

# BRANCH-WISE ECONOMY

DOI: 10.15838/esc.2018.4.58.8

UDC 338.48, LBC 65.433

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## Boosting Domestic Demand as a Driving Force of Economic Growth (on the Example of Domestic Tourism Sphere)\*



**Evgenii V. Lukin**

Vologda Research Center of the Russian Academy of Sciences  
Vologda, Russian Federation, 56A, Gorky Street, 160014  
E-mail: lukin\_ev@list.ru



**Ekaterina G. Leonidova**

Vologda Research Center of the Russian Academy of Sciences  
Vologda, Russian Federation, 56A, Gorky Street, 160014  
E-mail: eg\_leonidova@mail.ru



**Maksim A. Sidorov**

Vologda Research Center of the Russian Academy of Sciences  
Vologda, Russian Federation, 56A, Gorky Street, 160014  
E-mail: maxis44@yandex.ru

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\* The article was supported by the Russian Foundation for Basic Research, Grant 18-010-01012 A “Modeling structural changes in the economy of the region on the basis of input-output models as a tool to substantiate economic policy”.

**For citation:** Lukin E.V., Leonidova E.G., Sidorov M.A. Boosting domestic demand as a driving force of economic growth (on the example of domestic tourism sphere). *Economic and Social Changes: Facts, Trends, Forecast*, 2018, vol. 11, no. 4, pp. 125–143. DOI: 10.15838/esc.2018.4.58.8

**Abstract.** Changing structural proportions manifested in the narrowing of domestic demand for goods and services is a trend in modern development of the Russian economy, which experiences an impact of a system-wide economic crisis and the current foreign policy and foreign economic situation. This leads to underconsumption of goods and services, and thus to a reduction of incentives for enterprises to increase production. Meanwhile, stimulation of domestic consumer demand can be considered as a factor capable of ensuring economic growth. In this regard, there is a need for scientific substantiation of measures to promote domestic demand, which in the current economic conditions can change the structural relationships and thus ensure economic growth. In our study, an attempt is made to calculate the potential economic effect of stimulating Russian citizens' consumption of goods and services produced by domestic tourism sector. General scientific methods such as analysis, synthesis, comparison, generalization and original methodological tools based on input-output models are used as a methodological basis of the study. Novelty of the results consists in the fact that we develop a methodology and improve the tools for the use of input-output models to analyze and assess the contribution of domestic tourism to the formation of domestic demand and the impact of its stimulation on the economy; these aspects distinguish our study from similar works of other scientists. The paper presents analytical data reflecting the decomposition of gross domestic product in the context of its key components, the state of domestic consumer demand in Russia in comparison with foreign countries; we also assess the effect that the development of domestic tourism has on the economy. In conclusion we propose measures to boost this sphere and promote domestic consumer demand. In the future, we will continue working on improving structural simulation tools, which allow us to substantiate economic policy at the level of the economy as a whole, and in the framework of inter-sectoral complexes and economic activities.

**Key words:** domestic consumer demand, domestic tourism, economic growth.

## 1. Introduction.

A new May 2018 Decree of Russian President<sup>1</sup> sets the following goal: by 2024, Russia must become one of the five largest economies in the world, ensuring economic growth at a rate above global while maintaining macroeconomic stability. In the meantime, the Russian economy ranks sixth in the world (after China, the U.S., India, Japan, and Germany), and its growth rates are inferior to the global ones for the last five years (*Fig. 1*); i.e. Russia is not increasing, but rather reducing its share of global GDP. In 2008–2017, the growth of gross

