

## The improving economic situation in Russia: reality or creative statistics?

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The indicators published in recent months by the Russian Statistics Office (Rosstat) are much more optimistic than the estimates and forecasts announced several months earlier. A significant improvement in statistical data is evident in particular regarding the figures for GDP and industrial production. According to new information, over the last two years (2015-2016) the Russian economy shrank by 3%, and not by 4.5% as previously estimated. Moreover, data compiled by Rosstat show an increase in industrial production was registered, even in the face of a decline in citizens' income and fixed investment. In addition, the slowdown in the industrial sector was found to have ended at the beginning of 2016 and not at the end of 2016 as previously reported.

The improvement of economic indicators can undoubtedly be attributed to certain objective factors, including taking into account more detailed data or a change in methodology, which is a natural element of the process of compiling statistical data. However, the scale of the change and the lack of professionalism on the part of Rosstat, including the manner of presenting the data, its failure to observe the deadlines for issuing publications and selective inclusion of data, undermine the credibility of the presented figures. Therefore, increasing caution is advised when interpreting these data. Doubts regarding the quality of the indicators presented by Rosstat make the assessment of Russia's actual economic situation increasingly difficult. As a consequence, reservations towards the Russian statistics office seem to be all the more justified. These suggest that Rosstat is under political pressure from the Kremlin and that these new, improved statistics meet the government's propaganda-motivated demand for information. Ahead of the upcoming presidential election planned for March 2018, the government would like to emphasise its effectiveness, such as by efficiently overcoming the crisis and stabilising the economic situation in Russia.

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### The new macroeconomic data

The GDP figures Rosstat presented on 1 February 2017 took Russia by surprise. They turned out to be much more optimistic than the estimates and forecasts published previously because they reported a mere 0.2% drop in GDP in 2016. It is noteworthy that the Ministry of Economic Development (MED) of the Russian Federation was among the recipients who were the most astonished by Rosstat's publication.

Just two days prior, on 30 January 2017, MED had published its own assessment of Russia's economic development in 2016, based on previous partial data compiled by Rosstat. The GDP drop reported by MED was 0.6%<sup>1</sup>.

At the same time, Rosstat announced another update regarding GDP figures for 2015, in which

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<sup>1</sup> In late December 2016, the Central Bank of Russia was another institution that published its assessment of the development of economic situation in Russia. Its figures show that in 2016 Russia's GDP declined by 0.5%-0.7%.

it reduced the decline in GDP to 2.8%. The previous update of the indicator announced one month earlier (on 9 January 2017) reported a GDP drop of 3%, whereas the figure reported in the initial assessment published in February 2016 was 3.7%<sup>2</sup>. According to the revised data, over the last two years (2015-2016) the Russian economy shrank by 3% and not by 4.5% as previously estimated.

**The unsatisfactory explanations of the reasons behind the improvement of GDP figures have triggered a wave of criticism towards Rosstat, which undermined its reputation and credibility.**

Presenting its indicator for the whole of 2016, Rosstat chose not to publish data for Q4 2016 and removed from its website certain quarterly data including those taking account of seasonal trends (which are of key importance for preparing a proper assessment of general trends) for 2012-2016, stating the need to update them as a reason. The new version of these quarterly data was published on the office's website on 28 March 2017. According to the most recent assessment, in Q4 2016 the Russian economy recorded an increase for the first time in two years (see Appendix).

However, it should be emphasised that seasonally adjusted quarterly data have not yet been published and the most recent quarter covered by the previous version of the report, which is no longer available, was Q1 2016. In a letter to Russian economist Sergey Aleksashenko<sup>3</sup>, who had inquired why these data were not available, Rosstat admitted that it had ceased to calculate

this indicator and stated that it is not known when these data will again be published<sup>4</sup>.

Significant changes have also been recorded for industrial production. The relevant figures for 2015-2016 have been recalculated using the new method the office has applied since 2017 (the previous years have not been recalculated). The new data shows that in 2015 industrial production declined by a mere 0.8% and not by 3.4% as previously reported, whereas in 2016 it increased by 1.3% (in previous assessments the figure was 1.1%). It is noteworthy that January 2016 was the final month of industrial production decline (year-on-year), whereas the previous statistics had recorded the first signs of an increase in October 2016.

**The reasons behind the changes in statistics and the doubts surrounding them**

Explanations provided by Rosstat regarding the evident indicator changes have been unsatisfactory. The office was unable to define the specific causes underlying the new figures. This has triggered expert debates across Russia and a wave of criticism focused on the office, which has served to undermine its reputation.

