



Bank of Russia



# REGIONAL ECONOMY: COMMENTARIES BY BANK OF RUSSIA MAIN BRANCHES

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The report was prepared by the economic divisions of the Bank of Russia regional branches jointly with the Monetary Policy Department.

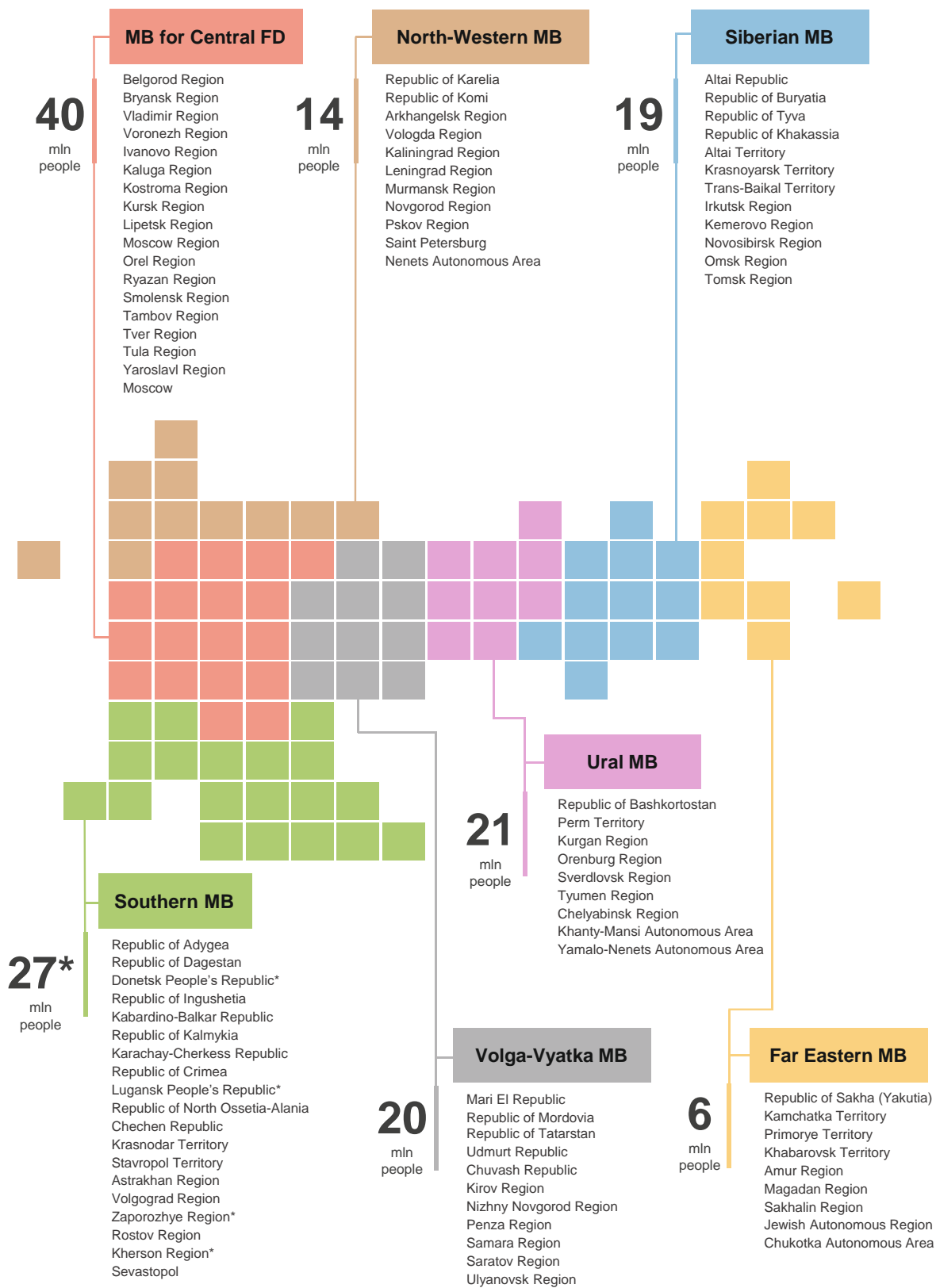
This issue was compiled by the Volga-Vyatka Main Branch of the Central Bank of the Russian Federation.

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\* Official statistics on the main social and economic indicators of the constituent territories of the Russian Federation do not include statistics on the Donetsk People's Republic, the Lugansk People's Republic, the Zaporozhye Region, and the Kherson Region.

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## WHAT IS THE REPORT 'REGIONAL ECONOMY: COMMENTARIES BY BANK OF RUSSIA MAIN BRANCHES'?

The report 'Regional Economy: Commentaries by Bank of Russia Main Branches' (hereinafter, the Report) reviews the current economic situation in the seven Russian macro-regions, the boundaries of which correspond to the regions of operation of the Main Branches of the Central Bank of the Russian Federation (hereinafter, the Bank of Russia MBs). The content of the Report is prepared by the specialists of the Bank of Russia Main Branches.

The feature of this Report is that it relies on qualitative analysis methods. Such analysis is based on the most comprehensive scope of economic information available regionally, including non-financial companies' surveys and experts' opinions. This approach makes it possible to combine official statistics with estimates by businesses, analysts and industry associations and to identify trends emerging in regions.



## HOW DO WE COLLECT INFORMATION?

An important source of information for the Report is the monitoring of nearly 14,000 non-financial companies<sup>1</sup> carried out by the Bank of Russia Main Branches. It provides high-frequency data on the development of industries in all Russian regions. These data are combined with information received by the Bank of Russia Main Branches, including following various events with the engagement of regional executive authorities, businesses, industrial unions, and entrepreneurs' associations. Along with this high-quality information, we also use figures, including official statistics. All data are verified for accuracy and consistency.



## WHAT IS THE PURPOSE OF THE REPORT?

This Report is prepared to be a reliable source of the most up-to-date information about regional development for addressing the objectives of monetary policy. It describes key trends in economic activity and pricing processes in Russian regions, as well as the identified effects of both country-wide and local factors. All this is an integral part of the information the Bank of Russia's management needs to make monetary policy decisions. This Report is considered by the Bank of Russia's management in the course of preparations for making key rate decisions.

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<sup>1</sup> In June 2023, we surveyed 14,464 companies.

## RUSSIAN FEDERATION

Consumer activity continued to trend upwards in May–June. Most macro-regions reported faster consumer price growth, partly due to the ruble weakening. Business and retail lending was expanding. Coupled with an increase in the state order, this contributed to the rise in economic activity. Imbalances in the labour market pushed up wages further. Companies' price expectations went down, while remaining elevated.

**Consumer activity continued to trend upwards in all macro-regions.** Non-food sales edged up as households adjusted to the new range of brands in the market. Growth in the demand for services and public catering was partly driven by the expansion of the tourist flow inside the country. According to the June survey, companies' short-term expectations about consumer demand remained close to their highs since March 2022. Nonetheless, compared to May, they declined in the majority of industries, most notably in retail. The increase in non-food retail was partly limited by insufficient supply. This effect was most considerable in the car market (see Box 1 '*Situation in the automobile industry*').

**Staff shortages persisted.** The number of vacant jobs in some industries was growing much faster than the number of CVs. Wages were rising gradually, pushed up by higher competition for personnel among companies. Enterprises organised their own trainings in required areas more frequently. Rising wages were intensifying proinflationary pressure caused by companies' costs.

**Business and retail lending was expanding.** Corporates increased the demand for loans, including for investment purposes. In May, the annual growth rate of the retail loan portfolio (adjusted for foreign currency revaluation) hit its 12-month high.

The **monthly increase in consumer prices sped up** (seasonally adjusted) in May across the majority of the macro-regions, exceeding 4% in annualised terms in Russia in general. The main accelerators were higher consumer activity and a weaker ruble. Temporary proinflationary factors in certain product markets were additional contributors to this speed-up. Overall, companies' price expectations in the economy edged down slightly although staying above the level of 2017–2019 when inflation was close to the target.

**Business activity trended upwards.** Rising domestic demand in Central Russia, the Urals and Siberia contributed to the expansion of metallurgical enterprises' output. As enterprises in the North-Western and Southern macro-regions implemented their investment projects, they were ramping up the output of animal products. Structural changes in the economy boosted shipbuilders' output in the Volga Region and the Far East. Economic activity was significantly influenced by state orders and government support measures, which was partly associated with the fiscal stimulus that remained positive (see Box 2 '*Regional budgets in 2023*'). However, as the main foreign trade partners had changed and cargo transportation routes had been adjusted, goods delivery costs and periods increased (see Box 3 '*Industry focus. Freight logistics*').

## KEY TRENDS IN RUSSIAN REGIONS

**MAIN BRANCH FOR THE CENTRAL FEDERAL DISTRICT.** Steel pipe manufacturers redirected their exports to friendly countries' markets, while noting higher sales in the domestic market. The suspension of airports' operation in a number of regions was offset by railway transportation and the growth of the passenger flow in operating airports. Retailers became more optimistic about consumer demand in the next few months.

**NORTH-WESTERN MAIN BRANCH.** Pharmaceutical enterprises were building up their production capacities, which boosted output. To increase the affordability of their products and sales, dairy product manufacturers expanded their product range. Employers increased the demand for personnel, most notably in industrial production and construction.

**VOLGA-VYATKA MAIN BRANCH.** Public catering was supported by higher demand for domestic trips. Rising prices caused a decline in the sales of foreign tours. Due to high utilisation rates of the railway system, insufficient production capacities, and staff shortages, companies were unable to fully meet high demand for construction materials. The output of petroleum products remained unchanged, but the growth rates of wholesale and retail prices for petrol were comparable with those recorded across Russia.

**SOUTHERN MAIN BRANCH.** Consumer activity edged up slightly, staying above the Russian average. The expansion of resorts' infrastructure and better transport accessibility supported the tourist flow. Retail lending was increasing faster in the macro-region than generally across Russia as mortgage growth rates remained high and the demand for consumer loans bounced back. The pace of harvesting in the South was higher than last year.

**URAL MAIN BRANCH.** Oil output remained nearly the same in May, month-on-month, according to assessments. Gas production at gas fields not used to produce liquefied natural gas (LNG) continued to shrink. In June, after companies had completed scheduled repairs, they increased commodity supplies to oil refineries in the Urals. As the number of orders in the domestic market is sufficiently high, pipe manufacturers maintain high utilisation rates of their production capacities.

**SIBERIAN MAIN BRANCH.** Dropping global prices for thermal coal decreased the profitability of exports, with the discount remaining. Insufficient infrastructure at the Eastern railway section forced coal producers to lower their export and production targets. The implementation of investment projects by some ferrous metal enterprises was hindered by difficulties with equipment and technology supplies.

**FAR EASTERN MAIN BRANCH.** The growth of the tourist flow from Asia contributed to an increase in certain retailers' revenues. Shipbuilders facing problems with equipment and spare parts delivery made the decision to change the designs of the ships under construction. Freight traffic in Far Eastern seaports remained record-high. The external demand for fish products was up, with the largest part of the new catch of fish exported to Asia.

## CORE ECONOMIC INDICATORS

		Date	Russia	Central FD	North- Western FD	Volga FD	Southern FD	Urals FD	Siberian FD	Far Eastern FD
MBs' percentage in inflation	%	2023	100	34	11	12	14	13	11	5
Inflation	% YoY	May23	2.5	3.0	2.7	2.5	2.6	1.5	2.4	3.9
Core inflation	% YoY	May23	2.1	2.7	2.2	1.8	2.6	0.7	1.1	3.7
Industrial production	3MMA, % YoY	May23	4.4	12.9	2.1	8.6	5.9	3.1	1.4	3.0
Fixed capital investment	Cumulative, % YoY	2023 Q1	0.7	-10.5	4.5	4.0	23.3	-7.7	7.9	25.4
Construction	3MMA, % YoY	May23	8.4	10.1	0.8	25.6	22.0	3.9	-3.4	9.3
Housing commissioning	3MMA, % YoY	May23	-4.9	-12.5	-13.5	0.7	-19.8	8.9	36.1	33.8
Retail	3MMA, % YoY	May23	3.7	2.8	3.7	7.5	8.2	7.4	5.3	0.6
Commercial services	3MMA, % YoY	May23	4.7%	6.0	3.6	3.7	3.2	4.1	4.3	0.8
Real wages	3MMA, % YoY	Apr23	4.9	1.4	3.9	8.8	7.0	8.8	7.8	3.4
Real disposable income	% YoY	2023 Q1	0.1	-0.2	-0.2	3.1	2.7	3.6	3.1	0.2
Unemployment	SA, %	May23	3.3	2.6	2.9	2.6	5.5	2.6	3.8	3.1
Outstanding consumer loans <sup>2</sup>	% YoY	May23	10.6	10.3	9.3	10.2	11.7	10.1	11.7	11.1
Outstanding mortgage loans	% YoY	May23	21.4	19.0	16.7	19.9	32.3	22.1	22.8	24.8
Funds in escrow accounts	% YoY	May23	13.7	15.2	6.4	-2.6	35.8	16.0	14.3	10.6
Non-financial organisations' outstanding bank loans	% YoY	Apr23	20.4	19.2	31.8	9.3	28.5	14.7	16.6	29.8
• Large borrowers	% YoY	Apr23	18.3	16.9	35.6	5.1	23.5	10.5	9.8	35.4
• SMEs	% YoY	Apr23	29.6	32.2	14.3	19.7	39.5	38.7	36.5	11.2
Companies' price expectations <sup>3</sup>	Balance of responses, SA	Jun23	15.7	21.3	18.9	22.4	15.4	15.3	18.9	15.5
Business Climate Index	pp YoY	Jun23	9.7	8.6	11.2	13.8	6.8	11.9	10.4	6.2
• Current estimates	pp YoY	Jun23	12.9	12.7	13.9	17.2	8.5	16.3	15.0	11.5
• Expectations	pp YoY	Jun23	6.2	4.1	8.4	10.1	5.0	7.2	5.3	0.5

Sources: Bank of Russia's monitoring of businesses, Rosstat, calculations by the Bank of Russia Main Branches.

<sup>2</sup> Hereinafter, outstanding bank loans are given adjusted for foreign currency revaluation, according to Reporting Forms 0409316 'Loans to households' and 0409303 'Loans to legal entities'. These reporting forms are used to carry out regional analysis since they enable the aggregation of indicators by resident borrowers' location.

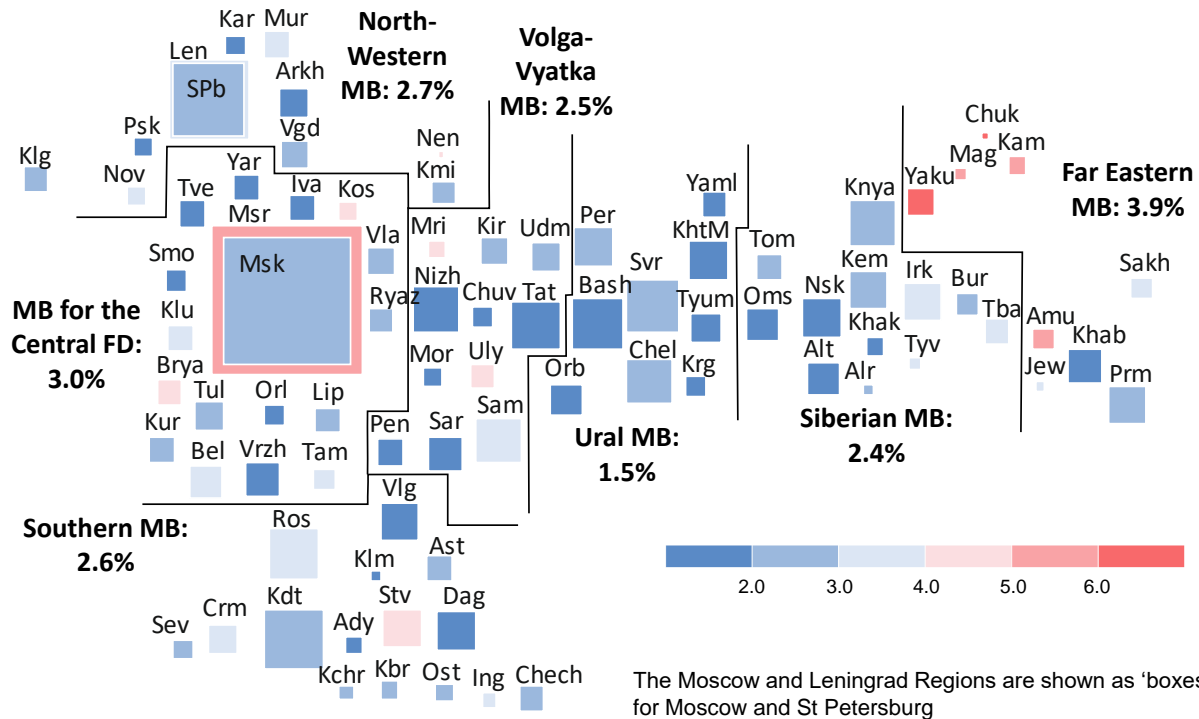
<sup>3</sup> The balance of responses is the difference between the percentages of responses 'will increase' and 'will decrease' to the question about expectations regarding prices in the next three months. Companies' price expectations and the Business Climate Index are based on the monitoring of businesses carried out by the Bank of Russia.



## INFLATION IN RUSSIAN REGIONS

### Price growth in May 2023, % year-on-year

The sizes of the regions' signs correspond to their percentages in the Russian CPI



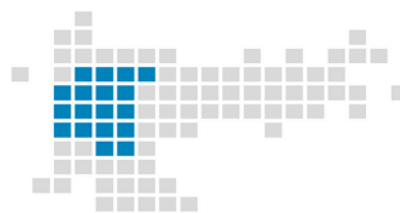
Note: the lines on the map divide the regions of operation of the Bank of Russia MBs.

Official statistics on the main social and economic indicators of the constituent territories of the Russian Federation do not include statistics on the Donetsk People's Republic, the Lugansk People's Republic, the Zaporozhye Region, and the Kherson Region.

Source: Rosstat.