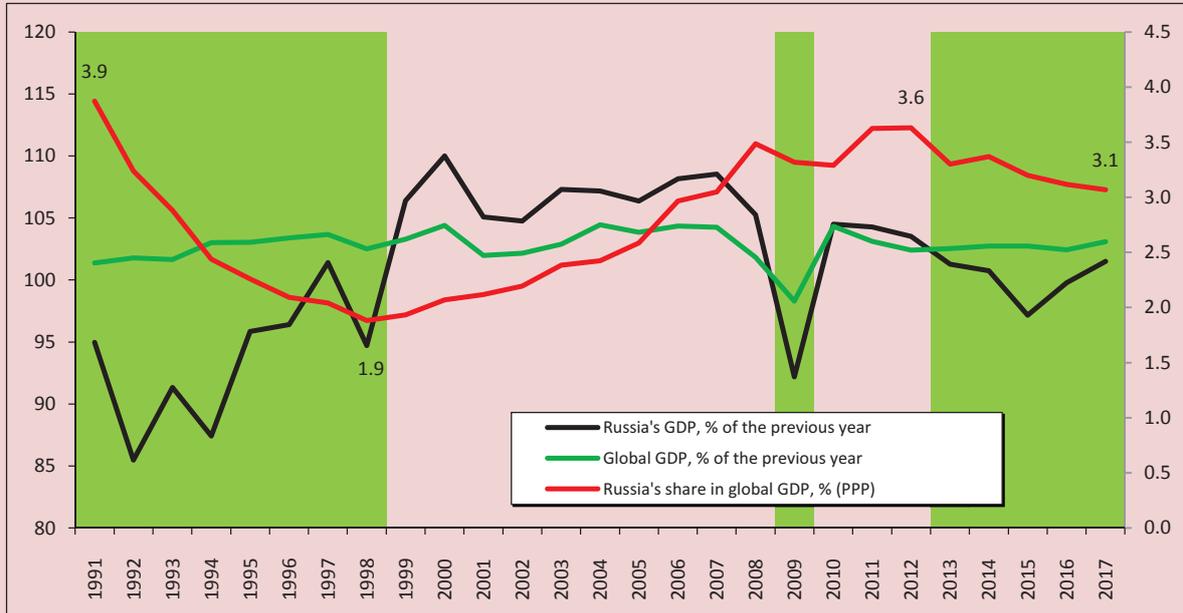
domestic product of the country amounted to only 4.4%. During the same period, the world economy grew by 23.8%.

Under the current development model, the economy depends to a great extent on the external environment and export-import activities [1]. Despite the fact that net export (i.e. exports less imports) accounts for no more than 10% of Russia's GDP, it is among the key drivers of economic growth (and more often – economic recession) (*Fig. 2*). For example, at the end of 2017, its contribution to GDP growth was -2.3% (exports: +1.3%; imports: -3.6%).

It is obvious that in order to achieve the goal set by the President, the economy has to undergo serious changes. The expert

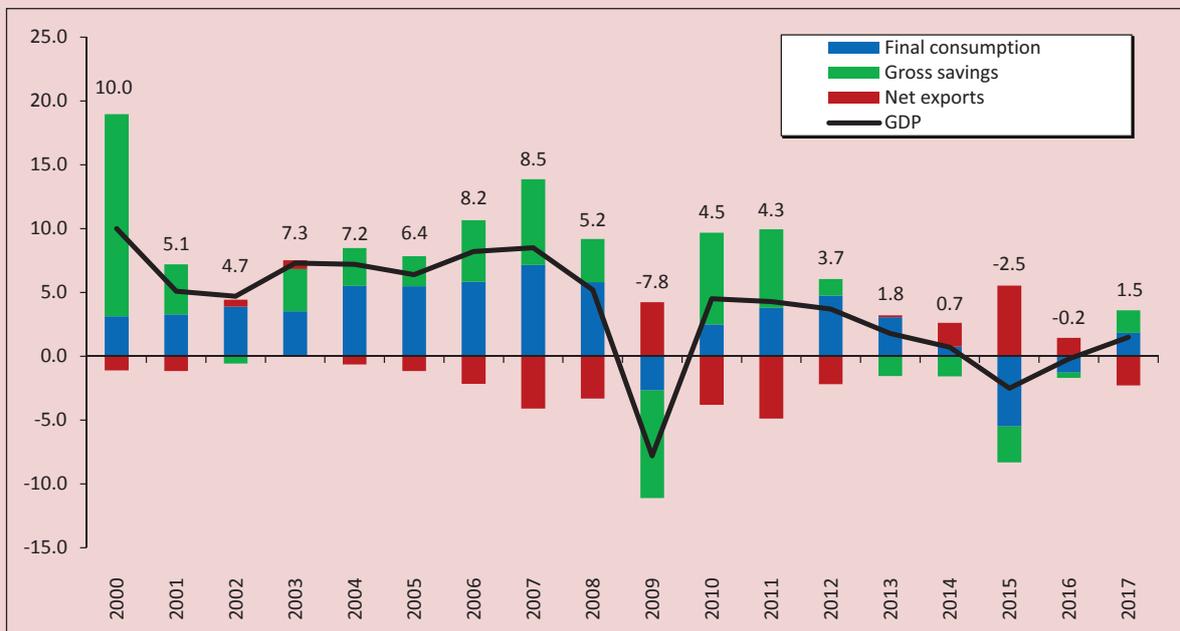
<sup>1</sup> Decree of the President of the Russian Federation dated May 7, 2018 No. 204 “On the national goals and strategic objectives of development of the Russian Federation for the period up to 2024”.

