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World economy: Russia’s stability and West’s industrial decline

The finely tuned term to define the current state of the Russian economy could be “stability” although it would accumulate both a positive and a negative connotation. Whatever is attributed to a positive state of play, covers the growth of oil and gas revenues and the relative constancy of the exchange rate fluctuations. As for the downside, it is revealed in the form of consistently high inflation rates and workforce deficit, which adversely affects the fundamentals of the labor market.

If we take a look at the national currency, the ruble, as of today, there are no prerequisites either for its sharp decline or for an equally definite surge. There is also a certain balance of "pro" and "contra". On the one hand, the monetary policy regulatory authorities are doing everything within their reach to ensure that the national currency does not climb up to a 98-100 ruble per dollar. They maintain in place the instruction of mandatory sale of foreign exchange earnings by exporters in business, they make every effort to sell more yuan and gold within the framework of the budget rule, and they keep the key bank rate at 16% per annum for months.

At the same time, high import rates (with limited exports) and consumer demand do not curtail inflation. Combined with a shortage of labor force (in particular, in the hotel and restaurant sector), aggravated logistical issues and higher costs of imported goods due to sanctions, as well as rising costs of production, it sets the stage for the economy overheating. This is exactly what the chairman of the Central Bank of the Russian Federation, Elvira Nabiullina, has repeatedly pointed out.

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The consumer price index (CPI) has been stubbornly in conflict with the forecasts made by government agencies for a long time, and moving further away from the 4% target set by the Central Bank. In April, inflation soared again by 0.5% compared to March, reaching 7.84% in annual terms.

Meanwhile, according to updated estimates by the Ministry of Economic Development of the Russian Federation and the Central Bank, in 2024 it will amount to 5.1% and 4.8%, respectively. As stated in early April by the head of the regulator, Elvira Nabiullina, the economy has already overcome the peak of troubles due to the tight monetary policy of the Bank of Russia. However, Rosstat data do not support this conclusion, although Rosstat experts are in agreement with another statement by Nabiullina that "inflationary pressure remains high due to the dynamic growth of domestic demand."

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In April, the drivers of inflation were mainly products like vegetables, including table beets (+21.9%), carrots (+7.4%), apples (+3.3%). At the same time, prices for cucumbers and onions decreased by 13.1% and 3%, respectively.

Among other food products, there was a moderate tick up of prices: mutton rose by 4.6%, olive oil by 2.4%, and granulated sugar by 2.2%.

Prices for subscription fees for a package of cellular phone services increased by 8.5%. River cruises in Russia now cost 6% more, and vacations at the Black Sea resorts added 2.7% to the final bill.

In January-April, oil and gas revenues of the federal budget surged by 82.2% to reach 4,157 trillion rubles (compared to the same period in 2023); none-oil and gas revenues went up by 36.8% to reach 7.526 trillion. rubles.

According to the Ministry of Finance, the budget deficit for this period amounted to 1.484 trillion. rubles, or 0.8% of the GDP. The ministry attributes the increase in raw material revenues mainly to the price rise for the domestic oil brand Urals by almost 50%, going up from $48 in the Spring of 2023 to $70 in the Spring of 2024.

As for the revenues of unconsolidated regional budgets, according to the ACRA agency, they outstripped expenditures by 570 billion rubles in the first quarter, amounting to 4.482 trillion rubles.

As a matter of fact, Moscow proper provided more than half of the total surplus, that is, 311 billion rubles, while all other regions have registered 258 billion rubles.

According to the Ministry of Economic Development, Russia’s GDP grew by 5.4% in January-March, the industrial production index rose by 5.6%, which is comparable to the track records of the II and III quarters of 2023, which is, basically, a testimony of "overheating" of the economy.

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In the foreign trade segment, there was a record increase in trade turnover with India by 5% year–on-year, estimated to have reached $17.5 billion, making it a successful first quarter of the year. In total, Russia supplied $16.3 billion worth of goods to India and thus earned the status of the second largest supplier, with the first place occupied by China with supplies of $24.8 billion. Exports of Indian goods to Russia increased by 22% to $1.2 billion. Russia is ranked 28th in this category. The top five main buyers of Indian goods include the United States ($20.8 billion), the UAE ($10.9 billion), the Netherlands ($6.8 billion), Singapore ($5.5 billion), and China ($4.7 billion).

The actual state of the global economy was neither shaky nor flimsy. In the first quarter, global debt added some $1.3 trillion and hit the record high of $315 trillion, according to data from the Institute of International Finance (IIF). Borrowing was increased primarily by China, India and Mexico. The IIF report says that the state budget deficit is still higher than prior to the COVID-19 pandemic. The real estate crisis in China threatens to slow down the country's economic growth for many years to come, the IIF notes. According to this source, sustained inflation, especially in the United States, also poses a significant threat to the global economy. According to the IMF forecast, China's economy will add 4.5% to its GDP this year, and India's will add 6%.

Japan's GDP, according to official statements from Tokyo, has decreased by 2% year-on-year in the first quarter. The main reason is the noticeable compression of household spending after the growth of domestic demand caused by the post-crisis recovery. Given the dynamics in the fourth and third quarters of last year, when stagnation and recession were officially recognized, the Japanese economy has not grown since mid-2023.

Against this background, the US economy is on the march: at the end of last year, it showed a 2.5% growth. For comparison, the eurozone economy gained only 0.5% over the same period (according to Eurostat estimates). High inflation, expensive borrowing and weak external demand had a negative impact on its development.

Georgy Stepanov, economic observer

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