Ady	Republic of Adygeya	Kos	Kostroma Region	Sam	Samara Region
Altt	Altai Territory	Knya	Krasnoyarsk Territory	Sar	Saratov Region
Altr	Altai Republic	Kdt	Krasnodar Territory	Sakh	Sakhalin Region
Amur	Amur Region	Crm	Republic of Crimea	Svr	Sverdlovsk Region
Arkh	Arkhangelsk Region (excl. Autonom. Area)	Kur	Kursk Region	Sev	Sevastopol
Ast	Astrakhan Region	Krg	Kurgan Region	Smo	Smolensk Region
Bash	Republic of Bashkortostan	Kchr	Karachay-Cherkess Republic	SPb	Saint Petersburg
Bel	Belgorod Region	Len	Leningrad Region	Stv	Stavropol Territory
Brya	Bryansk Region	Lip	Lipetsk Region	Tam	Tambov Region
Bur	Republic of Buryatia	Mag	Magadan Region	Tat	Republic of Tatarstan
Vla	Vladimir Region	Mri	Mari El Republic	Tve	Tver Region
Vlg	Volgograd Region	Msr	Moscow Region	Tom	Tomsk Region
Vgd	Vologda Region	Mor	Republic of Mordovia	Tul	Tula Region
Vrzh	Voronezh Region	Msk	Moscow	Tyv	Republic of Tyva
Dag	Republic of Dagestan	Mur	Murmansk Region	Tyum	Tyumen Region (excl. Autonom. Areas)
Jew	Jewish Autonomous Region	Nen	Nenets Autonomous Area	Udm	Udmurt Republic
Tba	Trans-Baikal Territory	Nizh	Nizhny Novgorod Region	Uly	Ulyanovsk Region
Iva	Ivanovo Region	Nov	Novgorod Region	Khab	Khabarovsk Territory
Ing	Republic of Ingushetia	Nsk	Novosibirsk Region	Khak	Republic of Khakassia
Irk	Irkutsk Region	Oms	Omsk Region	KhtM	Khanty-Mansi Autonomous Area – Yugra
Klm	Republic of Kalmykia	Orb	Orenburg Region	Chel	Chelyabinsk Region
Klu	Kaluga Region	Orl	Orel Region	Chsch	Chechen Republic
Kam	Kamchatka Territory	Ost	Republic of North Ossetia–Alania	Chuv	Chuvash Republic
Kar	Republic of Karelia	Pen	Penza Region	Chuk	Chukotka Autonomous Area
Kbr	Kabardino-Balkar Republic	Per	Perm Territory	Yaku	Republic of Sakha (Yakutia)
Kem	Kemerovo Region – Kuzbass	Prm	Primorye Territory	Yaml	Yamalo-Nenets Autonomous Area
Kir	Kirov Region	Psk	Pskov Region	Yar	Yaroslavl Region
Klg	Kaliningrad Region	Ros	Rostov Region		
Kmi	Komi Republic	Ryaz	Ryazan Region		

## BANK OF RUSSIA MAIN BRANCH FOR THE CENTRAL FEDERAL DISTRICT



Consumer activity in the macro-region continued to bounce back in May–June, with the growth of consumer prices speeding up. Companies' price expectations still exceeded the pre-pandemic level. The expansion of the tourist flow, including in food tourism, compared to last year, promoted a recovery in public catering. To meet high demand during the holiday period, the macro-region launched additional air routes and trains to Southern regions. Enterprises are finding new sales markets in friendly countries. Higher demand boosted steel pipe sales in the domestic market.

**CONSUMPTION AND INCOMES.** Consumer demand continued to bounce back in May–June. Vacant sales areas were gradually taken by both brand networks and multi-format and mono-brand stores, including of Russian manufacturers. The percentage of vacant areas in street retail decreased. According to the survey, households' propensity to save declined and their sentiment regarding large purchases improved. The proportion of respondents who made large purchases over the past three months was up. The demand for public catering and domestic tourism services continued to trend upwards. Driven by growing consumer activity, retailers became more optimistic about demand in the next few months.

**PRICES.** In May, the macro-region reported an acceleration of annual inflation and monthly price growth (seasonally adjusted). The rise in inflation was caused by higher prices for tourism services amid expanding demand and the ruble weakening. Prices for motor fuels and cars continued to go up due to the demand and supply gap. According to Rosstat's weekly statistics, price growth sped up further in June, predominantly because of prices for open-field vegetables and meat products, as well as the increase in domestic tourism. Companies' price expectations still exceeded the pre-pandemic level, rising in trade, construction, services, transportation and storage and declining in industrial production and agriculture.

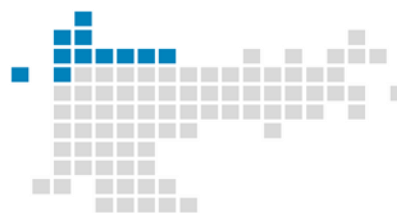
**MONETARY CONDITIONS AND BANKING SECTOR.** As of the beginning of May, the annual growth of the corporate loan portfolio continued to speed up, driven by both large corporates and small and medium-sized businesses. Ruble loans issued in automobile production, transportation and communication, metallurgy and wood processing increased considerably in April, month-on-month. In June, enterprises' assessments of lending conditions worsened slightly. The expansion of retail lending accelerated in May, driven by both consumer and mortgage loans. The increase in mortgage lending could be partly associated with a broader use of the macroprudential buffers beginning from 1 June 2023 (in relation to subsidised mortgages with a low down payment and a high debt service-to-income ratio). The demand for mortgages under the Family Mortgage programme was up, primarily in the metropolitan area. The amount of issued car loans edged up. On the one hand, the demand is adjusting to new brands; on the other hand, the average price for cars has risen.

**PUBLIC CATERING.** Public catering in Central Russia has been recovering quickly amid the increase in domestic tourism both to traditional destinations and as a result of the development of new locations and tourist activities. The macro-region recorded a significant expansion of turnover in public catering in January–May 2023, as compared to the Russian average. The segment of restaurants, bars and cafés expanded most notably in the Moscow metropolitan area and in the Vladimir and Tula Regions. The above territories also recorded the most significant increase in the number of public catering places. Specifically, as of the beginning of April 2023, their number in Central Russia was 8.9% higher than last year (compared to +5.7% on average across the country). Restaurant franchising is among the major trends of 2023. The macro-region is actively developing food tourism, which is promoted by good transport accessibility and regional food festivals, such as ‘Breakfast in the Moscow Region’, ‘Vyazma Gingerbread Festival’ in the Smolensk Region, ‘Cuisine of the Ryazan Region’, and ‘Festival of Farmer Cheese Pancakes’ in Voronezh.

**STEEL PIPE MANUFACTURING.** The decline in steel pipe output in Central Russia slowed down in May (seasonally adjusted). In early June, some companies reported higher sales of pipes in the domestic market, which was driven by rising demand from fuel and energy enterprises and the construction sector. The macro-region’s manufacturers redirected the export of steel pipes from Europe to friendly countries. Besides, the ruble weakening is offsetting their losses caused by the refocusing of sales on new markets at lower prices and making exports profitable. To expand their market reach, companies are registering Russian alternatives to foreign products and launching the manufacture of pipes of new diameters. A large enterprise in the Moscow Region was certified in key oil and gas projects and received three patents to manufacture steel pipes of new types. A company in the Tambov Region is going to commission a production line to make steel pipes with various cross-sections. The macro-region’s enterprises expect that the output of pipes will expand in the next few months.

**PASSENGER TRANSPORT.** The growth of domestic tourism in the macro-region continued to support the development of regional passenger transportation in 2023. As reported by an airport in the Moscow metropolitan area, in May 2023, the passenger flow edged up by 11% in annualised terms. At the beginning of summer, the Federal Air Transport Agency opened an additional air corridor for civilian aircraft from Central Russia to Southern destinations to meet elevated demand. Subsidised routes also help develop domestic air travel. However, as a number of airports in Central Russia suspended operation, the utilisation rates of rail transport will be elevated during the summer period. The Moscow Railway reported a 4.4% rise in long-distance passenger rail transportation in May 2023, year-on-year. To meet high demand during the holiday period, the macro-region launched additional trains to the South and increased the number of interregional rail routes, opening the routes of the project ‘Connecting the Central Black Earth Region’ from Voronezh to Lipetsk, Kursk and Belgorod, among others.

## BANK OF RUSSIA NORTH-WESTERN MAIN BRANCH



Consumer activity in the macro-region continued to bounce back in May–June. Pharmaceutical enterprises were ramping up their production capacities, which boosted their output. To increase the affordability of their products and sales, dairy product manufacturers expanded their product range. The demand for workers edged up, most notably in industrial production and construction. Businesses' price expectations lowered slightly, although staying elevated.

**CONSUMPTION AND INCOMES.** Consumer activity in the North-West continued to recover in May–June. The estimates of current demand in retail, public catering and services improved as a result of the expansion of domestic tourism, among other factors. In particular, during the June holidays and the Saint Petersburg International Economic Forum, the passenger flow at the Saint Petersburg airport Pulkovo increased by 14%, year-on-year. Vacant areas in street retail on the main central streets of Saint Petersburg nearly halved over the past year: public catering places and clothing and footwear stores were actively opening there in recent months.

**PRICES.** Annual inflation in the North-West remained almost the same in May, compared to the previous month. Inflation was influenced by diverse factors. Namely, the expansion of food supply boosted by last year's good harvest offset the proinflationary effect of the gradual rebound in demand and the ruble weakening since the beginning of the year. Companies' price expectations in most industries of the macro-region (transport, trade, industrial production, and services) edged down slightly in June, while staying elevated.

**LABOUR MARKET.** Unemployment in the North-West decreased over the period under review. The deficit of personnel was most significant in industrial production (machine building and chemical production) and construction. Some regions reported that the number of part-time employees working under such schemes after the exit of foreign companies continued to decline, which was associated with the reopening of enterprises. Specifically, the Novgorod Region relaunched a wood processing factory, and Saint Petersburg – an automobile plant. Many companies in the North-West are going to create new jobs and raise wages, including because of higher competition for personnel among employers. In order to weaken pressure in the labour market, regions are organising job fairs. The authorities are launching various government programmes to train specialists highly demanded in the market. Companies are establishing their own training centres and actively collaborating with educational institutions. In particular, a large industrial enterprise in the Novgorod Region launched a dedicated training programme for promising school graduates, and a fishing company in the Murmansk Region opened its in-house specialised classes.

**MONETARY CONDITIONS AND BANKING SECTOR.** The annual growth of the corporate loan portfolio in the macro-region slowed down as of the beginning of May, although remained above the Russian average. This was predominantly associated with the expansion of lending to retailers and companies engaged in real estate operations. According to the monitoring of businesses,

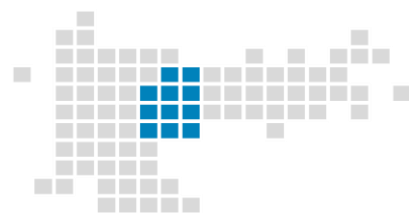
corporate lending conditions in the macro-region tightened somewhat in May–June. The demand for retail loans, including consumer and mortgage ones, continued to trend upwards in May. A country-level bank noted higher demand for car loans in a number of regions in the North-West, which was driven by the implementation of the government support programme and the expanded supply of cars in the market, among other factors. Another bank reported higher demand for retail loans raised for construction and purchase of private houses. The inflow of households' funds into time deposits and current accounts continued in May.

**PHARMACEUTICALS.** In May, the output of pharmaceuticals and medical products in the North-West expanded by 9.5% in annualised terms. This increase in pharmaceutical companies' output was needed to reduce the industry's dependence on imports and switch to the technology of fully integrated production of medicines. In spring, several pharmaceutical enterprises in the macro-region commissioned new production facilities. A large pharmaceutical company in Saint Petersburg expanding its production capacities launched a line to manufacture liquid formulations. In addition, the macro-region completed the next phase of the construction of a plant that will manufacture biologically active food supplements. The demand for them has been growing after the exit of a number of foreign companies from the Russian market. Another large pharmaceutical enterprise launched the next stage of a plant that will manufacture oncology medicines, which will help meet the demand for these drugs in the country to a considerable extent. The Kaliningrad Region commissioned a high-technology plant to manufacture antiviral and anti-inflammatory drugs. The localisation of output inside the region will help reduce businesses' logistics costs and increase the affordability of these pharmaceuticals for ultimate consumers, among other things.

**MILK AND DAIRY PRODUCTS.** In May 2023, the macro-region ramped up the output of dairy products by 9.2% in annualised terms. This became possible as a result of the implementation of investment projects in dairy farming. Specifically, the Vologda Region expanded the output of milk owing to the construction and upgrade of its production facilities last year. A large enterprise in the Pskov Region reported an increase in the dairy cattle population and its performance. However, companies in the industry complained about a decline in prices for raw milk, which, in their opinion, might be caused by higher competition in the dairy products market amid contracting demand from households. Some milk processors reported excess stocks of such dairy products as dairy butter, milk powder and cheeses. To increase the affordability of dairy products and boost sales, regional dairy factories were expanding their product range. Thus, an enterprise in the Vologda Region relaunched the manufacture of reduced-fat butter at a lower price, after a long pause, as well as decreased the weight of packaged cheeses. A number of large enterprises in the macro-region commissioned lines to manufacture UHT milk products with a longer shelf life, including to expand the geography of supplies.

## BANK OF RUSSIA VOLGA-VYATKA

### MAIN BRANCH



The macro-region's consumer segment continued to expand actively. In May–June, turnover in retail bounced back to the level of late 2021. Consumer price growth was sped up by prices for a limited group of products, whereas companies' price expectations declined. The rise in consumer activity was driven by a surge in retail lending. The output of petroleum products remained stable, while the growth rates of wholesale and retail prices for petrol in the macro-region were comparable with those recorded across Russia. Elevated demand for construction materials supported the restoration of output in the industry. Structural changes in the economy had a positive effect on business activity in civilian shipbuilding.

**CONSUMPTION AND INCOMES.** The growth of non-food sales sped up in May, with their level coming close to the pre-crisis figures of 2021 Q4. According to the Bank of Russia's monitoring, in June, the demand in retail continued to trend upwards, but retailers' expectations for the next three months became less positive again. The demand for cars still exceeds their supply. As reported by dealers, new imported models are sold out quickly, whereas the stocks at warehouses are quite small. Besides, consumer demand shifted to the segment of cheaper and used cars. Some regions complained about a shortage of domestic models. As before, traffic in shopping malls expanded as a result of the opening of new stores, among other factors. Consumption of services increased as well in May. Rising demand for tourism to Volga-Vyatka regions supported high growth rates in public catering. However, as reported by travel agencies, the sales of foreign tours declined because of price growth.

**PRICES.** Annual inflation sped up slightly in May, although staying below 4%. Contrastingly, monthly price growth (seasonally adjusted) exceeded 4% in annualised terms. The increase in prices accelerated in certain groups of non-food goods, namely for motor fuels, and food products, most significantly – for chicken and sugar. Besides, the price growth rate remained elevated in tourism, especially in the segment of domestic travel. Despite the intensifying inflationary pressure, companies lowered their price expectations in June.

**MONETARY CONDITIONS AND BANKING SECTOR.** As of the beginning of May, the corporate loan portfolio expanded faster in annualised terms, as compared to the previous month. Retail lending continued to trend upwards actively in May, supporting consumption. The monthly increase in outstanding consumer loans was close to nearly two-year highs. The amount of consumer loans issued in May surged, exceeding the monthly average of 2021. The expansion of the mortgage portfolio continued to accelerate, with its monthly growth rate coming close to its two-year highs. The increase in this lending segment was driven by a rise in loans issued under government subsidised programmes, including the subsidised new housing mortgage programme, the Family Mortgage programme, and the mortgage programme for IT specialists. The annual growth of



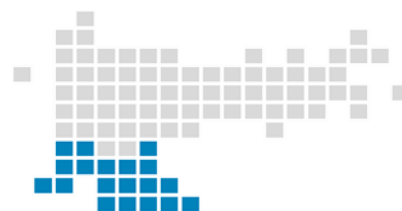
households' funds in bank accounts sped up slightly, primarily driven by long-term deposits and demand accounts.

**OIL REFINING.** In contrast to general Russian trends, the macro-region's output of petrol stayed nearly the same as in previous months and exceeded the level of 2022 as the production capacities had been expanded to meet domestic demand. Regional refineries' supplies to the domestic market were also above last year's figures. Nevertheless, one of the macro-region's refineries reduced its output because of scheduled repairs. Despite stable supply of fuels in the regional market, the growth rates of wholesale and retail prices for petrol in Volga-Vyatka in May–June were comparable with those recorded across Russia. This was associated with the contraction of supply across the country due to scheduled repairs at a number of refineries coupled with a relatively small reduction in exports. On the other hand, interregional trade in the fuel market helped even out petrol prices in the macro-region, compared to other territories.

**CONSTRUCTION MATERIALS.** In May–June, the industry restored its output to the level of late 2021–early 2022. According to the Bank of Russia's monitoring, companies more frequently reported rising demand for their products. Specifically, a large manufacturer of cement recorded that, in May, its supply quantities surged by a third in annualised terms. The demand increased owing to the implementation of large investment projects in Volga-Vyatka regions. However, the company complained that high utilisation rates of the railway system prevented it from meeting final demand in full. Manufacturers from Mordovia, the Penza and Saratov Regions reported high utilisation rates of their production capacities and a shortage of workers as a result of a large number of orders. They consider that this is hindering a further expansion of output. Overall, a higher percentage of companies in the industry expect a rise in prices for their products in the next few months.

**CIVILIAN SHIPBUILDING.** Large shipbuilders of the macro-region maintained a high level of business activity during 2023 Q2. The expansion of domestic tourism and the development of intercity water transportation boosted the output of passenger ships. Thus, in April–June, a large manufacturer launched the construction of three cruise ships to be used in sea and river passenger transportation instead of the old fleet. Another shipbuilder also increased the output of passenger ships, although this enterprise had not been constructing ships of this type for over ten years. As the use of water routes for cargo transportation expanded, the demand for technical and freight ships increased as well. Specifically, one of the macro-region's enterprises completed the construction of a tug to be used in the Siberian river transportation infrastructure. Another company plans to double its capacities for producing cargo ships over the next few years.

## BANK OF RUSSIA SOUTHERN MAIN BRANCH



Consumer activity in the macro-region trended upwards in May–June. The tourist flow remained high, supported by a rise in the demand for holidays in the North Caucasus. Economic activity was partly driven by lending that increased mostly in the segment of small and medium-sized businesses. As meat product manufacturers were building up and upgrading their production capacities, they were able to ramp up output. Agricultural enterprises started harvesting, the pace of which was higher than last year. The expanded supply of greenhouse vegetables contained price growth.