Due to the complexity of the process of gathering statistical data and devising tools and models for their analysis, generalisations are necessary since measuring the processes in the economy in a precise manner is extremely difficult. The indicators reflect approximate values only, therefore they are revised as new information becomes available (the IMF allows for 5 revisions/updates of GDP figures). As Rosstat explains, the new higher GDP figure was calculated taking into account the economic results recorded in the small business sector and this sector's increased share in Russia's GDP (an increase of 0.5 p.p. to 19.5%). The improvement of GDP figures for 2015 was also possible due to a recalculation of the share of the sector "of public administration and defence" in Russia's

<sup>2</sup> [http://www.gks.ru/free\\_doc/new\\_site/vvp/vvp-god/tab3.htm](http://www.gks.ru/free_doc/new_site/vvp/vvp-god/tab3.htm), 24 March 2016

<sup>3</sup> Sergey Aleksashenko, at present one of the biggest critics of the quality of Russian statistics, former deputy minister of finance of the Russian Federation, former deputy governor of the Central Bank of Russia, former director for macroeconomic research at the Higher School of Economics. He left Russia in 2013. At present, he is a senior fellow in global economy and development at the Washington-based think tank Brookings Institution.

<sup>4</sup> Sergey Aleksashenko, 7 February 2017, [http://www.sal-eksashenko.com/2017/02/blog-post\\_7.html](http://www.sal-eksashenko.com/2017/02/blog-post_7.html)

GDP. Prior to the recalculation the sector's added value had been declining, whereas after the revision an increase of 3.4% was reported<sup>5</sup>. Russian media speculates that the increase may be the result of increased supplies of armaments and military equipment to Syria in mid-2015 intended for the Syrian army<sup>6</sup>.

Changes of methodology are necessary in the process of compiling statistical data. According to Rosstat, this has also impacted the indicators. Since 2014, the Russian statistics office has been in the process of changing its methodology for calculating GDP to adjust it to European standards (System of National Accounts 2008). It is a long-lasting process and over subsequent years new elements are being taken into account<sup>7</sup>. The change of methodology has also occurred as regards the industrial production indicator. On 1 January 2017 Rosstat switched to the European classification of business activity: instead of the three types used previously, it now distinguishes four types of such activity<sup>8</sup>; similarly, the classification of types of production in specific areas of business activity has also been changed. Despite the fact that the change of methodology had been planned for a long time and the relevant preparations took three years, Rosstat turned out to be far from professional when implementing it (a similar situation occurred a few years ago when the previous change of classification standards was being introduced). This resulted in delays in publishing the indicators in February and March 2017. Aside from technical problems with data

transfer, another difficulty was the insufficient level or preparedness of respondents (companies) to the new manner of reporting data after the change of production codes.

In parallel with the introduction of the new classification standards, Rosstat introduced changes regarding the share of specific sectors and industries in the general industrial production indicator (for example, the significance of the mining sector, which recorded an increase, has risen). Alongside this, a new 'perfected' variant of the basket of representative goods has been applied, including new items and a change in their selection, which *de facto* modified its composition. Therefore, it is impossible to compare indicators if they have not been recalculated according to the new methodology.

### Numerous changes introduced over the last year in Russian statistics have made it practically impossible to compare indicators published in previous years

Another argument cited by Rosstat as a potential reason behind the changing data has been the switch in April 2016 to calculating GDP and its components on the basis of prices recorded in 2011, whereas previously the reference year for these calculations had been 2008 (the reference year changes every four years). However, this change is unlikely to have had a major impact on the value of indicators.

Rosstat's statistics raise doubts also due to the increasingly selective manner of their publication. Aside from quarterly GDP data taking account of seasonal trends, whose publication was discontinued in the spring of 2016 (in February 2017 they were removed from Rosstat's website), monthly data regarding investments have also been unavailable since spring 2016; at present this indicator is presented on a quarterly basis only. In addition, since 2015 Rosstat has ceased to publish the indicator showing public sector salaries as a percentage of average salary

<sup>5</sup> <http://pubdocs.worldbank.org/en/929081485202085208/Russia-Monthly-Economic-Developments-Jan-2017-rus.pdf>

<sup>6</sup> <https://www.vedomosti.ru/economics/articles/2017/01/09/672165-rosstat-itogi-2015>

<sup>7</sup> The data for 2016 take into account the standards for assessing housing services, whereas data regarding foreign trade and investment are calculated on the basis of the Russian Federation's balance of payments.

<sup>8</sup> At present, Russian statistics distinguish four (formerly three) types of activity: 1. mining of natural resources; 2. the processing industry; 3. generation and supply of electricity, gas, steam and hot water; 4. supply of water; waste-water and waste management; rehabilitation. Formerly, the latter two items were combined into one. The change also involved shifting certain industries to other sections.

offered in specific regions. The statistics office has offered no explanation for its decision. Undoubtedly, the fact that this indicator is unavailable hinders the assessment of the level of implementation by regional government of the so-called May decrees issued by President Putin in 2012 which aimed to raise public sector salaries by 2018. The reference threshold for salary rises is the average salary offered in the region (for example average salaries of physicians and academic teachers should amount to 200% of the average salary in the region). For several years now it has been evident that as a consequence of the dwindling financial resources due to the crisis no such major salary rises will be possible in most of the regions.

