazprom's largest project was postponed due to sanctions.** The launch of Gazprom's largest project, the construction of a gas chemical complex near St. Petersburg, worth \$40bn, has been postponed for at least two years. The \$40 bn project, of which almost \$10 bn was allocated by the state through Vnesheconombank, has lost its key partner, the German Linde concern, which was contracted to design and build the complex. [Source](#)

## Banks

**Raiffeisen Bank in Russia grew profits in H1 2023.** Raiffeisen's profit in Russia in H1 2023 grew by 8.8% YoY to €685 mln, pre-tax profit - by 9.6% to €867 mln. [Source](#)

## Industry

**Russia's industry is facing a record labor shortage.** According to Gaidar Institute, 42% of industrial enterprises experienced a shortage of employees in July 2023. This is the highest shortage since 1996. Also, according to Rosstat data cited by Vedomosti, the need of employers for employees officially declared to the employment services has increased: for June 2023 they need 2 mln people against 1.9 mln in May. [Source](#) [Source](#)

**Russia has managed to produce only two civilian airplanes in six months.** Ambitious plans to revive the aviation industry on the Soviet scale and produce 100 passenger airliners a year are turning into a fiasco. In H1 23, Russia has produced only two heavy civilian aircraft. While airlines are dismantling the remaining foreign fleet for spare parts, reducing aircraft maintenance requirements, the Russian aviation industry is derailing all key import substitution programs. [Source](#)

## **Other**

**Fortune of Russian oligarchs is growing.** The combined fortune of the richest Russian businessmen has increased by \$32.3 bn since the beginning of 2023, RIA Novosti has calculated based on data from the Bloomberg Billionaires Index rating. The largest growth was once again recorded in the fortune of V.Alekperov, co-owner of LUKOIL. His capital increased by \$5.9 bn to \$21.3 bn. [Source](#)