Figure 1. GDP dynamics in Russia and in the world (left scale) and Russia's share in global GDP (right scale) (periods during which the Russia's GDP growth rate was inferior to the world average are highlighted in green)



Source: our own calculations based on World Bank data.

Figure 2. Contribution of the drivers of economic growth to Russia's GDP, %



Source: our own calculations based on Rosstat (Federal State Statistics Service) data.

community and political circles of the country are engaged in discussing the driving forces and causes of the economic decline, as well as the measures that should be taken to overcome the negative trends and bring the economy to the path of sustainable growth. Consensus has been reached on the single issue – the need for structural reforms.

This was repeatedly stated by representatives of the economic authorities of the country: Minister of Economy M.S. Oreshkin<sup>2</sup>, Prime Minister D.A. Medvedev<sup>3</sup>, Chairman of the Central Bank E.S. Nabiullina<sup>4</sup>, Chairman of the Board of Sberbank of Russia G.O. Gref<sup>5</sup>, etc.

On the pages of leading scientific journals, the structural adjustment of the economy is discussed, too [2–7]. The main emphasis is placed on reducing the dependence of the economy on hydrocarbon prices and on stimulating domestic sources of its growth [9].

<sup>2</sup> “We are focusing on structural barriers to economic growth and measures that remove such barriers. ... The Ministry of Economic Development should formulate the changes that will help to overcome these structural barriers” (source: It is possible to take a serious step forward to the growth of the white economy. *Kommersant*, 2017, January 8. Available at: <https://www.kommersant.ru/doc/3186798>).

<sup>3</sup> “It will not be possible to restore normal growth rates only at the expense of monetary and budgetary policy; serious structural reforms are required, although we have been talking about this for the last 15 years, probably” (source: Structural reforms are required to restore the growth of the Russian economy. *Komsomolskaya pravda*, 2017, January 12. Available at: <https://www.kp.ru/online/news/2624661>).

<sup>4</sup> “If the price of oil is higher – we can grow a little faster; nevertheless, at any price, our assessment is as follows: without structural reforms, we will stabilize at the level of 1.5–2 percent” (source: Nabiullina called for structural reforms for the sake of economic growth. *Lenta.ru*, 2017, April 5. Available at: <https://lenta.ru/news/2017/04/05/reform>).

<sup>5</sup> “Everyone, in my opinion, came to the conclusion that the crisis in which we are now is not cyclical, but structural. And, in general, it is necessary to fight against it with the use of absolutely standard set of measures. Today, there are no other means but to finally launch structural reforms” (source: The rise of GDP is replaced by the talks about structural reforms. *Nezavisimaya gazeta*, 2017, April 5. Available at: [http://www.ng.ru/economics/2017-04-05/1\\_6967\\_vvp.html](http://www.ng.ru/economics/2017-04-05/1_6967_vvp.html)).

Having analyzed theoretical works, we find out that domestic demand can be considered as such a source, which is less dependent on external conditions and more amenable to regulation<sup>6</sup>.

In particular, according to I.A. Pogosov, the development model focused on domestic demand allows relying on internal sources of growth. This makes it possible to satisfy the needs of the country in consumer goods and equipment through national production. In this case, the restrictions associated with the foreign economic situation and with the scale of energy production are reduced. At the same time, the potential for increasing the growth rate of the national economy is expanding [10]. The work of V. Kondratiev emphasizes that economic growth in emerging economies under the influence of such processes as digitalization and decentralization will be achieved through internal structural reforms aimed at stimulating domestic demand and expanding the industrial base [11].