**CONSUMPTION AND INCOMES.** According to recent data, consumer activity continued to increase in May–June, staying above the Russian average. This was driven by higher non-food consumption, among other factors. Thus, Daghestan companies noted a rise in the demand for footwear manufactured in the republic and, accordingly, they are planning to ramp up their output. Some industries still recorded a deficit of qualified employees, which was pushing up wages. Specifically, wage increases were reported by a greenhouse farm in the Karachay-Cherkess Republic and a large health resort in the Republic of Daghestan. Due to difficulties with hiring required specialists, companies were developing their own training programmes. For example, a sewing factory in the Republic of Ingushetia engages Russian and foreign process operators to train new employees.

**PRICES.** Annual inflation remained unchanged in May, namely 2.6% as in April, whereas monthly price growth (seasonally adjusted) slowed down primarily because of the increased supply of greenhouse products. Thus, a large greenhouse farm in the Stavropol Territory ramped up its output of vegetables by 5% this year and is going to launch the fourth stage of the complex in 2023 Q3 and further expand its output by a third. The growth of prices for services accelerated mainly due to higher prices for passenger transportation and domestic tourism pushed up by rising demand. In these conditions, companies' price expectations in services edged up. Nevertheless, price expectations in the economy in general declined, mostly in industrial production and trade.

**MONETARY CONDITIONS AND BANKING SECTOR.** As reported by banks, credit activity in the corporate segment, primarily among small and medium-sized businesses, moderately increased in May–June. The monthly growth rate of retail lending was elevated in May, compared to previous years, as mortgage lending continued to expand fast and the demand for consumer loans bounced back. Some banks revised their price conditions in mortgage lending. In particular, a regional credit institution raised its minimum interest rate for new housing mortgages by 0.6 percentage points in June. The inflow of households' funds into deposits (seasonally adjusted) decelerated in May, whereas the weighted average interest rates continued to edge down.

**TOURISM.** The tourist flow in June remained nearly the same year-on-year. As always, the demand for Krasnodar Territory resorts was high, with the number of tourists in Sochi exceeding last year's level by 2%. One of the contributors was better transport accessibility as the authorities launched additional trains to Southern regions for the summer period. At the end of June, Sochi started to offer

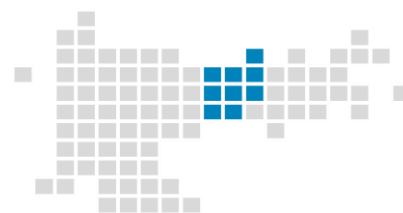


cruise routes with stops at the seaports of some foreign resorts, which also increased the inflow of tourists into the region. The demand for North Caucasus resorts remained high as well. In June, the number of passengers served by the North Caucasus Railway surged by 18%, year-on-year. The average occupancy rate at the health resort and tourist complexes in the Stavropol Territory, the Republic of North Ossetia–Alania and the Chechen Republic exceeded 90%, which is higher than last year. The deficit of rooms was partly offset owing to easily installed accommodation units, namely camping, glamping, modular and framed hotels. Overall, the macro-region's tourism companies reported that the number of reservations for the remaining part of the summer season was nearly the same as last year.

**MEAT AND MEAT PRODUCTS.** The output of meat in most Southern regions increased year-on-year, largely driven by the expansion of agricultural enterprises' capacities and the extensive implementation of investment programmes in livestock production. Thus, the Krasnodar Territory ramped up meat output owing to the construction and reconstruction of pig breeding farms. Despite the expansion of supply, the annual growth of prices for meat and meat products was accelerating, pushed up by rising costs in the industry associated with more expensive imported feed additives, equipment and spare parts. As reported by meat processing factories, costs were also pushed up by rising prices for spices and food additives, packaging, and logistics. In these conditions, companies were seeking to cut their costs in order to maintain the affordability of their products. A meat processing enterprise in the Stavropol Territory refocused on alternative suppliers, and a large sausage manufacturer in the Rostov Region automated some processes and reduced the range of products considering the situation.

**AGRICULTURE.** In June, Southern enterprises started the harvesting of winter and early spring vegetables, with a number of regions carrying out the works ahead of schedule and faster than last year. Owing to the development of the subsidised lending programme, grants and leasing in the regions to support field work, agricultural companies had sufficient technical resources. Thus, the number of equipment lease agreements concluded in the Rostov Region this year was 55% higher than in the previous year. However, the unfavourable weather conditions are adversely affecting the harvest. A number of regions reported that crop areas were slightly damaged by the rains. Furthermore, according to the authorities of the Krasnodar Territory, this entailed a reduction in winter crop yields compared to last year. Nevertheless, the moisture accumulated in the soil will have a positive effect on spring crop yields. To increase potential winter crop yields in the next agricultural year, plant breeders will continue the testing of new promising varieties of crops. According to the information from the demonstration fields, yields of these varieties will be 10–15% higher.

## BANK OF RUSSIA URAL MAIN BRANCH



Consumer activity in the Urals continued to go up in May–June. Households' demand for consumer and mortgage loans increased. The number of vacant jobs was still rising, while the number of CVs trended downwards. Oil output remained the same as in April, whereas refining expanded after the completion of scheduled repairs. The utilisation rates of pipe plants remained high, driven by orders for the construction of main pipelines and the housing and utility infrastructure. Consumer price growth sped up, whereas companies' price expectations declined somewhat.

**CONSUMPTION AND INCOMES.** Households' spending was increasing rather quickly in May. Overall, consumption in the Urals reached the pre-pandemic level. The rise in consumer activity slowed down in June. According to businesses' estimates, buyers' loyalty to the current product range increased, with the demand for durables, including cars, household appliances, communication devices, tools, clothing and footwear, expanding. Some pick-up points of marketplaces recorded a shortage of warehouse facilities in June. Nevertheless, as reported by companies, their product stocks and supply chains make it possible to meet consumers' demand. The number of vacant jobs continued to rise, whereas the number of CVs was still dropping. The hh. index evidenced that the deficit of job seekers in industrial production, construction, retail and healthcare increased, notably pushing up wages in most industries.

**PRICES.** In May, monthly price growth (seasonally adjusted) in the Urals already exceeded 4% in annualised terms. Annual inflation sped up to 1.5%. The expansion of consumer demand and the earlier ruble weakening slowed down the annual decline in car prices. The demand for foreign tourism and transportation services also turned out to be considerably higher than last year, which accelerated the annual growth of prices for services in general. As the demand for motor fuels exceeded the supply, wholesale and retail prices for petrol edged up in May. Companies' price expectations (seasonally adjusted) were changing diversely in June, continuing to decline in industrial production and trade and reversing upwards in construction, services and agriculture.

**MONETARY CONDITIONS AND BANKING SECTOR.** According to recent data, the demand for corporate loans increased in May–June, especially from mining and quarrying, manufacturing, trade, construction and agricultural enterprises. Some banks reported a rise in credit rates for large corporate borrowers. Besides, the proportion of loans issued for investment projects was up. Banks recorded an increase in mortgage lending in May, with the demand for subsidised programmes staying high. The affordability of consumer loans remained nearly the same, while the demand for them and the amount of debt were up. The inflow of households' funds into bank deposits accelerated in June, as assessed by banks.

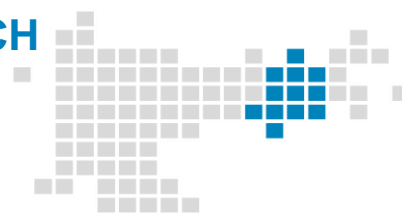
**OIL AND GAS PRODUCTION.** According to the surveyed companies, oil output in May remained nearly the same as in April. Gas output continued to shrink over the period under review, which was caused by constraints in storage, transportation and sales of finished goods. Motor fuel exports to Asia and the Middle East expanded in 2021 Q2. In contrast, petroleum products supplies to

the domestic market contracted as Ural oil refineries stopped the operation of some of their facilities this spring, including for their technical re-equipment and installation of new equipment following the transition to domestic catalysts. Commodity shipments to Ural oil refineries increased in May–June. The current demand for liquefied natural gas (LNG) is steady, and the output of commodities in this segment remains the same. As of the end of the year, the output of LNG might shrink due to scheduled maintenance of the equipment. Oil and gas companies' expectations about output and demand are still moderately positive. Problems with the supplies of equipment, components and special machinery are not systemic and are being settled gradually.

**PIPE MANUFACTURING.** As reported by companies in the industry, the domestic demand for pipes from the main customers, namely oil and gas, energy, machine building and construction enterprises, remained high in 2023 Q2. According to large Ural enterprises, the utilisation rates of their pipe manufacturing facilities were close to 100%. Overall, companies have sufficient stocks of finished goods and raw materials and are not facing any problems with export shipments. A metallurgical enterprise in the Orenburg Region is planning to commission a new seamless pipe manufacturing facility this year. The Chelyabinsk Region successfully completed the testing of large diameter pipes meant for the construction of main gas pipelines of a new generation. The largest manufacturer of rolled products started the production of several steel types intended for the North Pole and main gas pipelines crossing fracture zones. Increased quantities of orders were also reported by pipeline coating companies. Market participants consider that high domestic demand is driven by the implementation of the national gas infrastructure development projects and the upgrade of the housing and utility infrastructure.

**MILK PRODUCTION.** This summer, the seasonal expansion of raw milk output was coupled with dairy factories' surplus of end products, including butter, cheeses, milk powder and packaged UHT milk. The excess stocks had formed due to a pause in consumption growth and changes in consumption patterns, as well as larger supplies of dairy products from friendly countries. Nevertheless, processing companies remain in the black owing to extensive technical upgrades in recent years and the effective government support measures. In these conditions, companies continued to ramp up output, while reducing prices for dairy products. Market participants believe that raw milk production remains profitable only for large farms considering the current prices. At the beginning of summer, some dairy factories in a number of Ural regions distributed the limits on milk reception across large farms and reduced the quantities of milk to be received from other categories of producers. Raw milk prices in the Urals continued to decline in May–June. According to experts, in the future, this might cause a decrease in the cattle population at small and medium-sized farms, a contraction in milk output, and a new increase in input prices.

## BANK OF RUSSIA SIBERIAN MAIN BRANCH



Consumer activity in services and retail continued to trend upwards in May–June, driven by a rise in households' incomes and retail lending, among other factors. Economic activity in Siberia was up, compared to the beginning of the year. Coal and metallurgical enterprises ramped up output. The demand for packaging increased as a result of the development of online trade, local brands and in-house trademarks.

**CONSUMPTION AND INCOMES.** Consumer activity in services and retail continued to go up in May–June. The demand for entertainment events, concerts, shows and festivals trended upwards. The number of visitors in cafés and restaurants increased. Tourism companies reported higher demand for domestic and foreign tourism, including short trips to Siberia. Over the first half of the year, the passenger flow at Siberian airports surged by over 30% in annualised terms, driven by a rise in the number of direct flights, including to China and Thailand. According to large shopping malls, traffic continues to expand as a result of the opening of new stores instead of the foreign brands that had exited the Russian market. However, retail chains noted that households still preferred cheaper products or special offerings. As before, the number of vacant jobs notably exceeds the number of CVs, which is forcing employers to raise wages.

**PRICES.** Consumer price growth in Siberia sped up in May 2023, in both annualised and monthly terms (seasonally adjusted). After two months of the decline, the annual growth of non-food prices resumed. Auto dealers reported higher prices in the segment due to rising costs for the supplies of new cars from China, as well as a larger deficit of original spare parts for foreign-made cars. Siberian tourism companies raised prices for their services, including because of higher demand for camping and recreation centres. Most Siberian enterprises expect price growth to accelerate in the next three months due to the expansion of demand.

**MONETARY CONDITIONS AND BANKING SECTOR.** According to assessments, corporate lending continued to expand in May–June 2023, with working capital loans remaining the most demanded type. Consumer lending trended upwards, driven by the increase in the issued car loans. Since households expected mortgage rates to go up, the demand for mortgages remained high. As households still preferred to make savings, the inflow of individuals' funds into both current accounts and time deposits was elevated. Besides, households' demand for deposits in Chinese yuan remained high. Some banks announced another increase in interest rates on yuan deposits.

**COAL MINING.** In May, Siberian coal enterprises reported a surplus of thermal coal in the global market and a decline in prices to their lows since early 2022. This is considerably reducing the profitability of exports, considering that thermal coal is still sold at a discount. Coking coal is exported without discounts in 2023. Favourable price trends in the segment of metallurgical coal encourage Siberian coal companies to ramp up output. Thus, as of the end of the first five months of the year, the output of coking coal in Kuzbass expanded, year-on-year. The output of thermal coal contracted. Supplies (mainly exports) to the East are growing fast, while those to the West are shrinking. Specifically, in May, Kuzbass coal producers increased shipments to the East by nearly a third in annualised terms. However, these quantities are below coal companies' export targets.

Siberian coal enterprises say that they could expand their exports if there were no infrastructure constraints. In particular, a large thermal and metallurgical coal producer reported that insufficient carrying capacity of the Eastern railway section prevents it from completing the redirection of exports from the West to the East. As a result, the producer is forced to cut its current output and 2023 output targets.

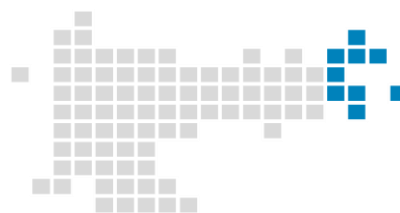
**NON-FERROUS METALLURGY.** Non-ferrous metal producers' output continued to expand in May. Their products were mostly exported to Asia, while the share of exports to Europe plummeted. Specifically, the share of Europe in a large Siberian metal enterprise's revenues nearly halved. Sales in the Asian market accounted for 45% of the revenues, which is 1.5 times more than last year (30%). Sales in the domestic market were up. The situation with investment is diverse. The above Siberian enterprise is revising its investment programme and might adjust it by the end of 2023, considering that the company is facing difficulties with equipment and technology supplies. Contrastingly, another large metallurgical enterprise received a permit from the government expert board to start the expansion of its production facilities and is launching the construction.

**PACKAGING.** Siberian packaging manufacturers recorded higher demand for their products and an increase in output. Elevated demand for packaging was driven by fast growth in online trade and the development of local brands and in-house trademarks, among other factors. The expansion of the client base and the product range was reported by a large Siberian plastic packaging manufacturer. The company ramped up its output for retail chains (specifically, for in-house trademarks), including the output of branded plastic bags that had been previously imported from non-CIS countries. Besides, the company noted that clients started to reduce costs for packaging, opting not to use complex marketing solutions, design and multiple colours. The manufacturer uses domestic polymer granules and has substituted European components for Russian and Asian alternatives.

As foreign aluminium tubes are unavailable, the demand for them is growing, including from pharmaceutical enterprises and perfume and cosmetics manufacturers. This is a promising area in the packaging market. Thus, in 2023, an aluminium product manufacturer is going to commission a facility for making tubes for packing medicines and cosmetics. A large Siberian glassware manufacturer plans to ramp up its output by about 8% this year. The company reported an increase in the quantities of orders as international and regional drink manufacturers had adjusted to the current situation. The company is upgrading its facilities and seeking new ways to cut costs. For example, it has replaced silica sand for glass manufacturing from European Russia for Siberian raw materials. Regional manufacturers of corrugated fibreboard packaging reported an increase in demand and output. By the beginning of autumn, Siberia will launch a pulp and cardboard plant that will be the largest one in Russia.

## BANK OF RUSSIA FAR EASTERN

### MAIN BRANCH



Consumer activity in the macro-region was rebounding in May–June. Businesses lowered their price expectations in June. Households' demand for mortgage and consumer loans remained high. Rates for sea transportation between Russia's Far East and Asian countries edged down. Shipbuilders' output stayed high, although they were still facing difficulties with the import of equipment and spare parts. External demand for fish products was rising. Fishing companies reported more acute staff shortages.

**CONSUMPTION AND INCOMES.** The upturn in consumer activity in the macro-region continued in May–June, primarily driven by rising demand for non-food goods. A large retailer of digital devices and household appliances reported an expansion of the range of Chinese products and sales in towns. A jewellery store recorded higher demand and revenues as a result of an increase in the tourist flow from Asia. Sales of used cars continued to go up, including as a result of car showrooms' refocusing. The food segment recorded a slight rise in the average purchase amount. A number of trade companies opened new points of sale in May–June. Tourism companies in the Khabarovsk Territory noted higher demand for trips across Russia and tours to some Asian countries in June, month-on-month. Kamchatka travel agencies recorded a decline in the number of reservations in May–June, compared to the previous year, which was associated with the end of the tourist cashback programme and the cancellation of restrictions on travel to some foreign destinations. According to the survey, companies' short-term expectations about demand in retail and services were slightly worse in June than in May.

**PRICES.** Annual inflation in the macro-region sped up somewhat in May, namely to 3.9%. The monthly growth (seasonally adjusted) of prices for both goods and services edged up as well. The rebound of consumer demand and the pass-through of the ruble weakening from early 2023 to prices accelerated the growth of prices for cars, smartphones and some types of construction materials. Food retailers noted an increase in input prices for imported products. Kamchatka travel agencies recorded a rise in prices for excursion tours in June, which was associated with higher costs for fuels and lubricants and tourists' food. According to weekly statistics, price growth decelerated somewhat in June. Businesses' price expectations edged down as a result of a slight weakening of the pressure caused by higher costs. Retailers lowered their expectations most significantly.

**MONETARY CONDITIONS AND BANKING SECTOR.** The expansion of the corporate loan portfolio sped up as of the beginning of May, which was driven by the issue of large loans to companies in trade, manufacturing, transportation and storage. Small and medium-sized businesses noted that non-price lending conditions eased slightly. According to recent data, the demand for investment loans edged up in May–June. Banks expect that the demand for credit will remain stable in the next few months. The monthly growth of outstanding consumer loans remained high in May due to the rebound in demand and a slight easing of lending conditions. Recent statistics show that



consumer lending continued to expand in June. Some banks reported an increase in the average loan amount. Although market rates edged up somewhat, the demand for mortgages remained high, with lending under the subsidised programmes increasing. Deposit rates rose slightly in May, and the inflow of households' funds into bank deposits in both rubles and yuan continued over the period under review.