### **The Ministry of Economic Development, Rosstat's main critic and an entity responsible for the attainment of the assumed economic goals, has taken over control of the statistics office**

In 2015, Rosstat additionally changed the methodology for calculating average salaries in specific regions, which resulted in this indicator being reduced. Income earned in the informal sector, where salaries are not registered in any way, such as from hired labour in households and farms, has been taken into account in average salary calculations. Income earned in this sector tends to be considerably lower than salaries offered in the formal sector. At the same time, attempts at its assessment are extremely difficult and quite arbitrary. The reduction of the average salary in specific regions has clearly supported the implementation of the May decrees because salary rises did not have to be that significant any more<sup>9</sup>.

<sup>9</sup> Правительство «понижит» среднюю зарплату ради майских указов Путина, RBK 18 September 2015, <http://www.rbc.ru/economics/18/09/2015/55fc2a639a79474172f2c597>

It should also be noted that certain problems with Russian statistics may result from the fact that some of the data provided to Rosstat is classified, in particular data referring to the activity of the military and industrial complex and the law enforcement agencies. This is emphasised by some Russian experts<sup>10</sup>. The office chooses not to publish these data directly but to 'dilute' them in the remaining macroeconomic data instead.

### **The political determinants of statistics**

The fact that the statistics office, which is a state institution, is supervised by politicians, who are high-ranking state officials, encourages these politicians to influence the results of the office's work. This is because they are responsible for the implementation of the assumptions of economic policy, and achieving the desired indicators is of crucial importance for them. This shows that professionalism on the part of statisticians is extremely important and empowerment of their superiors is necessary for maintaining independence. Looking at Rosstat's history one may get the impression that the office has repeatedly been subject to political pressure from the government. Examples of this include frequent changes of the bodies supervising the office introduced over the last 25 years. The office used to be supervised by the prime minister, the Ministry of Economic Development and other bodies. Since 2012, it has been under general supervision by the government, which was one of the suggestions formulated by the OECD (at the time when Russia was actively applying for membership of this organisation). According to OECD experts, direct supervision of Rosstat by the Ministry of Economic Development could create channels for impacting the indicators, which in turn would undermine the quality of statistics. Therefore, President Putin's decision of 4 April 2017 to restore MED's supervision of

<sup>10</sup> Sergey Aleksashenko, 7 February 2017, [http://www.sal-eksashenko.com/2017/02/blog-post\\_7.html](http://www.sal-eksashenko.com/2017/02/blog-post_7.html)

Rosstat is unlikely to foster an improvement in the quality and credibility of Russian statistics. This is particularly important because the ministry is responsible for the implementation of economic policy and for achieving the planned indicators. In this context, it is understandable why in recent weeks the Ministry of Economic Development has been one of the major critics of Rosstat and a proponent of its reform<sup>11</sup>. Minister Maksim Oreshkin accused Rosstat of being unprofessional, publishing estimates on the basis of invalid data and obstructing the work of the entire government<sup>12</sup>. However, the minister's frustration and his reservations towards the office may have been the result of his ministry's embarrassment in connection with the 2016 GDP figures that it had presented in January 2017, two days before Rosstat issued its publication. The figure presented by the ministry turned out to be more pessimistic. The MED had not been alerted that the changes in data compiled by Rosstat would be so significant. In addition, the situation has aggravated the status of this ministry in the Russian government (in November 2016 the former minister of economic development, Aleksey Ulyukaev, was arrested over corruption charges). The Kremlin's demand for positive economic indicators has been a much more significant factor in making the office yield to political pressure. The Russian ruling elite has already launched a propaganda campaign ahead of the presidential election planned for March 2018, in which Vladimir Putin will likely be the main candidate. The president particularly cares about his high approval rating because it legitimises his actions. One of the slogans the Kremlin is reiterating in the pre-election

campaign involves offering a guarantee of political and socio-economic stability in Russia. Therefore, in its message it needs to reduce the scale of the crisis which affected Russia in late 2014 and early 2015, and to convince society that its consequences have been overcome. Over the past year, Vladimir Putin and representatives of the Ministry of Economic Development echoing his views have repeatedly announced that Russia managed to overcome the negative trends in its economy and combat recession<sup>13</sup>,

**The improvement of economic results effected by Rosstat meets the Kremlin's determination to present socio-economic stability to society, which is particularly important ahead of the upcoming presidential election.**

in spite of the fact that previous official statistics did not confirm this. Therefore, the new indicators presented by the office meet the demand from the Kremlin. Moreover, the Russian government is using the fact of Rosstat presenting positive macroeconomic trends as part of its propaganda targeting foreign recipients. The government is trying to shape Russia's image as a stable country which is resistant to external shocks, in particular the dramatic decline in oil prices and Western economic sanctions.