At the same time, it is important to determine ways to stimulate domestic demand. In particular, according to experts from the Institute of Economic Forecasting of the Russian Academy of Sciences, economic that possess potential for growth in the short term include fuel and energy, chemical, agro-industrial, and construction complexes, as well as the sector of commercial and personal services [12].

However, the list of areas that can stimulate domestic demand and thus ensure economic growth is not reduced to the above. In our opinion, it can include the promotion of people’s consumption of goods and services produced by the sphere of domestic tourism.

<sup>6</sup> Domestic demand refers to the final consumption of goods and services by residents. It includes private and public sector consumption and gross capital investment.

How does this happen? Russia's residents, traveling within its borders, show demand for goods and services, consume them, and stimulate their producers to increase production volumes.

The importance of domestic tourism for the economy is quite obvious. It not only helps increase the revenue of budgets of different levels through taxes, but also stimulates investment activity, creates new jobs, and increases employment. In addition, tourism as a branch of the national economy has a multiplier effect. The development of up to 53 related sectors of the national economy is stimulated through the "expenditure – income" chain. For example, in the United States by the end of 2016, tourism accounted for 8.1% of GDP, of which 80% is the contribution of Americans to the consumption of domestic tourism products<sup>7</sup>. In the countries of the Organization for Economic Cooperation and Development, domestic tourism accounted for about 76% of the consumption of tourist goods and services in 2016<sup>8</sup>.

As for the Russian Federation, its domestic tourism sphere is not developed so well. However, its potential is sufficient to be considered as a source of economic growth. Thus, the aim of our study is to substantiate the stimulation of domestic demand as a driving force of economic growth based on the consumption of goods and services of domestic tourism. To achieve this goal, we solve the following tasks: we analyze the state of domestic demand and substantiate the importance of its stimulation in order to ensure economic growth; we assess the effects of increasing demand for domestic tourism on the economy;

and we propose measures to stimulate the consumption of goods and services in this sphere.

## 2. Research methodology and methods.

The methodological basis include the works of scientists (V.V. Ivanter, A.A. Shirov, B. Porfiriev [3] A. Aganbegyan [5], I.A. Pogosov [10], O.S. Sukharev [7; 8] etc.), who study issues of economic growth promotion, and also those based on stimulating domestic demand.

The importance of domestic tourism for the economy is reflected in the studies of Russian and foreign scientists. In particular, the impact of tourism on the economy is considered in the works of T.N. Grigorenko, L.N. Kazmina, V.I. Kruzhalin, K.V. Kruzhalin, N.V. Shabalina, and others [13; 14]. Scientists from Lomonosov Moscow State University propose the directions of development of the types of tourist activity capable to boost the demand for tourist resources (medical and recreational tourism, autotourism) [15]. Russian researchers have covered in sufficient detail the key problems of this sphere that hinder its development nationwide. Experts see one of the ways to solving the problems of domestic tourism in the urgent adoption of economic measures by the state [16]. S.A. Bystrov considers in detail the domestic experience of the use of existing methods that support and promote the development of domestic tourism [17]. The work of Z.A. Zyulyaev simulates the demand for domestic tourism in the Russian Federation and analyzes the factors that form this demand [18]. Yu.O. Vladykina and N.O. Rozumnaya analyze the demand for domestic tourism on the example of Siberian territories [19].

Foreign studies give more attention to domestic tourism due to the longer period of its study. Thus, in the work [20] on the example of the tourist market of China, it is proved that for the economy it is more important to develop

<sup>7</sup> According to the World Travel & Tourism Council.

<sup>8</sup> According to the Organization for Economic Cooperation and Development. Available at: <http://dx.doi.org/10.1787/tour-2018-en>

domestic tourism than outbound and inbound tourism. Besides, the role of domestic tourism for the regional economy is emphasized [21; 22; 25]. In addition, Italian scientists have determined that this type of tourism has great potential to eliminate structural imbalances in the economy [23]. This conclusion is confirmed by the results of application of input-output models for domestic tourism in Brazil [25], as well as in some regions of Japan [26].

However, having analyzed these works, we come to a conclusion that the impact of domestic tourism in the context of stimulating consumer demand is not given due attention.