**LOGISTICS.** Cargo traffic in Far Eastern seaports remained record-high in May. A large seaport reported that container handling volumes as of the end of 2023 H1 reached last year's level. Considering the increase in container transportation, a large company in the Primorye Territory expanded its machinery fleet to work at marine terminals and storage areas by purchasing new machinery and redistributing the fleet from the terminals in North-Western regions of the country. Owing to new container lines, rates for sea transportation between Russia and Asia declined by a third as of the middle of June, compared to the beginning of the year. Companies expect prices to go down further in July–August. However, Sakhalin enterprises complained about a rise in rates for cabotage in June. Freight traffic at border terminals continued to expand in May–June. Cargo transportation through the border crossing point in the Khabarovsk Territory exceeded the level recorded in summer 2022. Freight traffic along the railway bridge in the Jewish Autonomous Region opened at the end of 2022 increased nearly 1.5 times in May, month-on-month, after the bridge had started to operate on a 24/7 basis.

**SHIPBUILDING AND SHIP REPAIR.** The macro-region's shipbuilders maintained high output in 2023 Q2 because of domestic orders. A shipyard in the Primorye Territory cut the first steel for 14 crabbers. After an Asian partner had refused to continue the construction of a large batch of ships for hydrocarbon transportation along the Northern Sea Route, a shipbuilder in the Primorye Territory decided to complete the construction of a third of these ships at its own plant. Some enterprises experienced difficulties with equipment and component supplies from unfriendly states and were refocusing on Asian suppliers. One of the macro-region's companies was able to substitute only 15% of the components for domestic alternatives. Some plants were forced to redesign ships as they had to replace the components, which increases construction periods and costs. A ship repair yard in the Kamchatka Territory has a sufficient number of orders until the end of the year. Contrastingly, companies in the Primorye Territory complained that they did not have enough orders as clients were refocusing on Asian ship repair yards after the latter had opened plants for foreign clients. A number of fisheries preferred repairs abroad due to problems with spare parts supplies, high costs for repairs, and a shortage of qualified specialists. Some companies carried out minor repairs at Far Eastern plants.

**FISHING AND FISH PROCESSING.** Over the first month of the fishing season, Pacific Ocean salmon fishing increased to exceed the level of the same period of 2021 by nearly a third. The largest part of the new catch of fish was exported to Asia. Wholesale prices for the first batches of red salmon in the domestic market edged up slightly by the end of June, compared to the beginning of the month, while remaining lower than in previous years. Due to the outflow of workers to other regions, companies complained about more acute staff shortages in fish processing during the fishing season, although they had raised wages by a third. Because of the ruble weakening, enterprises were unable to engage a sufficient number of workers from CIS countries. A large whitefish fishery expanded exports to Asia, Africa and Latin America. Another enterprise reported a rebound in the demand for pollock fillet in external markets.

## BOX 1

### SITUATION IN THE AUTOMOBILE INDUSTRY

The automobile industry was among those in the Russian economy that were affected most adversely in 2022. The enacted sanctions entailed a slump in the supply of domestic and imported motor vehicles in the market and, consequently, a rise in prices for them. Coupled with higher uncertainty, these trends had a negative effect on sales. From 2022 H2, the industry has been adapting to the said constraints, but the restoration of manufacturing and sales is uneven across the segments of motor vehicles.

As a result of the exacerbation of the sanction pressure in 2022, a large number of foreign auto groups either suspended their operation in the country or exited the Russian market. Many joint ventures assembling foreign vehicles in Russia and manufacturing components were closed. Moreover, exporters from unfriendly states stopped the official supplies of not only ready vehicles, but also components for their manufacturing in the country. Many Russian automobile plants that had not yet restored manufacturing after a persistent deficit of electronic components (caused by the pandemic restrictions) were forced to suspend manufacturing for long periods, simplify the configurations of motor vehicles, and reduce the model range in the conditions of the new constraints.

In order to stabilise the situation in the automobile market, the Russian Government temporarily simplified the rules for importing motor vehicles and auto components and the requirements for vehicles certification and legalised parallel imports. Russian automobile plants had to search for new partners inside the country and in friendly states, transform their logistics chains, and make investment in import substitution projects.

#### CARS

The **car segment** was affected most notably. As of the end of 2022, sales of new cars plummeted by 58%<sup>4</sup> year-on-year. According to Rosstat, their output contracted by 67% in 2022, compared to the previous year, which was largely caused by the reduction in contract assembly after foreign auto groups had exited the Russian market (in 2021, the proportion of foreign cars manufactured inside the country approximated 70% of the total output of cars in Russia). Besides, the output of domestic cars shrank by nearly 40% in 2022 due to the problems with component supplies. After the slump in 2022 Q2, sales of new cars and their output inside the country have been rebounding gradually, while still staying notably below the pre-crisis levels (Chart 1). The structure of sales has been altering considerably, with the percentage of foreign cars from unfriendly states declining and the share of Russian and Chinese brands growing (Chart 2).

Further developments in the market of new cars and the share of Russian manufacturers in the new environment largely depend on the pace of the rebound in **domestic output** and the potential for its expansion. The situation with components remains a major factor that might impede the recovery of domestic output.

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<sup>4</sup> Hereinafter, the statistics on sales and the decomposition of the Russian output into the assembly of foreign cars and the manufacture of domestic brands are given based on the data from ASM Holding.



*Domestic auto component manufacturers* are actively ramping up their output considering the increasing quantities of orders from Russian car makers. Thus, a Pskov auto component manufacturer reached full capacity utilisation amid the steadily growing demand from domestic car plants and is going to expand its manufacturing capacities in the future. A Kaluga-based manufacturer of electronics for cars introduced three work shifts due to the increasing quantities of orders, but is unable to ramp up its output further because of long periods of microelectronics delivery from Asia. However, Russian auto component manufacturers' potential to meet the rising demand from automobile plants is limited, especially with regard to technology-intensive components.

Constraints in the domestic manufacturing of auto components is one of the reasons why automobile plants' output remains dependent on *imported components*. Nevertheless, many carmakers from various regions report that the current supplies are stable. However, according to their estimates, there are still risks of the termination of supplies due to secondary sanctions. A Siberian auto dealer noted that the enactment of secondary sanctions generally involved temporary delays in supplies because of the need to rearrange logistics processes.

*Staff shortages* are becoming another factor hindering the recovery in the domestic automobile industry, as reported by a number of companies. Thus, several automobile plants and auto component manufacturers from Central Russia, Volga-Vyatka and the Urals complained about a deficit of various specialists. In a number of cases, companies are unable to fulfil all the orders they receive due to staff shortages.

Along with the restoration of operating automobile plants' output, enterprises are gradually relaunching the **production facilities that had been abandoned by manufacturers from unfriendly states due to their exit from the market**. Specifically, domestic automobile plants have already started the manufacturing of their branded cars based on Chinese models at several large facilities in Central Russia and the North-West that were idle for a long time in 2022. In the future, they are going to not only speed up the assembly process, but also increase the localisation of the components used. The Far East is also planning to relaunch the manufacturing using a similar scheme in the next few months.

As the rebound of domestic output is hindered, the **import of new cars** is growing notably. According to experts, by the beginning of 2023, its quantities considerably exceeded the level of early 2022. Besides, its structure is significantly altering in terms of suppliers: currently, China accounts for over 70% of imports, whereas, previously, cars from Japan and Europe made up the largest share. In particular, a large chain of car showrooms in the South continued to expand its dealership portfolio by adding Chinese cars and thus increasing their number to more than ten brands. A further rise in imports is hampered by logistics constraints (high utilisation rates of railway infrastructure and seaports), domestic buyers' cautiousness towards Chinese cars, and high prices for new imported cars.

As estimated by experts, the *parallel import channel* does not have a significant effect on the market, although it is becoming stronger, especially in the border regions. Currently, this channel accounts for as little as 10% of total sales and is mostly used to supply small batches of pre-ordered premium class cars. Thus, a Far Eastern auto dealer confirmed that the percentage of new cars imported this way was minor in the structure of sales, explaining this by a deficit of spare parts for them, the absence of guarantees, and high prices.

The **demand for new cars** is still higher than their supply, especially in the economy segment. Besides, most surveyed auto dealers note that demand remains below the pre-crisis level. Specifically, a large auto dealer in Central Russia considers that current demand is adversely

affected by people's unwillingness to purchase cars amid the uncertainty and, even if there were no supply-side constraints, sales would still be below the levels of 2019 and 2021. Many car showrooms also report that a part of potential buyers opt to use their old cars further, whereas another part prefer buying used cars, explaining this by a considerable rise in prices for new cars and the persistent uncertainty.

As a result of the slump in the supply of new cars and a rise in carmakers' costs, **prices for new cars soared**, although the demand for them declined. According to Rosstat, prices increased in March 2022 for the most part, after which they did not adjust notably, with the increase as of the end of the year reaching 29.7% and 39.1% for domestic and imported cars, respectively. In 2023, price growth resumed. Over the first five months of the year, domestic and imported cars became 2.1% and 0.6% more expensive, respectively. Most surveyed auto dealers expect a further moderate rise in prices for new cars (both domestic and imported ones), including due to the ruble weakening and the lack of opportunities to quickly supply a sufficient quantity of cars to the market.

As prices are high and the supply of new cars is not adjusting fast enough, demand is partially shifting to the **market of used cars**. Technically, their sales can also be supported by almost new models supplied through the parallel import channel. Overall, the market of used cars has become more important for both potential buyers not ready to purchase new brands and searching for familiar models at affordable prices and dealers who have notably expanded their presence in this market. Thus, the import of used cars surged in these conditions. In addition, considering longer car usage periods and a partial shift of demand to the segment of used models, some car maintenance centres already report an increase in the demand for their services and components, as well as prices for them.

**The contraction of output and the concurrent expansion of imports significantly transformed the structure of the supply of new cars.** Previously, foreign cars made in Russia accounted for over a half of the supply, whereas now their share plummeted. While the percentage of domestic models remains stable, the largest share of affordable models are now imported and these are predominantly used cars accounting for over a third of the total supply.

## TRUCKS

The **truck segment** was affected by the current crisis less severely than the car segment and is rebounding more quickly (Chart 3). According to Rosstat, the output of trucks in Russia shrank by 24% as of the end of 2022 because the assembly of some foreign trucks was terminated (in 2021, they accounted for nearly a fourth of the overall output of trucks), whereas the output of domestic brands contracted by as little as about 10%. The recovery of the output of domestic trucks in Russia accelerated by the end of 2022 and, closer to the middle of 2023, output nearly reached the pre-crisis level.

However, trends in sales of various types of trucks varied. Over 2022, sales of **light commercial vehicles (LCVs)** plummeted most notably, namely two times year-on-year, and current sales as of May 2023 remained considerably below the pre-crisis level. The surveyed dealers consider that this was associated with subdued demand from small and medium-sized businesses amid soaring prices. Thus, a small transportation enterprise from Volga-Vyatka reports that it will now renew its vehicle fleet only after it has been operated two times longer than before. The reduction in the range of domestic models and the exit of several foreign auto groups are additional drags. Besides, the demand for Chinese alternatives is still low as their quality parameters do not always meet the requirements of Russian buyers.

Sales of **medium and heavy commercial vehicles** (MCVs and HCVs) contracted by 15% in 2022, but significantly exceeded the pre-crisis levels already at the beginning of 2023. As reported by companies of the industry, the expansion of sales in this segment in many regions was driven by the implementation of infrastructure projects. Specifically, a dealer from the Rostov Region recorded a surge in the demand for trucks from road construction enterprises and companies transporting inert materials, and a Siberian dealer – from mining companies. Another reason is the renewal of the old truck fleet, including due to the concerns about a possible deficit amid the sanctions and difficulties with maintenance of the trucks produced by the European companies that exited the Russian market. According to Siberian auto dealers, the parallel import channel for components for Europe-made trucks is organised less efficiently than that for cars. Another driver of the demand for trucks is the expansion of automobile cargo transportation in Russia (see Box 3 '*Industry focus. Freight logistics*').

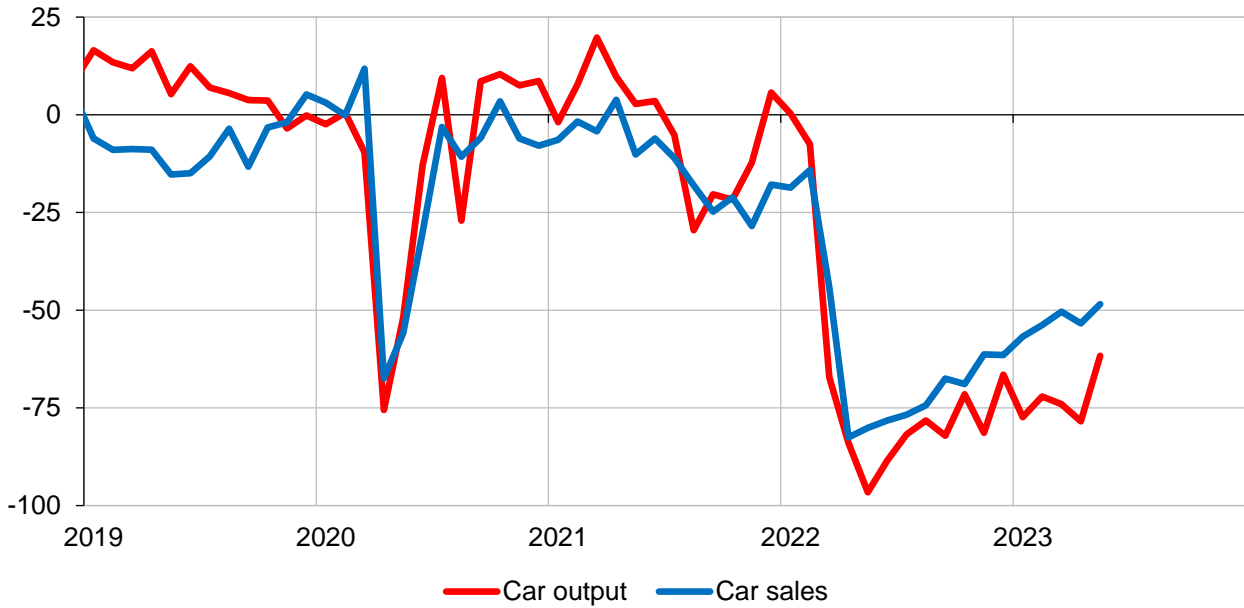
Chinese MCVs and HCVs account for the highest percentage of the increase in sales in this segment. Chinese truck producers are considerably increasing their presence in the Russian market, having quickly replaced the 'Big 7' European truck producers<sup>5</sup> after their exit from the Russian market (Chart 4). As reported by auto dealers, the expansion of Chinese truck producers' presence in the Russian market is associated with both insufficient supply of domestic trucks and certain competitive advantages of Chinese brands.

The situation in the automobile industry is improving gradually, despite the persistent impact of the majority of negative factors that emerged in 2022. The supply of new cars is bouncing back, driven by increasing output of domestic models and imports, which has a positive effect on sales. However, the output and sales of cars are still notably below the pre-crisis levels, and demand in this segment has not fully restored yet. Consequently, there is still uncertainty about the parameters of a new equilibrium and how long it might take to adjust to it. In contrast, the segment of trucks has already exceeded the pre-crisis figures, with the demand there met mostly owing to imports. Overall, the adaptation of the industry to the new environment is accompanied by the increase in Chinese partners' role owing to both the organisation of SKD assembly inside Russia and the import of not only components, but also finished cars and trucks.

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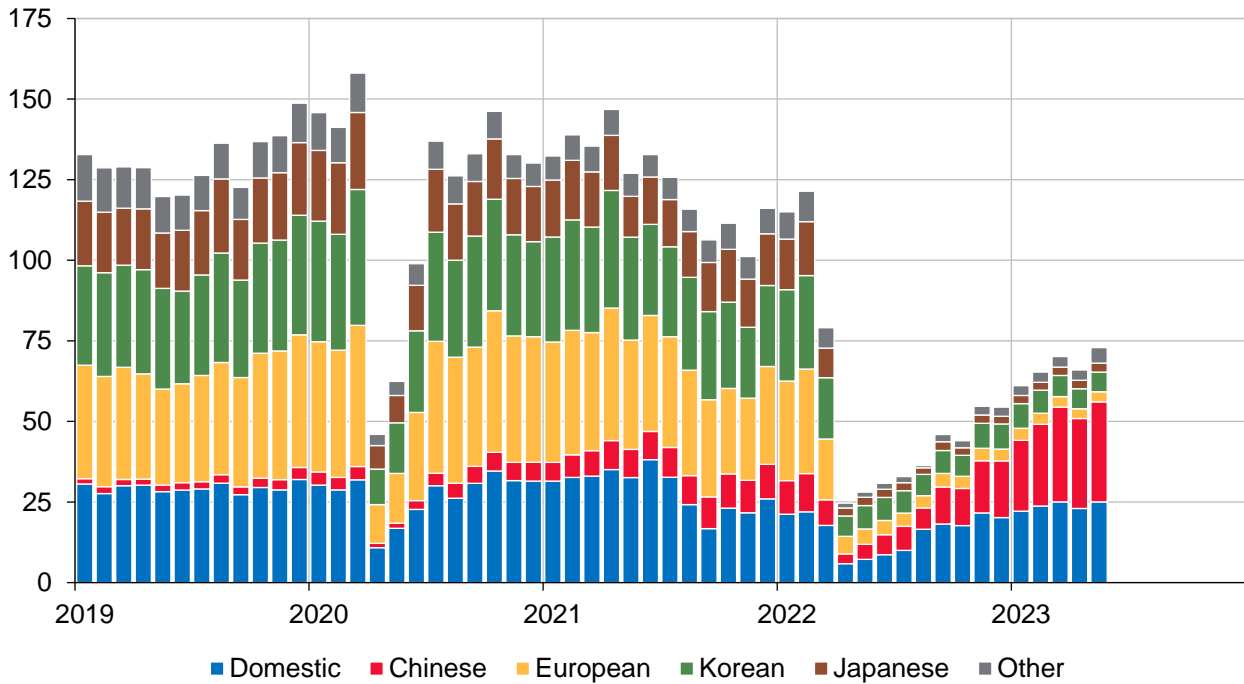
<sup>5</sup> The 'Big 7' of European truck producers: DAF, Iveco, MAN, Volvo, Renault, Scania and Mercedes.