## Conclusions

In the present political context in Russia, including the upcoming presidential election planned for the spring of 2018, statistics is another issue the Russian leadership uses in its information policy disseminated via the media. The radical change of specific figures made by Rosstat over recent months is another element in the Krem-

<sup>11</sup> The *Vedomosti* daily; Росстат поучат, как считать; 22 March 2017, <http://www.vedomosti.ru/economics/articles/2017/03/22/682203-rosstat-schitatiedomosti>

<sup>12</sup> Russia's failure to observe publication deadlines has halted the MED's work on updating Russia's economic growth forecast for the whole year (it should have been prepared in March), so that the Finance Ministry could update its forecast regarding budget revenues and prepare a draft state budget for the next year (the relevant bill should be submitted to parliament in autumn).

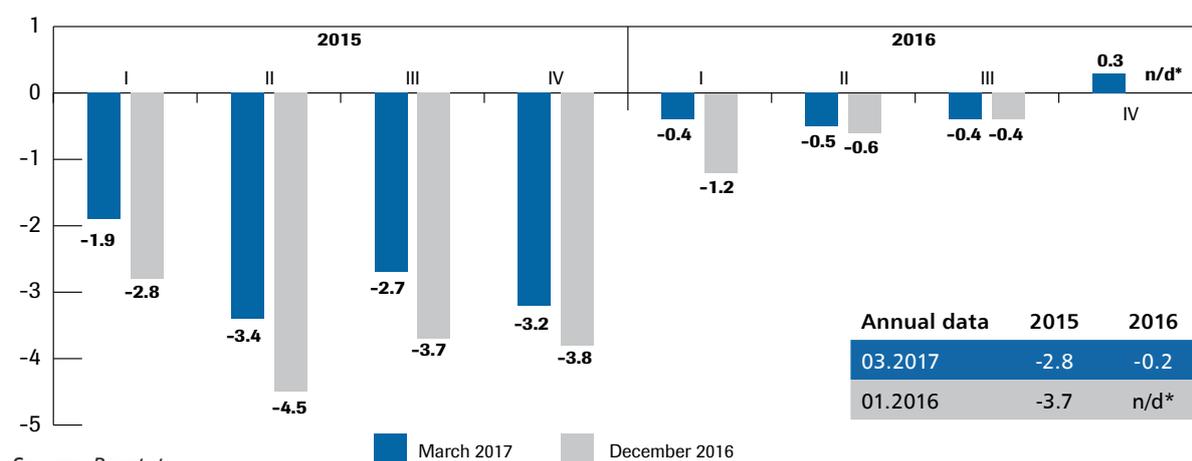
<sup>13</sup> Vladimir Putin said this for example during the Russia-ASEAN summit in Sochi in May 2016; former economic development minister Aleksey Ulyukaev also spoke about it at this summit. The president reiterated this message in December 2016 during the annual press conference.

lin's determination to show socio-economic stability to society. This boosts the impression that the improvement in statistical indicators is not just a result of taking external factors into account, including the methodology change and data update, but also a consequence of Rosstat yielding to political pressure from the Kremlin. The lack of professionalism in presenting statistical data and explaining the rationale behind the changes introduced is severely impacting Rosstat's reputation and triggering doubts as to the quality of indicators it publishes. It is becoming increasingly difficult to assess the actual condition of the Russian economy. All the more so because some portion of the data does not get recalculated or is not published at all, which in turn makes it impossible to compare data and observe specific trends. Although an increasing number of institutions, including the central bank and commercial banks, which con-

duct their own market analyses, have confirmed that the situation in the Russian economy has improved, it remains the data provided by Rosstat that forms the basis for these analyses. The fact is that an increasing number of symptoms (including the mood of company executives) herald the end of the recession in the Russian economy. However, the problem the Russian government is facing does not merely involve steering Russia out of the crisis, but also bringing it back to a stable growth path. The most recent forecasts for Russia are far from optimistic (the GDP growth rate in 2017 is estimated at 0.5% provided that the price of oil is around US\$ 40 per barrel, or 1-2% GDP with the oil price exceeding US\$ 50 per barrel). Other forecasts herald a long period of stagnation or GDP growth of 1-2%, which *de facto* means that the distance between Russia and the world's leading economic powers will increase.

## APPENDIX

### The change in GDP assessment (annual and quarterly data)



Source: Rosstat

\* no data

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