Assessment of the state of domestic demand and its components, the study of the structure of consumer spending of households is based on general scientific methods such as comparison, generalization, analysis, synthesis, etc.

We used modeling method to substantiate the sources of domestic demand and assess the impact of their stimulation on the economy.

In the framework of the study, we propose to use a cross-sectoral model of the economy to carry out alternative calculations and assess changes in the volume of production of goods and services, the number of employees, the wage fund for certain economic activities and the economy as a whole under a reduction or increase in the final demand for the products of one of the activities. That is, the model makes it possible to see what will happen to the economy if we stimulate demand for a particular product; how much the output of goods and services will increase in the industry and in the economy as a whole; to what extent it is necessary to increase the number of employees and the wage fund.

The model is based on the basic equation of input-output models. In the matrix form, it is as follows

$$x = Ax + y, \quad (1)$$

where  $x$  – vector of total output;  $A$  – matrix of direct costs coefficients;  $y$  – vector of the final product.

The following equation was used in the simulation:

$$(E - A)^{-1} \cdot y = x, \quad (2)$$

where  $E$  – unit matrix;  $(E - A)^{-1}$  – matrix of total cost coefficients.

On the basis of the obtained matrix dependence, it is possible to calculate what the volume of sales  $x$  in all sectors<sup>9</sup> of the economy should be, if we plan to change the final demand  $y$ , i.e. the total cost is calculated.

Let us present the calculation algorithm.

1. Based on the data of the table of the use of goods and services, we calculate the matrix of direct costs  $A$ . To do this, we determine the proportion of direct costs  $F_{ij}$  in the output  $X_j$ :

$$a_{ij} = F_{ij} / X_j. \quad (3)$$

The  $a_{ij}$  element of the matrix  $A$  shows the consumption of the commodity  $i$  directly in the production of a unit of industry  $j$ .

2. Next, the total cost matrix  $B = (E - A)^{-1}$  is calculated. To do this, the matrix  $A$  is subtracted from the unit matrix  $E$ . The resulting matrix is raised to the power of -1, i.e. the result is the inverse matrix  $(E - A)^{-1}$ .

The  $b_{ij}$  element of the matrix  $B$  characterizes the need for the gross output of the industry  $i$ , which is necessary in the process of obtaining a unit of the final product of the industry  $j$  in the process of material production. Total cost coefficients reflect the diversity and complex indirect relationships that arise in the process of public reproduction.

<sup>9</sup> The terms “sector” and “type of economic activity” are used as synonyms in this study.

3. The total cost matrix multiplied by the planned final consumption vector  $y_j$  is equal to the gross output of all industries  $x_i$ :

$$x_i = f(y_1, y_2, \dots, y_n) = \sum_{j=1}^n b_{ij} y_j \quad (4)$$

The calculation of the impact of the consumption of goods and services in the domestic tourism sector requires, through standard statistical methods, that the part that is conditioned by tourism consumption should be separated from the value added calculated in the system of national accounts for specific and non-specific tourism activities, and its share in gross domestic product should be calculated, as well. In the future, this share is used to calculate the contribution of tourism to the formation of other macroeconomic indicators (employment, budget revenues, etc.).

In order to calculate tourism output and tourism value added by tourism-related activities, we decided to use the data on the level and structure of spending on recreation instead of household budget survey data. The data were assessed on the basis of available information on the structure of tourist expenditures in the Republic of Kazakhstan. The rationale for this approach is presented in Section 3.3.

Calculations on this algorithm were made for 37 types of economic activity, including seven so-called tourist-oriented types: the activities of hotels and restaurants; land transport activities; water transport activities; air transport activities; activities of travel agencies, activities for recreation and entertainment, culture and sports.

### 3. Research results.

#### 3.1. The state of domestic demand and its main components.

The share of domestic demand in the use of GDP is more than 90% (including final

consumption of households – 52%, public administration – 18%, gross savings – 24%). However, despite such high indicators, in recent years its contribution to GDP growth was quite modest.

At the end of 2017, the contribution of domestic demand “covered” the loss from net exports and amounted to 3.6% (including final consumption of households: +1.8%, public administration: +0.1%, gross savings: +1.8%). Moreover, support for domestic demand made it possible to achieve a positive economic growth rate of 1.5%.