Chart 1. Output and sales of new cars in Russia, % on 2019 Q4 (seasonally adjusted)



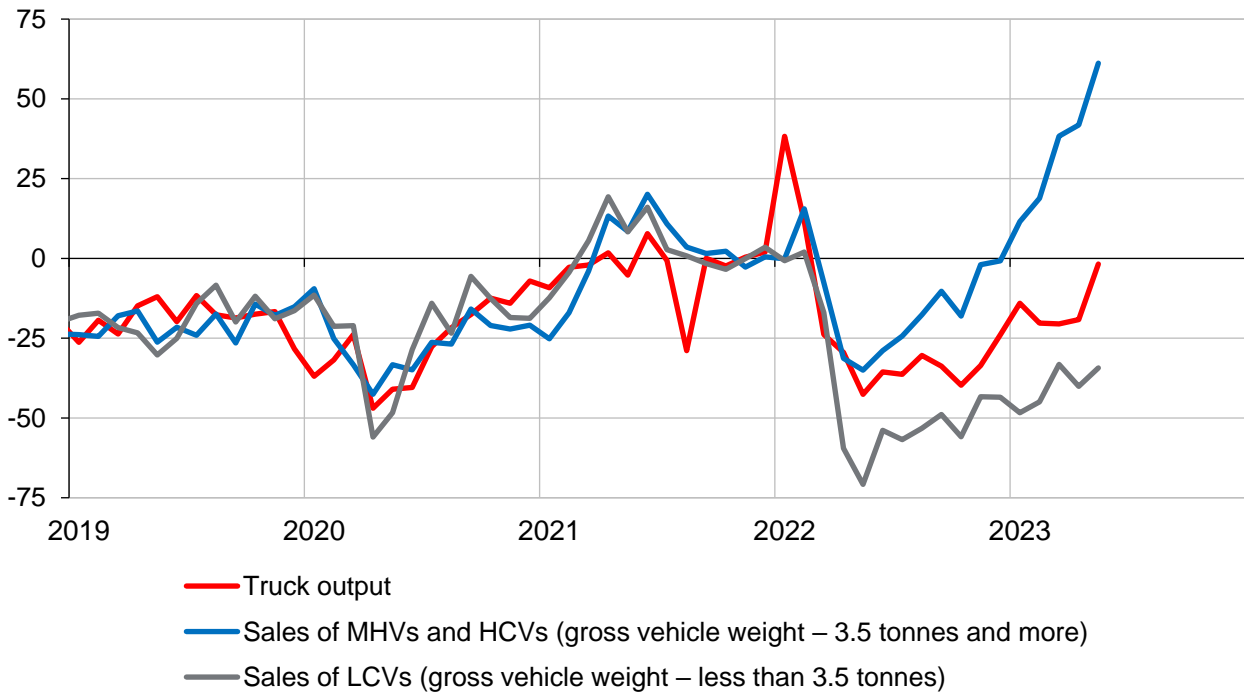
Sources: Rosstat, ASM Holding, Bank of Russia calculations.

Chart 2. Sales of new cars in Russia, across brand origin countries, ths, SA



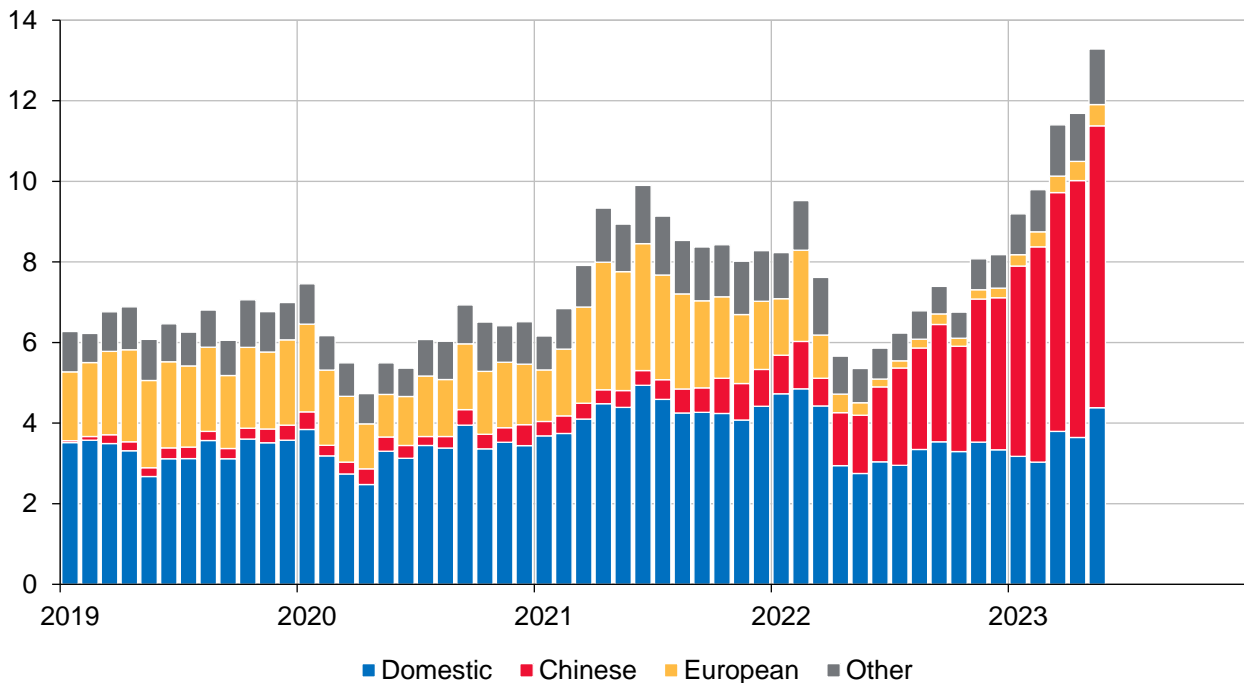
Sources: ASM Holding, Bank of Russia calculations.

Chart 3. Output and sales of new trucks in Russia, % on 2021 Q4 (seasonally adjusted)



Sources: Rosstat, ASM Holding, Bank of Russia calculations.

Chart 4. Sales of new MHVs and HCVs (gross vehicle weight – 3.5 tonnes and more) in Russia, across brand origin countries, ths, SA



Sources: ASM Holding, Bank of Russia calculations.

## BOX 2.

### REGIONAL BUDGETS IN 2023

The state of public finance in the constituent territories of the Russian Federation is an essential component of the analysis of the economic situation at the regional level. The initial targets of the regional government authorities received at the end of last year showed a reduction in the fiscal stimulus<sup>6</sup> in 2023 compared to 2022. Today, all macro-regions are expected to have a positive fiscal stimulus as of the end of the year. The fiscal stimulus across Russia in general will exceed the level of 2022 and will be comparable with that of 2020.

As of the end of the first five months of 2023, the parameters of the execution of the consolidated budgets of the Russian constituent territories somewhat differed from the figures in the federal budget. Revenues in the regional budgets continued to go up, which was associated with not only larger amounts of non-repayable transfers, but also an increase in regions' own revenues as a result of growing economic activity. The main factor reducing the inflow of funds into the federal budget was decreased oil and gas revenues, whereas the rise in non-oil and gas revenues in January–May 2023 was comparable with the overall expansion of the regions' revenues over the same period. Nevertheless, the growth rate of budget expenditures at the regional level was lower than that at the federal level.

The current deficit of the regional budgets turned out to be smaller as a result of the revenues that were more resistant to external shocks and a less notable increase in expenditures. Over the past 12 months (from June 2022 through May 2023), the balance of the regions' consolidated budgets totalled -₽0.44 trillion. Net of non-repayable transfers, the budget deficit at the regional level amounted to ₽4.9 trillion, which is comparable with the amounts observed in 2020.

#### REVENUES

As of the end of the first five months of 2023, revenues in the consolidated budgets of the constituent territories of the Russian Federation totalled 46% of the targets approved for 2023 (compared to 38% on average in 2018–2022).<sup>7</sup> Revenues in January–May 2023 edged up by 6.9% year-on-year. The most significant annual growth rates of revenues over the said period were recorded in the Volga Region and the South, whereas the Far East and the North-West faced a decline in revenues (Chart 1).

Over January–May 2023, the amounts of the regions' own (tax and non-tax) revenues increased by 4.7% year-on-year, totalling 46% of the targets (vs 40% in 2018–2022). The Southern macro-region reported a more significant rise in own revenues, as compared to other macro-regions, which was associated with considerably higher payments of profit tax, especially in the Krasnodar Territory and the Rostov Region. The expansion of economic activity increased the tax base of large regional industrial enterprises. Thus, the Krasnodar Territory recorded growth in sea and railway cargo transportation and construction. Central Russia, for example the Ivanovo Region, also observed a considerable annual rise in **profit tax** payments. Amid the expansion of output associated with

<sup>6</sup> A negative change in the autonomous balance (tax and non-tax revenues net of expenditures). A deficit expansion corresponds to a fiscal stimulus increase, while its contraction – to a decrease.

<sup>7</sup> Hereinafter, the targets are analysed using the data from the regional government authorities.

the fulfilment of the state order, enterprises, primarily textile and clothing manufacturers, earned high revenues. Overall, profit tax payments increased the regional budgets' revenues by 6.5%, compared to January–May 2022. Profit tax payments totalled 62% of the target (vs 47% in 2018–2022). An annual decline in payments was recorded in Siberia, the North-West and the Far East. In Saint Petersburg, the Arkhangelsk Region and other regions, this reduction was partly explained by the cancellation of the institute of consolidated groups of taxpayers. In the Far East, the decrease was also associated with the refund of taxes paid in 2022 due to higher losses incurred by mining companies, as well as lower energy commodity prices.

Over January–May 2023, **total income tax** payments reached 50% of the target (vs 47% in 2018–2022). Payments of these taxes to the regions' consolidated budgets increased by 11.1% year-on-year. The highest growth rates of these revenues were recorded in the South, the Volga Region and the Urals. In particular, the number of taxpayers using special tax regimes in Mordovia and the Orenburg and Penza Regions increased.

Over January–May 2023, **personal income tax** payments to the regions' consolidated budgets totalled 34% of the target (vs 36% in 2018–2022). The regions' revenues from the payments of this tax edged down by 1.7% year-on-year. This was associated with a decline in payments in the Central and North-Western macro-regions. In particular, the reduction in Moscow was caused by a decline in businesses' dividend payouts. Besides, as with profit tax payments, many regions reported delays with payments of this tax to the budgets because of the transition to the single tax account.

**Non-repayable transfers** expanded more notably than the regions' own revenues, specifically by 17.6% year-on-year. The increase in these transfers was most notable in the Central, Southern and Volga-Vyatka macro-regions. Specifically, the growth in the Republic of Crimea, the Krasnodar Territory and Sevastopol was explained by larger budget allocations for the upgrade of the transport, engineering, utility and social infrastructure.

The **targets for payments** to the regions' consolidated budgets as of the end of 2023 are 5.3% lower than those for the end of last year. Nevertheless, as Russia's social and economic development forecast for 2023 (the Russian Ministry of Economic Development, April 2023) improved compared to the projections as of the end of 2022 (the nominal GDP forecast was raised from ₹149.9 trillion to ₹159.8 trillion), most regions are most likely to increase the forecasts of their own revenues. As compared to the preliminary estimates at the end of last year,<sup>8</sup> the target revenues have already been revised upwards slightly, specifically in the Far East, Siberia and the Volga Region. The adjustments are mostly associated with larger non-repayable transfers. Thus, Mordovia is participating in federal programmes in 2023 more actively: the region received additional allocations to compensate certain groups of people for housing and utility payments, as well as to construct a waste sorting plant. Besides, the adjustments to the targets were made considering the actual dynamics of the regions' own revenues. In particular, the Kemerovo Region received larger tax payments from coal enterprises as a result of a rise in coal prices above the forecast level. The Amur Region expects higher profit and property tax payments considering the progress of the projects being implemented in the gas industry. The Primorye Territory predicts a positive effect from the performance of seaports and transportation companies driven by the expansion of freight turnover.

## EXPENDITURES

Over the first five months of 2023, expenditures in the Russian regions' consolidated budgets

<sup>8</sup> Report 'Regional Economy: Commentaries by Bank of Russia Main Branches' No. 16, December 2022.



totalled 35% of the targets (vs 32% in 2018–2022). The regions' spending over the five months of 2023 edged up by 16% year-on-year. The most significant growth was recorded in the South and the North-West, compared to other macro-regions (Chart 2). These regions, as well as the Volga Region and Siberia increased expenditures for the **economy** most notably. This rise in the Southern macro-region was associated with larger subsidies to agricultural and transportation companies and allocations to finance the construction of federal highways and public transport development projects. The Arkhangelsk Region increased expenditures to provide subsidies to railway enterprises and to develop interregional air transportation. Highway construction spending was the main driver of the expenditures for the economy in many regions. Thus, Tatarstan continues the implementation of projects for the construction of highways, including M7 and M12. Kuzbass is building the Kemerovo bypass that will accelerate the traffic of heavy vehicles and help strengthen the trade and economic relationship with Asian countries. Higher spending on housing construction development measures increased the expenditures in the Kirov and Penza Regions. **Social policy** expenditures account for a high percentage in the structure of the regional budgets. Over the first five months of 2023, the most notable rise in social expenditures was also recorded in the Southern and North-Western macro-regions. This was largely explained by higher spending on social welfare programmes for households. A major contributor in the Rostov Region was spending on the support for the people forced to move from other regions.

In a number of cases, the regions received additional allocations from the federal budget for the implementation of **infrastructure projects**. Thus, the Khabarovsk Territory rescheduled the financing from 2024 to 2023 under a federal project to reconstruct the water supply system. Some North-Western regions rescheduled the expenditures for the construction, reconstruction and repair of regional infrastructure from 2024 to 2023 as they expect to receive budget loans. Additional federal allocations to Siberia within infrastructure lending sped up the upgrade of the housing and utility systems. As regards Central Russia, the spending target for 2023 H2 was notably raised by the Vladimir Region that received federal subsidies to implement regional programmes for designing tourist centres. Overall, in 2023, the federal budget plans to finance projects in an amount of up to ₹315 billion through the mechanism of infrastructure loans, and the use of interest-free treasury loans from the federal centre will help reallocate expenditures in an amount of up to ₹180 billion from 2024 to 2023.

In addition, federal funds were allocated to cover **contingent expenditures**. Specifically, a considerable part of non-repayable transfers in Central Russia were unplanned and allocated to the border regions to provide support for companies and people and compensate for financial losses. Some North-Western regions also received larger non-repayable transfers to finance social payments to the families forced to move from other territories and stay in the new place either temporarily or permanently.

In 2023, some regional government authorities started to more actively use **advanced financing** of government procurements, temporarily placing budget holders' funds in accounts with the Federal Treasury branches. When the government and enterprises fulfilling state orders use this cooperation scheme, a certain part of spending is transferred to the economy not immediately as in the case of a payment for the already completed order, but is first credited to the contractors' accounts, after which is used step by step. In these conditions, the growth of budget expenditures observed in the statistics may have a time-lagged effect on the economy. According to assessments, in January–May 2023, approximately 17% of the annual growth of expenditures in the regions' consolidated budgets was used to make advance payments to companies fulfilling the state order. Overall, the percentage of this scheme of settlements in the regions' expenditures increased from 4.7% to 6.4%, while varying significantly in the growth of expenditures across regions from 1.3% in the North



Caucasus to 43.6% in the Far East. This heterogeneity might be a reason for differences in how the regions' economies will respond to a rise in budget expenditures.

As of the end of 2023, expenditures in the regional budgets are expected to rise by 9.1% year-on-year. The current expenditure targets exceed the preliminary estimates. The most notable revisions were made by the Far East, the South and Siberia. The adjustment in the Far East was associated with higher spending on the economy and the housing and utility sector. Thus, the Sakhalin Region plans additional allocations for resettlement from dilapidated housing and the construction of a runway at the airport in Yuzhno-Sakhalinsk and regional highways. The Krasnodar Territory increased the targets to finance the upgrade in certain industries and the social sector and to implement infrastructure projects. The Trans-Baikal Territory also redistributed the target balances of 2022 budgetary funds for resettlement from dilapidated housing. Furthermore, expenditures were increased to raise wages in the public sector and allocate additional funds to support servicemen and their families. The growth of budget expenditures will have a positive effect on aggregate demand in the economy and boost households' consumer activity.

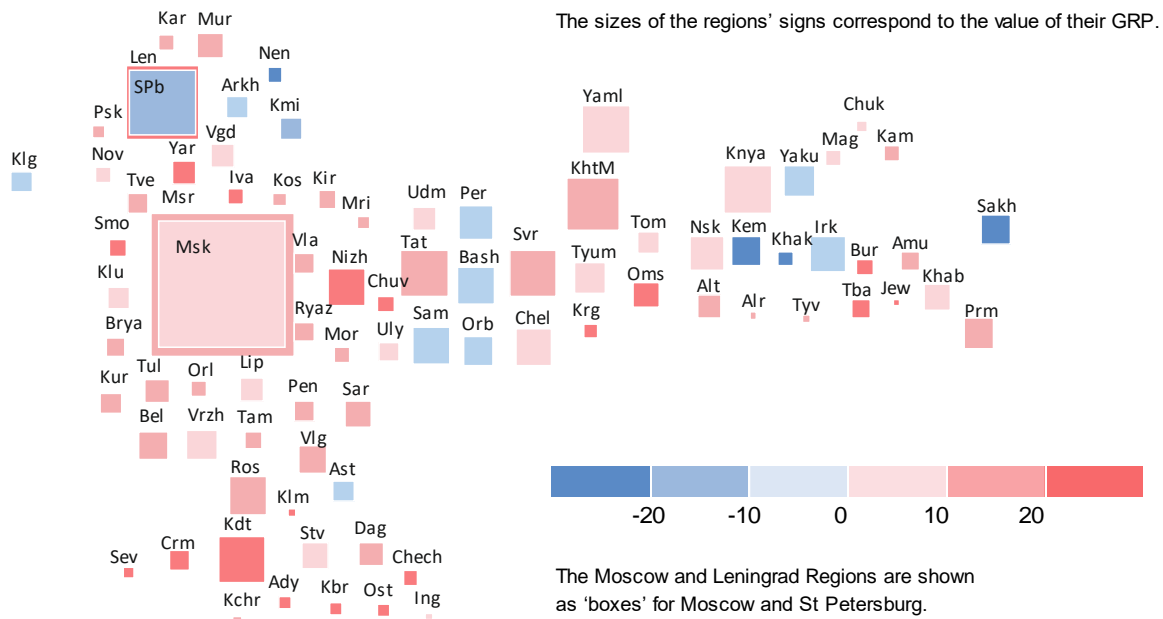
## BUDGET DEFICIT AND FISCAL STIMULUS

Considering that the growth rate of expenditures exceeds that of revenues, the regions' consolidated budgets will have a negative balance as of the end of 2023 (Chart 3). About 50% of the deficit is to be financed not by increasing debt obligations, but by using the earlier accumulated balances of funds. Balances in the Far East, the South and the Volga Region make up a particularly high share in the sources of financing. The second largest source will be commercial loans covering a fifth of the deficit.