According to the Ministry of Economic Development, in the coming years, GDP growth will be determined by more than half by the final consumption of households. In 2018, its contribution to economic growth will be 1.4% (for comparison, we present data on the contribution of other components: gross savings: +0.9%, net exports: +0.1%; total GDP growth: +2.1%) (*Tab. 1*).

Why is the presence of domestic solvent demand so important? It is due to the fact that it is one of the main factors in the planning of activities at enterprises, in making decisions about increasing or reducing capacity utilization, and in the implementation of investment projects.

The experience of foreign countries shows that stimulation of consumer spending can be a factor in economic growth. In the U.S., for example, household final consumption expenditure accounts for almost 70% of GDP. At the same time, if we compare the value of the final domestic demand per capita, it turns out that in Russia it is 2.5 times lower than in the United States, and two times lower than in Germany (*Tab. 2*).

The result is a lack of domestic demand for many types of goods and the need to export low-tech goods, because our producers manage

Table 1. Contribution of end-use components to the growth rate of Russia's GDP, % to the previous year

Indicator	2016	2017 (estimate)*	2018	2019	2020
			Forecast		
<b>GDP used</b>	<b>-0.2</b>	<b>2.1</b>	<b>2.1</b>	<b>2.2</b>	<b>2.3</b>
1. Expenditures on final consumption, including:	-2.3	1.2	1.2	1.1	1.2
1.1. Household	-2.3	1.2	1.4	1.3	1.2
1.2. Public administration	-0.1	0.1	-0.2	-0.2	-0.1
2. Gross capital formation, including	0.3	1.6	0.9	1.0	1.3
Gross fixed capital formation	-0.4	0.9	1.0	1.2	1.3
3. Net exports, including:	1.5	-0.8	0.1	0.0	-0.2
Export	0.9	1.0	0.9	0.6	0.5
Import	-0.6	-1.8	-0.8	-0.6	-0.7

\* Assessment of the Ministry of Economic Development as of September 2017; final data of Rosstat for 2017 others.  
 Source: Forecast of socio-economic development of the Russian Federation for 2018 and for the planning period of 2019 and 2020. Ministry of Economic Development. P. 16.

Table 2. Final consumption in Russia, USA, and Germany in 2016

Country	Final consumption, % GDP			GDP (PPP), trillion USD	Final consumption, PPP, trillion USD	Population, million people	Final consumption per capita, PPP, thousand USD
	Total	Households	State sector				
Russia	71.4	53.4	18.1	3.581	2.557	146.8	17.418
USA	83.1	68.8	14.3	17.270	14.351	325.1	44.137
Germany	72.8	53.3	19.6	4.030	2.934	82.8	35.435

Source: our own calculations based on World Bank data.

to integrate into the world value chains only as suppliers of raw materials. This state of affairs aggravates the development of the economy, because the incomes of companies, government and people are reduced due to the lost value added. This in turn reduces consumer demand and investment opportunities.

The narrowness of the domestic market and the negative dynamics of its development, which are among the main factors constraining economic growth, lead to a shortage of goods and services, reducing incentives for enterprises to increase production and increase the depth of processing of raw materials.

During the period from 2011 to 2017, the volume of domestic demand in Russia decreased by 1.5% (Tab. 3). At the same time, consumer spending increased only by 5.4%, public administration spending decreased by 0.5%, gross fixed capital formation – by 2.5%. Imports fell by 10.8%.

In the structure of domestic demand, the major part belongs to household consumption. In 2017, the share of households was more than 55%, and over the past seven years it has increased by almost four percentage points (Tab. 4).

Let us pay attention to the fact that, despite the reduction in the value of imports, its ratio to the volume of domestic demand increased by almost five percentage points (from 22.7 to 27.6%) during the period under consideration.

Thus, the negative state of domestic demand (including consumer demand) in Russia is statistically established. Its growth rate has slowed down, and per capita volumes are significantly lower than in developed countries.