The **fiscal stimulus** is expected to be positive as of the end of 2023 in all the macro-regions. The amount of the fiscal stimulus is the largest in the targets of the Central and North-Western macro-regions, and the smallest – in the Volga Region. The value of the fiscal stimulus across Russia in general might be higher than in 2022 and closer to the level of 2022.

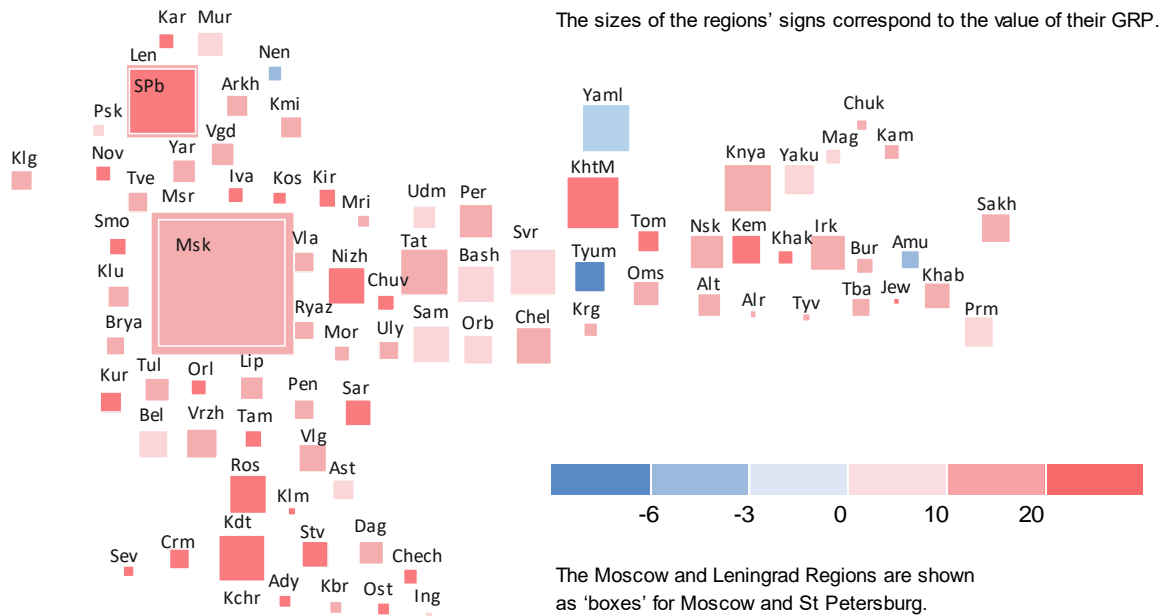
Over January–May 2023, expenditures in the regional budgets increased year-on-year, whereas revenues rose less notably. Compared to preliminary estimates at the end of last year, the target revenues for 2023 were revised upwards slightly, mostly due to larger non-repayable transfers. The expenditure targets for 2023 were adjusted upwards more significantly. As of the end of 2023, all macro-regions are expected to have a positive fiscal stimulus that will mostly exceed the level of 2022 and will be comparable with that of 2020. This will support investment and consumer demand in the economy, boosting output and contributing to growth in prices for goods and services.

Chart 1. Growth of revenues in the consolidated budgets of the Russian constituent territories (% over January–May 2023, year-on-year)



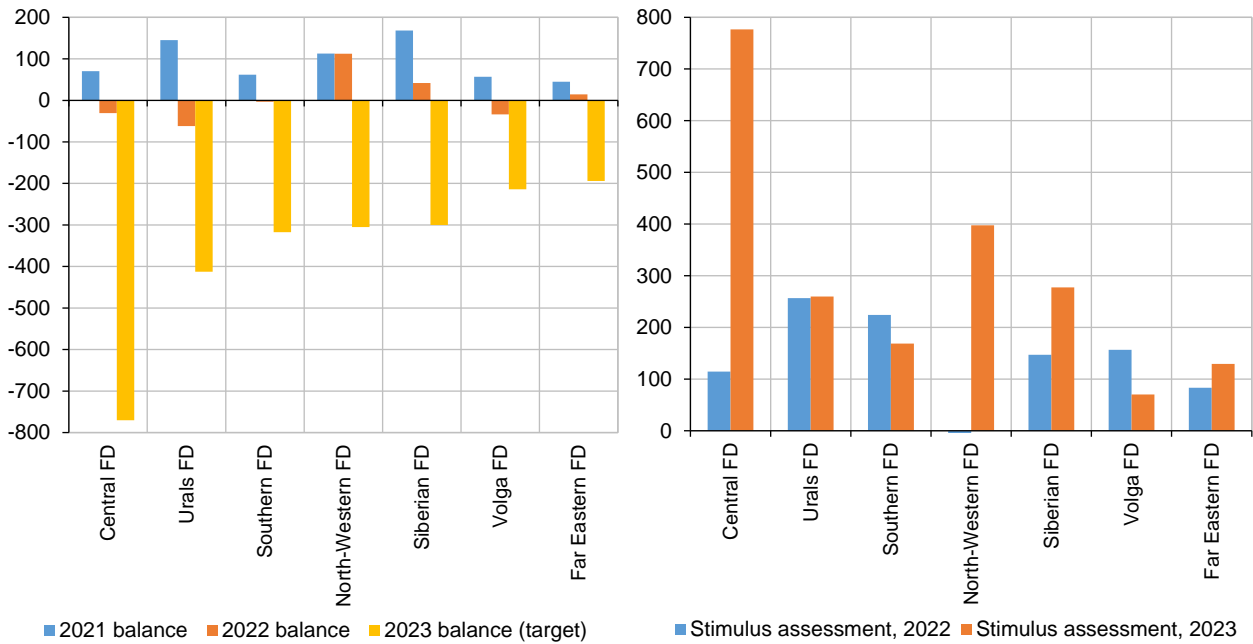
Note. The statistics do not include data on the Donetsk People's Republic, the Lugansk People's Republic, the Zaporozhye Region, and the Kherson Region due to the absence of the information on the budget reporting of these constituent territories of the Russian Federation for the same period of the previous year.  
Sources: data from the portal Electronic Budget, Bank of Russia calculations.

Chart 2. Growth of expenditures in the consolidated budgets of the Russian constituent territories (% over January–May 2023, year-on-year)



Note. The statistics do not include data on the Donetsk People's Republic, the Lugansk People's Republic, the Zaporozhye Region, and the Kherson Region due to the absence of the information on the budget reporting of these constituent territories of the Russian Federation for the same period of the previous year.  
Sources: data from the portal Electronic Budget, Bank of Russia calculations.

Chart 3. Balance of the consolidated budgets of the Russian constituent territories and stimulus assessment, ₹ billion\*



\* The stimulus is measured as a negative change in the budget balance (net of non-repayable transfers). A deficit expansion corresponds to a fiscal stimulus increase, while its contraction – to a decrease.

Sources: data from the portal *Electronic Budget*, regional executive authorities' data, and Bank of Russia calculations.

## BOX 3.

### INDUSTRY FOCUS. FREIGHT LOGISTICS

Overall, freight traffic across Russia in general remained unchanged in 2022, compared to 2021, and started expanding in 2023. The sanctions had a severe adverse effect on traditional delivery routes through the North-West where freight turnover plummeted by about 40%. Freight traffic flows were redirected to Eastern and Southern destinations, which increased the utilisation rates of the transport infrastructure along these routes and delivery periods and costs. After a number of foreign marine carriers had exited the Russian market, domestic companies began to expand their fleets of ships and containers and develop multimodal services. Besides, small Asian carriers entered the market. Due to high utilisation rates of the railway infrastructure, the demand for road transportation was up.

#### MAIN TRENDS

As a result of the first wave of the sanctions enacted against Russia in 2022, unfriendly states closed their airspace for Russian aircraft, and a number of airlines and marine carriers exited the Russian market. Further on, the restrictions affected motor transport. First, Russian trucks were forbidden to enter the EU, including in the case of transit transportation. Later, the restrictions were imposed on the traffic of foreign trucks from these countries in the territory of Russia. Consequently, freight turnover along the traditional routes from Europe<sup>9</sup> plummeted by nearly 40% in 2022 and freight traffic flows were redirected from the West to the East. Companies were forced to readjust their supply chains, change partners and search for new international routes. As a result, delivery periods for some destinations increased two to three times and delivery costs soared by over a third (Chart 1).

In 2023 H1, trade flows were mostly focused on certain countries of Asia and the Middle East. According to companies in the industry, freight traffic to some international destinations surged approximately five times over the past year, which significantly increased the utilisation rate of traditional transport corridors with Russia. As freight traffic flows with these countries expanded, Russia is creating new border terminals and upgrading the existing ones, building up the seaport infrastructure and the fleet, increasing the throughput capacity of highways and container shipping, and launching alternative delivery routes. In addition, Russia is actively developing international transport corridors and multimodal cargo supplies using several transport types. Thus, due to the redirection of trade flows, the international North–South transport corridor connecting Russia with the Gulf States, Asia and Africa has become strategically important.

In March–May 2023, freight traffic returned to the level of 2021 Q4 (according to the Bank of Russia's assessments, seasonally adjusted (SA); Chart 2). **Sea transportation** surged. **Road transportation** increased as well. **Railway transportation** was bouncing back gradually. **Air transportation** was up slightly, while staying low.

#### SEA TRANSPORTATION

In March 2022, due to the sanctions, a number of marine carriers either reduced the number of ships entering Russian seaports or exited the Russian market. Russian ships were also forbidden to enter

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<sup>9</sup> Before the sanctions, the main channel of imports was through the North-West.

European seaports. Due to the deficit of the domestic container fleet and containers,<sup>10</sup> about 50% of container imports and nearly 60% of container exports turned out to be at risk. The negative trends affected the North-Western destination most strongly.<sup>11</sup> Some foreign logistics enterprises refused to handle goods exported from Russia or intended to be imported to Russia. Accordingly, it was necessary to redirect trade flows and readjust transportation routes. As a result, companies in the industry started to expand the geography of container services, develop multimodal shipments and expand their fleets of ships and containers. Besides, small Asian carriers began to enter the Russian market.

In 2022 H2, the main trade flows were forwarded through Southern and Far Eastern seaports. However, the redirection of freight traffic congested these seaports due to insufficient capacities of container and border terminals and temporary storage facilities and limited throughput capacity of the railway infrastructure. Specifically, in November 2022–January 2023, the waiting period of ships in the harbour of Far Eastern seaports exceeded the standard period about six times, and seaports' utilisation rates reached 125%.

In March–May 2023, freight traffic in Russian seaports exceeded the level of 2021 Q4 by 10.6% (SA; Chart 3). Cargo handling in April–May 2023 increased by 2.9%, compared to 2023 Q1 (SA). The highest growth rates were recorded in coal, grain and fertiliser transshipment. Oil shipments by sea also expanded due to the price cap set for oil and the redirection of supplies to Asia.

From February 2022 until the middle of June 2023, the number of operating container lines in foreign trade rose from 16 to 29. The Far East handles more than a half of the overall container flow (growth by 34% year-on-year). The problems with excess stocks at Far Eastern seaports and long waiting periods for unloading were mostly settled by launching new shipment schemes. The Novorossiysk seaport remains the leader in terms of cargo quantities handled. Freight traffic in the Baltic basin ports is gradually restoring. Furthermore, logistics through them became cheaper in summer 2023 because of excessive utilisation of the Far Eastern and Southern destinations. In May 2023, container transshipment in the region exceeded last year's figures for the first time, which was associated with the operation of new carriers and the launch of new delivery routes. Cargoes are supplied from Asia, the Middle East, Africa and Latin America. Companies in the industry expect that, in 2024, the Baltic basin terminals will fully restore the container flow that contracted in 2022 (about 50–60% in 2023).

Owing to a large number of new services along the North-Western and Far Eastern routes, rates for sea transportation between Russia and Asia declined by 30–35% by the middle of June 2023, compared to the beginning of the year, but remained above the pre-pandemic level. According to enterprises in the industry, the decline in prices will discontinue in the next few months as queues at border terminals and seaports will affect further redistribution of freight traffic flows.

## ROAD TRANSPORTATION

In 2022, delivery routes became longer due to the restrictions on Russian trucks in the EU<sup>12</sup> and the redirection of trade flows to the South and the East. As the capacities of the seaport and railway infrastructure were insufficient, the demand for road transportation trended upwards. The throughput capacity of some motor vehicle border crossings surged several times over the year. Companies in the industry were launching new delivery routes and developing the existing ones, as well as making

<sup>10</sup> In early 2022, international container shipping companies that exited the Russian market owned nearly 40% of the container fleet.

<sup>11</sup> Cargoes to the Baltic basin were transported from all over the world and then delivered across Russia.

<sup>12</sup> In April 2022, the EU banned Russian trucks.

road deliveries a part of multimodal services. As a result, transportation to certain Southern and Eastern destinations expanded 1.5 to three times over the past 12 months. Contrastingly, international cargo transportation in the North-West contracted by 80%. The increase in the demand for road transportation has a positive effect on truck sales (see Box 1 '*Situation in the automobile industry*'). In March–May 2023, freight transportation by road exceeded the level of 2021 Q4 by 1.8%. Besides, freight turnover expanded by 8%, which suggests an increase in the average haul distance (SA; Chart 4).

In January–May 2023, rates for road transportation edged up by 10.6% year-on-year as a result of the rebound in the demand for domestic transportation and higher costs for spare parts and trucks. Until the end of 2023, their growth might continue due to a rise in costs for insurance policies<sup>13</sup> and the ban on trailers from the Russian Federation in the EU enacted at the end of June 2023.

## RAIL TRANSPORTATION

In 2022, railway logistics were significantly transformed due to the redirection of foreign trade flows. JSC Russian Railways formed new cargo transportation routes, primarily through the East. As of the end of 2022 H2, freight traffic to the East exceeded the quantities transported to the West for the first time. The railway infrastructure turned out to be insufficient to handle increased cargo flows to the Far Eastern and Southern seaports and through border terminals to Asia. The periods for railway cargo delivery increased several times. The Eastern railway section faced a significant deficit of carrying capacities. Beginning from the end of 2022, freight traffic was partially sped up owing to new alternative transportation schemes, namely container shipments in open wagons, the use of additional stations, and reloading to motor transport. After the renovation of the locomotive fleet, companies started using heavy trains and multiple train and virtual coupling technologies.<sup>14</sup> As a result, container transportation increased to a record high in 2022. Domestic supplies exceeded imports two times. However, as international traffic contracted (-11% year-on-year), railway transportation of cargoes in 2022 decreased by 4%, compared to the previous year. Railway transportation between Russia and unfriendly countries plummeted by 40% year-on-year, whereas railway transportation with friendly states expanded by 23% year-on-year, which influenced the dynamics of cargo shipping at some railway sections. Thus, cargo shipping increased by 6.7% in the Far East and shrank by 15.2% at the Kaliningrad section, compared to the previous year. The growth of rates for railway cargo transportation is slowing down: they were adjusted twice in 2022, namely by 7.7% from 1 January and by 11% from 1 June, and only by 8% in January 2023. The next adjustment is planned in January 2024.

In 2023, aiming to expand freight traffic, Russia continues to upgrade the railway infrastructure, in particular the Eastern railway section, and expand the rolling stock. As of the end of 2023, the amount of investment in the industry is expected to surge by a fourth and reach a record high. To meet expanded demand, Russia is creating new routes through less popular border terminals by using other transport types. Container shipping is growing. There is an increase in transit transportation by sea from Southeast Asia with subsequent shipments by railway to Russian regions. The South of Russia is developing the international North–South transport corridor. Railway transportation through this corridor expanded more than 1.5 times over January–May 2023. In May, Russia signed an agreement on the completion of the construction of the railway section in a Middle

<sup>13</sup> From June 2023, the EU stopped accepting Russian insurance policies. Drivers of Russian trucks have to purchase cross-border insurance policies when entering these countries.

<sup>14</sup> Virtual coupling provides synchronous movement of two adjacent trains with the minimum allowable distance from each other.

East country using Russian investment. This will help increase freight traffic along the Western section of the corridor three times.

Cargo shipping at the railway infrastructure edged up by 0.6% in 2023 Q2 quarter-on-quarter (SA), but its level remained 1.8% below that in 2021 Q4 (SA). Coal shipping was the main driver. Grain and construction material shipping was increasing fast. The most significant growth in shipping over 2023 H1 was recorded at the Zabaikal Railway, the Far Eastern Railway and the Privolzhsk Railway, namely by 26%, 8.8% and 6.7% year-on-year, respectively. Freight traffic at the West-Siberian Railway almost restored owing to new export destinations (-1% year-on-year).

## AIR TRANSPORTATION

In February 2022, unfriendly states closed their airspace for Russian airlines and suspended airworthiness certificates for all Russian-operated aircraft. As global markets became inaccessible, some carriers stopped their operations. Since international routes accounted for the largest part of freight traffic, namely about 70%, overall transportation in 2022 plummeted by 59% year-on-year. In 2022, the cargo transportation segment of the industry (where the fleet includes only cargo aircraft) was supported by the agreement signed between a large cargo airline and the Government of Moscow on regular supplies of critical cargoes to the capital.

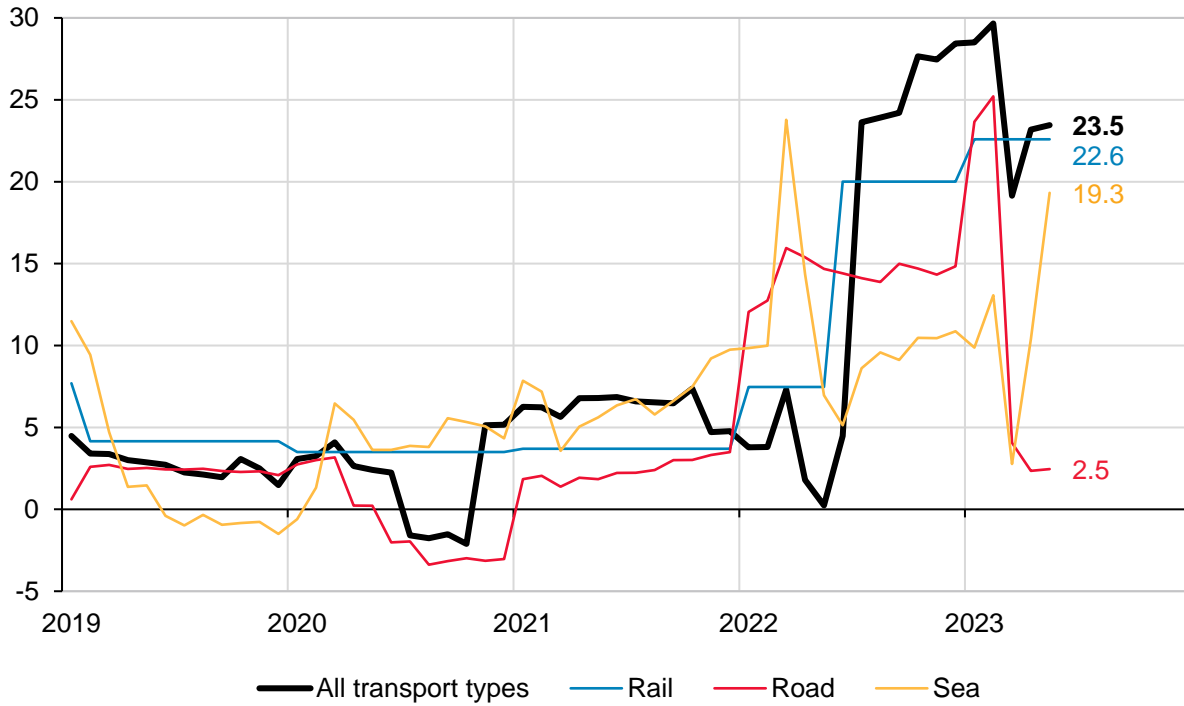
In January–May 2023, international transportation remained almost the same, while domestic transportation expanded owing to the launch of new destinations and a larger number of flights to the existing ones. According to market participants, the prospects of Russian cargo airlines depend on whether their fleets include cargo aircraft accepted for servicing abroad. The restrictions are mostly applicable to foreign-made aircraft. Cargo airlines are switching to domestic aircraft, including after their recovery. Thus, a large cargo airline that suspended flights in summer 2022 may resume the operation this year at restored Russian aircraft. However, the potential to expand the fleet with new domestic aircraft is limited in the near future.

## DEVELOPMENT PLANS

The industry's medium-term performance will depend on the progress of the implementation of transport infrastructure development projects. Specifically, the Far East plans to expand its seaport infrastructure by a third by 2025. The international North–South transport corridor, the Baikal-Amur Mainline, the Trans-Siberian Railway, the infrastructure of Far Eastern and Southern seaports, and the Northern Sea Route will play a strategically important role in the next few years. As expected, growth of freight traffic will be accompanied by an increase in multimodal services and container shipping.

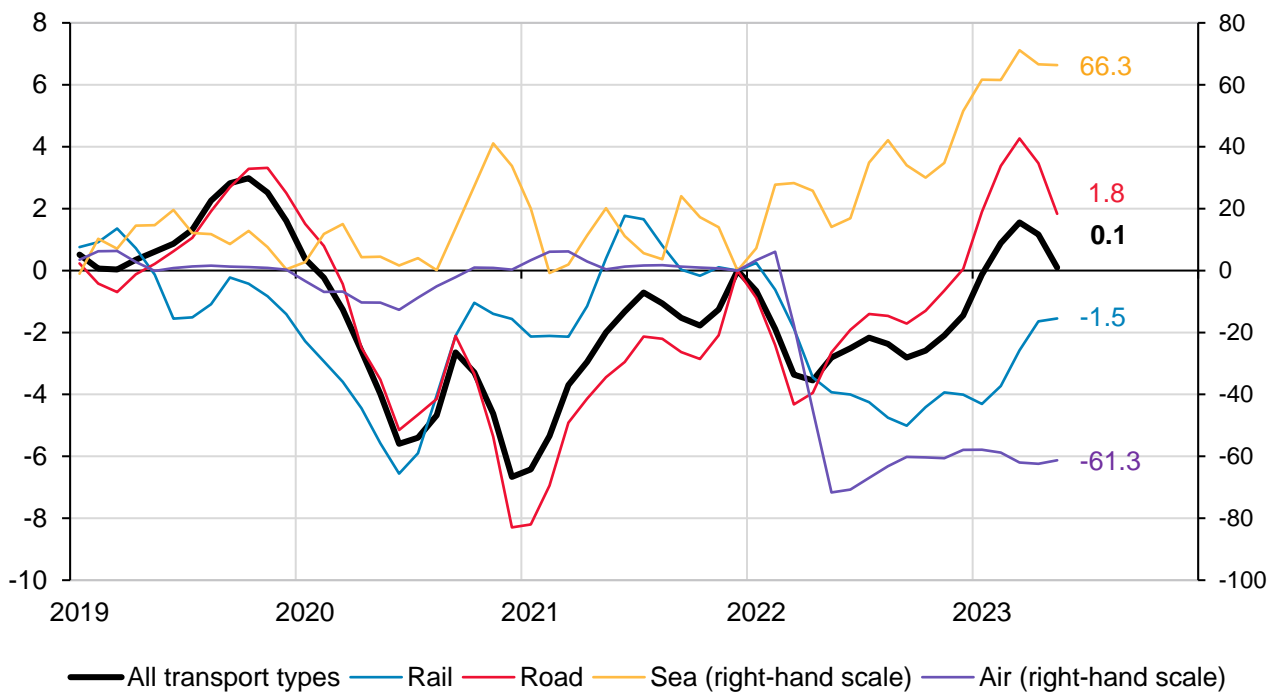


Chart 1. Freight transportation rates, % YoY



Sources: Unified Interdepartmental Information Statistical System (UnISS).

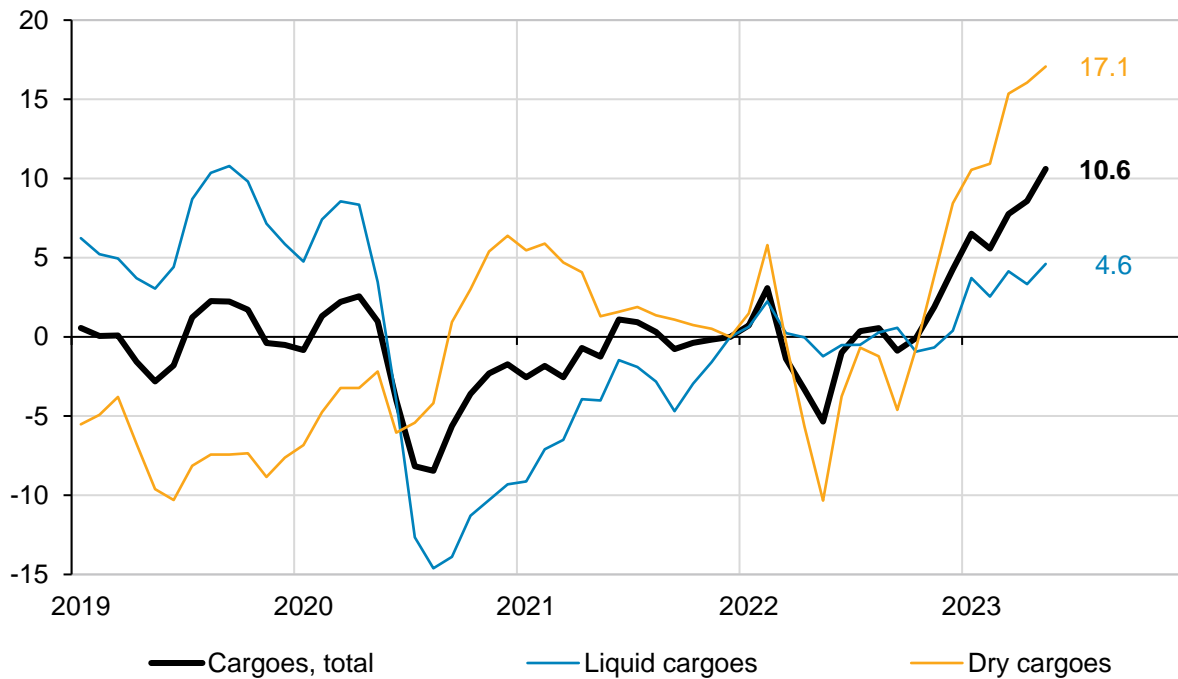
Chart 2. Freight traffic, by transport type, % on 2021 Q4, 3MMA SA



Sources: Rosstat, Bank of Russia calculations.

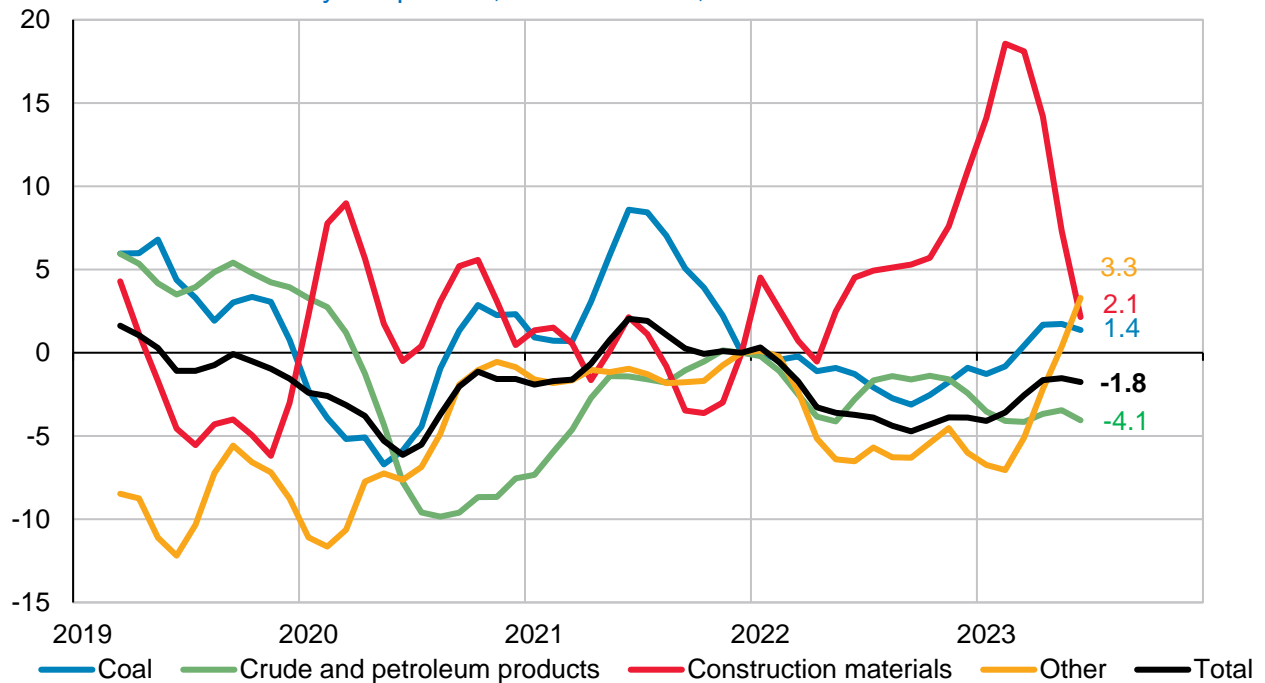


Chart 3. Freight turnover in seaports, % on 2021 Q4, 3MMA SA



Sources: Rosstat, Bank of Russia calculations.

Chart 4. Russian Railways shipments, % on 2021 Q4, 3MMA SA



Sources: Rosstat, Bank of Russia calculations.

## EARLIER ISSUES AND BOXES THEREIN



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**11 March**  
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Regional budgets in 2020 and expectations for 2021



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**4 February**  
**2021**

Impact of the coronavirus pandemic on regional labour markets  
Housing market and its regional specifics in 2020



**No. 1**  
**18 December**  
**2020**

Consumer demand: the impact of the worsening epidemiological situation

## ANNEX.

### CORE ECONOMIC INDICATORS

#### Core indicators. Russia

Table 1

		2021	2022	2022	2022	2022	2022	2023	Apr	May	Jun
				Q1	Q2	Q3	Q4	Q1			
Inflation	% YoY	8.4	11.9	16.7	15.9	13.7	11.9	3.5	2.3	2.5	
Core inflation	% YoY	8.9	14.3	18.7	19.2	17.1	14.3	3.7	2.0	2.1	
Industrial production	3MMA, % YoY	6.3	-0.6	5.1	-2.6	-1.2	-3.0	-0.9	1.6	4.4	
Fixed capital investment	Cumulative, % YoY	8.6	4.6	13.8	7.6	5.4	4.6	0.7			
Construction	3MMA, % YoY	7.0	5.2	3.9	3.6	5.2	6.9	8.9	7.4	8.4	
Housing commissioning	3MMA, % YoY	12.7	11.0	64.6	24.8	1.7	-21.4	-1.2	-11.8	-4.9	
Retail	3MMA, % YoY	7.8	-6.5	4.8	-9.6	-9.8	-9.6	-7.0	-2.2	3.7	
Commercial services	3MMA, % YoY	17.2	5.0	11.1	3.3	3.9	3.0	2.8	3.8	4.7	
Real wages	3MMA, % YoY	4.5	0.3	2.9	-5.5	-2.0	0.4	1.6	4.9		
Real disposable income	% YoY	3.9	-1.5	-0.7	-1.7	-4.3	0.9	0.1			
Unemployment	% SA	4.8	3.9	4.2	4.0	3.9	3.7	3.5	3.4	3.3	
Outstanding consumer loans	% YoY	19.5	2.5	15.6	7.1	4.3	2.5	4.9	8.2	10.6	
Outstanding mortgage loans	% YoY	26.7	17.6	27.2	18.3	16.8	17.6	16.0	18.6	21.4	
Funds in escrow accounts	% YoY	158	32.7	130	76.3	53.7	32.7	11.8	10.7	13.7	
Non-financial organisations' outstanding bank loans	% YoY	14.6	19.7	17.6	15.6	16.7	19.7	19.4	20.4		
• Large borrowers	% YoY	12.3	17.6	15.1	13.3	13.8	17.6	17.7	18.3		
• SMEs	% YoY	27.5	29.9	30.4	26.5	31.8	29.9	27.6	29.6		
Companies' price expectations	Balance of responses, SA	20.1	21.8	29.3	24.4	15.4	18.0	16.7	17.3	16.1	15.7
Business Climate Index	pp YoY	9.6	-4.8	-2.3	-11.2	-2.3	-3.5	5.1	16.2	11.7	9.7
• Current estimates	pp YoY	11.1	-4.2	1.0	-11.6	-3.0	-3.3	3.2	15.7	12.5	12.9
• Expectations	pp YoY	7.8	-5.5	-5.8	-10.9	-1.6	-3.7	7.2	16.7	10.7	6.2

Sources: Bank of Russia's monitoring of businesses, Rosstat, calculations by the Bank of Russia Main Branches.

## Core indicators. Main Branch for the Central Federal District

Table 2

		2021	2022	2022	2022	2022	2022	2023	Apr	May	Jun
				Q1	Q2	Q3	Q4	Q1			
Inflation	% YoY	8.3	12.5	16.6	16.3	14.2	12.5	4.2	2.9	3.0	
Core inflation	% YoY	9.0	14.9	18.9	19.9	17.7	14.9	4.3	2.5	2.7	
Industrial production	3MMA, % YoY	19.8	3.1	9.7	3.6	2.9	-2.9	4.7	6.7	12.9	
Fixed capital investment	Cumulative, % YoY	14.5	-0.2	11.6	4.4	1.4	-0.2	-10.5			
Construction	3MMA, % YoY	5.2	12.0	7.5	14.3	13.0	12.0	5.9	8.9	10.1	
Housing commissioning	3MMA, % YoY	14.3	12.6	82.6	24.2	-2.3	-21.8	-11.4	-17.9	-12.5	
Retail	3MMA, % YoY	8.5	-10.5	3.8	-13.6	-14.9	-14.9	-11.6	-5.2	2.8	
Commercial services	3MMA, % YoY	23.5	7.3	20.4	1.8	4.2	5.2	2.1	4.3	6.0	
Real wages	3MMA, % YoY	5.6	-0.9	5.3	-7.2	-4.8	-2.0	-2.2	1.4		
Real disposable income	% YoY	5.4	-2.2	3.2	-3.7	-5.4	-2.1	-0.2			
Unemployment	% SA	3.5	3.0	3.0	3.1	3.0	2.9	2.8	2.7	2.6	
Outstanding consumer loans	% YoY	19.9	2.8	16.7	8.6	4.8	2.8	4.7	8.2	10.3	
Outstanding mortgage loans	% YoY	29.2	16.9	28.5	19.9	18.3	16.9	14.8	16.9	19.0	
Funds in escrow accounts	% YoY	171	39.6	137	83.8	59.3	39.6	16.1	14.8	15.2	
Non-financial organisations' outstanding bank loans	% YoY	13.1	15.6	14.8	12.5	13.3	15.6	18.3	19.2		
• Large borrowers	% YoY	10.0	13.2	11.3	9.7	10.0	13.2	16.2	16.9		
• SMEs	% YoY	36.6	30.1	39.4	29.4	35.6	30.1	30.1	32.2		
Companies' price expectations	Balance of responses, SA	29.0	28.2	38.4	32.0	19.9	22.6	19.8	22.6	21.1	21.3
Business Climate Index	pp YoY	8.9	-6.4	-2.0	-14.2	-4.2	-5.1	3.5	15.3	11.0	8.6
• Current estimates	pp YoY	9.4	-5.1	2.8	-14.3	-3.9	-5.1	1.1	12.4	13.0	12.7
• Expectations	pp YoY	8.1	-7.7	-7.1	-14.1	-4.5	-5.0	6.1	18.4	8.7	4.1

Sources: Bank of Russia's monitoring of businesses, Rosstat, calculations by the Bank of Russia Main Branches.



**Core indicators. North-Western Main Branch**

*Table 3*

		2021	2022	2022	2022	2022	2022	2023	Apr	May	Jun
				Q1	Q2	Q3	Q4	Q1			
Inflation	% YoY	8.5	11.9	17.1	15.5	13.7	11.9	3.3	2.7	2.7	
Core inflation	% YoY	8.9	14.7	19.3	19.0	17.5	14.7	3.8	2.5	2.2	
Industrial production	3MMA, % YoY	5.2	-0.9	2.7	-4.1	-8.5	-2.4	-0.9	0.7	2.1	
Fixed capital investment	Cumulative, % YoY	3.6	-5.0	1.2	-1.0	-7.0	-5.0	4.5			
Construction	3MMA, % YoY	3.7	-10.5	-3.9	-9.3	-10.8	-13.5	0.3	1.6	0.8	
Housing commissioning	3MMA, % YoY	13.3	8.4	43.3	33.6	-19.6	-8.6	-10.1	-25.4	-13.5	
Retail	3MMA, % YoY	11.7	-6.3	7.7	-9.4	-10.7	-10.3	-8.6	-3.2	3.7	
Commercial services	3MMA, % YoY	19.2	4.8	6.5	3.8	4.8	4.3	3.8	2.9	3.6	
Real wages	3MMA, % YoY	4.3	0.4	1.6	-5.1	-2.6	0.7	0.6	3.9		
Real disposable income	% YoY	5.8	-1.4	3.8	-2.9	-5.3	-0.1	-0.2			
Unemployment	% SA	3.9	3.2	3.2	3.1	3.4	3.2	3.1	3.0	2.9	
Outstanding consumer loans	% YoY	18.7	1.8	14.8	6.4	3.9	1.8	3.9	7.0	9.3	
Outstanding mortgage loans	% YoY	26.5	15.2	26.9	18.1	16.2	15.2	12.6	14.6	16.7	
Funds in escrow accounts	% YoY	255	32.4	202	111	77.5	32.4	7.5	6.6	6.4	
Non-financial organisations' outstanding bank loans	% YoY	28.3	45.4	39.2	42.6	29.5	45.4	34.8	31.8		
• Large borrowers	% YoY	32.5	46.1	46.6	54.2	28.9	46.1	39.3	35.6		
• SMEs	% YoY	11.0	42.0	13.2	7.0	32.4	42.0	14.2	14.3		
Companies' price expectations	Balance of responses, SA	23.3	24.0	31.3	28.1	17.2	19.4	17.4	18.5	19.0	18.9
Business Climate Index	pp YoY	9.4	-8.9	-2.0	-14.9	-9.1	-9.8	1.3	15.9	12.8	11.2
• Current estimates	pp YoY	11.1	-8.3	1.1	-15.5	-9.4	-9.3	-1.2	13.6	13.5	13.9
• Expectations	pp YoY	7.5	-9.6	-5.2	-14.2	-8.8	-10.3	3.9	18.3	11.9	8.4

Sources: Bank of Russia's monitoring of businesses, Rosstat, calculations by the Bank of Russia Main Branches.

## Core indicators. Volga-Vyatka Main Branch

Table 4

		2021	2022	2022	2022	2022	2022	2023	Apr	May	Jun
				Q1	Q2	Q3	Q4	Q1			
Inflation	% YoY	8.6	12.4	17.1	16.7	14.2	12.4	3.7	2.4	2.5	
Core inflation	% YoY	9.4	14.7	19.7	20.1	17.8	14.7	3.5	1.7	1.8	
Industrial production	3MMA, % YoY	8.7	1.1	6.6	-2.7	1.5	0.9	2.3	4.6	8.6	
Fixed capital investment	Cumulative, % YoY	5.5	3.3	13.3	6.4	5.7	3.3	4.0			
Construction	3MMA, % YoY	13.8	14.2	18.3	5.1	11.5	10.1	6.2	17.0	25.6	
Housing commissioning	3MMA, % YoY	8.5	3.8	18.2	26.4	14.4	-31.5	14.5	0.1	0.7	
Retail	3MMA, % YoY	6.0	-3.6	4.6	-8.4	-5.4	-3.7	-1.6	2.4	7.5	
Commercial services	3MMA, % YoY	10.9	3.6	5.4	4.6	3.0	1.3	3.9	3.8	3.7	
Real wages	3MMA, % YoY	4.3	0.8	1.1	-4.5	-1.3	0.9	4.8	8.8		
Real disposable income	% YoY	2.1	-0.6	-0.2	-0.9	-3.1	1.9	3.1			
Unemployment	% SA	4.0	3.2	3.4	3.3	3.2	3.0	2.8	2.7	2.6	
Outstanding consumer loans	% YoY	19.2	1.2	14.6	5.4	3.2	1.2	4.2	7.6	10.2	
Outstanding mortgage loans	% YoY	23.0	15.4	24.2	15.5	13.4	15.4	13.8	16.6	19.9	
Funds in escrow accounts	% YoY	105	11.6	99.3	54.3	35.0	11.6	-7.3	-8.1	-2.6	
Non-financial organisations' outstanding bank loans	% YoY	11.8	11.0	12.0	9.2	10.0	11.0	8.4	9.3		
• Large borrowers	% YoY	9.0	8.0	8.0	4.0	6.0	8.0	4.9	5.1		
• SMEs	% YoY	19.9	18.8	23.5	23.7	21.3	18.8	17.4	19.7		
Companies' price expectations	Balance of responses, SA	28.5	28.6	37.7	33.7	20.3	22.7	20.7	22.9	23.9	22.4
Business Climate Index	pp YoY	9.5	-5.6	-3.5	-13.2	-1.2	-4.4	6.5	19.3	16.2	13.8
• Current estimates	pp YoY	11.1	-5.9	-2.1	-14.0	-3.3	-4.4	4.6	18.0	18.9	17.2
• Expectations	pp YoY	7.6	-5.1	-4.8	-12.2	1.2	-4.5	8.6	20.6	13.2	10.1

Sources: Bank of Russia's monitoring of businesses, Rosstat, calculations by the Bank of Russia Main Branches.

**Core indicators. Southern Main Branch**

*Table 5*

		2021	2022	2022	2022	2022	2022	2023	Apr	May	Jun
				Q1	Q2	Q3	Q4	Q1			
Inflation	% YoY	9.2	11.7	16.6	16.1	13.3	11.7	4.0	2.6	2.6	
Core inflation	% YoY	9.1	14.4	17.1	18.8	16.9	14.4	5.0	2.8	2.6	
Industrial production	3MMA, % YoY	5.2	2.5	4.5	-1.4	0.1	7.9	-0.3	3.3	5.9	
Fixed capital investment	Cumulative, % YoY	-0.3	5.1	1.7	1.0	3.4	5.1	23.3			
Construction	3MMA, % YoY	6.5	1.9	-20.5	4.2	9.7	3.8	41.1	39.3	22.0	
Housing commissioning	3MMA, % YoY	13.8	18.0	94.2	37.7	3.1	-20.2	-3.3	-20.0	-19.8	
Retail	3MMA, % YoY	12.0	-2.4	5.5	-6.2	-4.8	-2.9	-0.2	3.2	8.2	
Commercial services	3MMA, % YoY	15.1	5.4	9.5	5.6	5.0	1.8	2.8	2.9	3.2	
Real wages	3MMA, % YoY	2.3	-0.9	-1.4	-5.6	-2.0	0.8	4.8	7.0		
Real disposable income	% YoY	4.1	-0.3	-2.3	-2.0	-1.7	4.0	2.7			
Unemployment	% SA	7.8	6.4	6.9	6.3	6.2	6.1	5.7	5.6	5.5	
Outstanding consumer loans	% YoY	21.1	3.1	17.4	8.6	5.7	3.1	5.8	9.1	11.7	
Outstanding mortgage loans	% YoY	30.7	24.9	31.5	22.4	21.1	24.9	25.1	28.5	32.3	
Funds in escrow accounts	% YoY	120	25.1	90.7	45.8	36.1	25.1	18.8	22.9	35.8	
Non-financial organisations' outstanding bank loans	% YoY	13.7	27.2	16.8	15.2	32.8	27.2	28.1	28.5		
• Large borrowers	% YoY	8.4	22.6	10.7	7.2	29.8	22.6	23.0	23.5		
• SMEs	% YoY	28.5	38.1	33.2	35.9	40.2	38.1	39.6	39.5		
Companies' price expectations	Balance of responses, SA	20.0	21.5	28.9	23.6	15.1	18.2	15.6	16.3	16.1	15.4
Business Climate Index	pp YoY	7.9	-3.9	-2.5	-10.0	-2.0	-1.1	4.8	14.9	10.0	6.8
• Current estimates	pp YoY	10.0	-3.3	1.5	-9.2	-3.9	-1.5	3.1	13.1	10.4	8.5
• Expectations	pp YoY	5.3	-4.6	-6.6	-10.9	0.0	-0.8	6.3	16.8	9.5	5.0

Sources: Bank of Russia's monitoring of businesses, Rosstat, calculations by the Bank of Russia Main Branches.

## Core indicators. Ural Main Branch

Table 6

		2021	2022	2022	2022	2022	2022	2023	Apr	May	Jun
				Q1	Q2	Q3	Q4	Q1			
Inflation	% YoY	7.7	11.0	16.1	15.1	12.7	11.0	2.2	1.1	1.5	
Core inflation	% YoY	8.2	12.4	18.3	17.7	15.4	12.4	1.5	0.1	0.7	
Industrial production	3MMA, % YoY	4.2	-0.7	4.7	-3.1	-0.5	-1.6	-1.6	1.4	3.1	
Fixed capital investment	Cumulative, % YoY	0.7	8.7	19.3	9.5	9.1	8.7	-7.7			
Construction	3MMA, % YoY	7.3	-5.1	4.0	-10.9	-5.8	-5.0	4.7	0.1	3.9	
Housing commissioning	3MMA, % YoY	12.1	11.2	64.9	8.6	9.5	-13.2	3.6	-2.1	8.9	
Retail	3MMA, % YoY	4.4	-5.1	3.3	-8.8	-7.9	-5.6	-1.3	2.6	7.4	
Commercial services	3MMA, % YoY	14.7	2.7	6.3	2.8	2.4	-0.3	3.1	3.9	4.1	
Real wages	3MMA, % YoY	3.4	1.4	1.2	-4.7	2.6	4.1	5.8	8.8		
Real disposable income	% YoY	1.0	-0.7	-0.4	-2.7	-1.2	1.2	3.6			
Unemployment	% SA	4.4	3.3	3.7	3.5	3.2	3.0	2.8	2.7	2.6	
Outstanding consumer loans	% YoY	18.1	1.6	13.6	5.1	3.5	1.6	4.3	7.5	10.1	
Outstanding mortgage loans	% YoY	21.1	16.5	22.2	13.7	14.0	16.5	15.5	18.6	22.1	
Funds in escrow accounts	% YoY	109	21.9	107	53.7	34.9	21.9	3.4	2.9	16.0	
Non-financial organisations' outstanding bank loans	% YoY	16.6	17.4	22.3	17.8	19.0	17.4	13.1	14.7		
• Large borrowers	% YoY	15.0	16.0	21.1	15.9	17.6	16.0	8.9	10.5		
• SMEs	% YoY	27.6	25.9	30.2	29.6	26.9	25.9	38.3	38.7		
Companies' price expectations	Balance of responses, SA	22.5	24.2	31.3	29.6	17.6	18.3	16.1	17.6	16.1	15.3
Business Climate Index	pp YoY	9.5	-4.9	-1.3	-11.7	-2.6	-3.8	5.4	18.3	13.1	11.9
• Current estimates	pp YoY	10.2	-4.1	1.3	-10.9	-2.7	-4.1	2.7	18.5	14.2	16.3
• Expectations	pp YoY	8.7	-5.7	-4.4	-12.5	-2.6	-3.6	8.4	18.0	11.8	7.2

Sources: Bank of Russia's monitoring of businesses, Rosstat, calculations by the Bank of Russia Main Branches.

**Core indicators. Siberian Main Branch**

*Table 7*

		2021	2022	2022	2022	2022	2022	2023	Apr	May	Jun
				Q1	Q2	Q3	Q4	Q1			
Inflation	% YoY	9.3	12.7	18.4	17.2	14.6	12.7	3.4	2.0	2.4	
Core inflation	% YoY	9.5	14.2	20.7	19.9	17.5	14.2	2.6	0.9	1.1	
Industrial production	3MMA, % YoY	3.0	0.7	5.3	2.0	-1.3	-1.5	-1.4	-0.4	1.4	
Fixed capital investment	Cumulative, % YoY	11.4	5.6	11.3	9.9	5.8	5.6	7.9			
Construction	3MMA, % YoY	14.0	10.5	17.7	7.2	9.7	10.2	7.3	-0.2	-3.4	
Housing commissioning	3MMA, % YoY	7.7	3.5	87.5	10.5	6.2	-39.7	12.0	6.1	36.1	
Retail	3MMA, % YoY	7.1	-2.7	7.5	-5.4	-5.7	-5.5	-3.4	0.9	5.3	
Commercial services	3MMA, % YoY	11.8	5.5	6.7	4.7	5.8	4.4	3.7	3.7	4.3	
Real wages	3MMA, % YoY	3.3	1.9	2.2	-4.6	0.8	2.4	4.4	7.8		
Real disposable income	% YoY	2.0	-1.1	-1.2	-2.2	-2.3	1.0	3.1			
Unemployment	% SA	6.1	4.8	5.1	5.0	4.6	4.3	3.9	3.9	3.8	
Outstanding consumer loans	% YoY	20.5	3.7	16.1	7.2	4.9	3.7	6.2	9.3	11.7	
Outstanding mortgage loans	% YoY	25.8	17.3	26.9	17.1	15.0	17.3	16.1	19.3	22.8	
Funds in escrow accounts	% YoY	149	25.0	108	60.0	37.8	25.0	13.6	10.1	14.3	
Non-financial organisations' outstanding bank loans	% YoY	5.0	17.0	14.6	10.7	16.7	17.0	10.9	16.6		
• Large borrowers	% YoY	1.4	11.8	12.5	5.1	12.4	11.8	5.3	9.8		
• SMEs	% YoY	18.8	33.8	21.6	29.6	31.7	33.8	29.5	36.5		
Companies' price expectations	Balance of responses, SA	24.0	25.0	35.7	27.0	18.2	19.0	18.5	19.3	17.2	18.9
Business Climate Index	pp YoY	8.8	-3.6	-2.7	-9.3	0.2	-2.7	8.4	19.0	13.2	10.4
• Current estimates	pp YoY	10.2	-4.2	-1.2	-10.5	-0.5	-4.8	5.5	18.6	15.0	15.0
• Expectations	pp YoY	7.3	-3.0	-4.3	-8.0	1.0	-0.6	11.6	19.3	11.2	5.3

Sources: Bank of Russia's monitoring of businesses, Rosstat, calculations by the Bank of Russia Main Branches.

## Core indicators. Far Eastern Main Branch

Table 8

		2021	2022	2022	2022	2022	2022	2023	Apr	May	Jun
				Q1	Q2	Q3	Q4	Q1			
Inflation	% YoY	6.7	11.9	13.4	14.1	12.5	11.9	5.2	3.8	3.9	
Core inflation	% YoY	6.7	14.0	15.1	16.5	15.3	14.0	5.5	3.7	3.7	
Industrial production	3MMA, % YoY	3.0	-5.4	3.4	-7.8	-12.7	-5.2	-3.7	-3.4	3.0	
Fixed capital investment	Cumulative, % YoY	13.8	11.5	14.2	5.1	3.5	11.5	25.4			
Construction	3MMA, % YoY	-0.7	4.7	-8.2	7.7	-3.9	16.9	16.9	-1.5	9.3	
Housing commissioning	3MMA, % YoY	25.4	13.7	23.9	34.0	31.8	-6.6	45.1	28.0	33.8	
Retail	3MMA, % YoY	5.6	-0.6	2.4	-0.9	-0.8	-2.8	-2.7	-1.3	0.6	
Commercial services	3MMA, % YoY	13.2	-0.9	2.1	-1.4	-3.5	-0.3	-2.3	-0.9	0.8	
Real wages	3MMA, % YoY	4.2	0.1	0.3	-3.5	-3.0	-1.6	1.5	3.4		
Real disposable income	% YoY	2.3	-1.0	-0.4	-0.2	-3.6	0.2	0.2			
Unemployment	% SA	4.6	3.9	4.3	4.0	3.8	3.5	3.2	3.2	3.1	
Outstanding consumer loans	% YoY	17.7	3.7	13.1	5.8	3.5	3.7	6.4	9.0	11.1	
Outstanding mortgage loans	% YoY	32.5	23.3	34.4	25.5	22.4	23.3	20.2	21.9	24.8	
Funds in escrow accounts	% YoY	162	34.0	133	95.4	67.5	34.0	12.9	9.2	10.6	
Non-financial organisations' outstanding bank loans	% YoY	18.0	18.9	8.5	10.7	13.2	18.9	27.3	29.8		
• Large borrowers	% YoY	17.0	21.0	4.4	6.2	12.8	21.0	33.0	35.4		
• SMEs	% YoY	21.8	11.0	24.8	28.2	14.7	11.0	7.6	11.2		
Companies' price expectations	Balance of responses, SA	18.8	21.0	27.5	23.9	15.8	17.0	16.5	15.6	16.4	15.5
Business Climate Index	pp YoY	7.3	-3.2	-0.7	-7.3	0.1	-4.7	4.7	15.1	11.7	6.2
• Current estimates	pp YoY	8.4	-2.0	4.1	-6.6	-0.9	-4.5	-0.6	11.9	14.9	11.5
• Expectations	pp YoY	6.1	-4.4	-5.7	-7.9	1.2	-5.0	10.3	18.4	8.2	0.5

Sources: Bank of Russia's monitoring of businesses, Rosstat, calculations by the Bank of Russia Main Branches.