Stimulating domestic demand may trigger economic growth in the country. The effect of the increase in consumer spending begins to manifest itself very quickly, within months. At the same time, the prerequisites for

Table 3. Domestic demand in Russia, trillion RUB (in 2017 prices)

Indicator	2011	2012	2013	2014	2015	2016	2017	2017 to 2011, %
Domestic demand	88.1	93.3	94.5	93.6	85.2	83.6	86.7	98.5
1. Expenditures on final consumption, including:	62.4	66.4	69.2	69.8	64.3	63.1	64.8	103.8
1.1. Household	45.4	49.0	51.5	52.6	47.6	46.3	47.9	105.4
1.2. Public administration	16.6	17.1	17.2	16.9	16.3	16.5	16.5	99.5
2. Gross capital formation, including	25.7	26.8	25.3	23.8	20.8	20.4	22.0	85.5
Gross fixed capital formation	20.5	21.5	21.8	21.4	19.0	19.1	20.0	97.5
For reference:								
Exports	20.0	20.3	21.2	21.3	22.1	22.8	24.0	119.9
Imports	21.3	23.4	24.2	22.5	16.8	16.2	19.0	89.2

Source: our own calculations based on Rosstat data.

Table 4. Structure of domestic demand in Russia, % (in 2017 prices)

Indicator	2011	2012	2013	2014	2015	2016	2017	2017 to 2011, p.p.
Domestic demand	100.0	100.0	100.0	100.0	100.0	100.0	100.0	–
1. Expenditures on final consumption, including:	70.8	71.2	73.2	74.6	75.5	75.5	74.7	+3.8
1.1. Household	51.6	52.5	54.6	56.2	55.9	55.4	55.2	+3.6
1.2. Public administration	18.9	18.3	18.2	18.0	19.2	19.7	19.1	+0.2
2. Gross capital formation, including	29.2	28.8	26.8	25.4	24.5	24.5	25.3	-3.8
Gross fixed capital formation	23.2	23.1	23.1	22.9	22.3	22.9	23.0	-0.2
For reference:								
Imports to domestic demand ratio	22.7	21.7	22.4	22.8	25.9	27.3	27.6	+4.9

Source: our own calculations based on Rosstat data.

long-term growth are being created, since enterprises serving consumer demand obtain an opportunity to increase resources for investment. However, all these processes are launched only if the purchased products are of Russian manufacture. Therefore, it is important to understand what goods and services households consume and who is the producer of these goods and services – domestic or foreign companies.

### 3.2. Structure of household consumption expenditures.

The structure of consumer spending of Russian households is dominated by spending on food and beverages, transport, housing and utilities services, fuel, clothing, footwear, and recreation (*Tab. 5*).

Having considered the structure of the formation of resources of these products in the

Russian economy (according to the latest input-output model) we can allocate the share of imports in it (*Tab. 6*), which turned out to be the largest in the resources of clothing and footwear (almost 69%), household goods and household appliances (over 60%). Other consumer goods and services are to a certain extent (more than 85%) of domestic manufacture.

If we compare the structure of consumer spending of households and the share of imports in the resources of the products they consume, then we note that domestic tourism – a sphere that combines the production of goods and services designed to satisfy the needs of the population in recreation – can be considered as a promising direction that can stimulate domestic consumer demand.

Table 5. Structure of consumer expenditures of Russian households in 2016, % of total

Good or service	Share
Consumer spending, including	100.0
Food and beverages	35.4
Transport	13.3
Housing and utilities services, fuel	11.3
Clothing and footwear	9.2
Recreation	6.7
Household items, household appliances	5.9
Health	3.6
Hotels, cafes and restaurants	3.5
Communication	3.3
Education	0.8
Other goods and services	7.0
Source: our own calculations based on Rosstat data.	

Table 6. Share of imports in the resources of some types of products of the Russian Federation, % of the total

Good or service	Share of imports
Food and beverages	15.4
Transport	11.3
Housing and utilities services, fuel	1.2
Clothing and footwear	68.8
Recreation	6.8
Household items, household appliances	60.4
Health	0.1
Hotels, cafes and restaurants	0.3
Communication	4.7
Education	0.2
Source: our own calculations based on Rosstat data.	

### 3.3. The results of evaluation of domestic demand stimulation on the example of domestic tourism.

The complexity of the assessment of the economic effect of stimulating the consumption of goods and services by domestic tourists is that in the official statistics of the Russian Federation this type of tourism is not singled out as a separate branch of the economy.

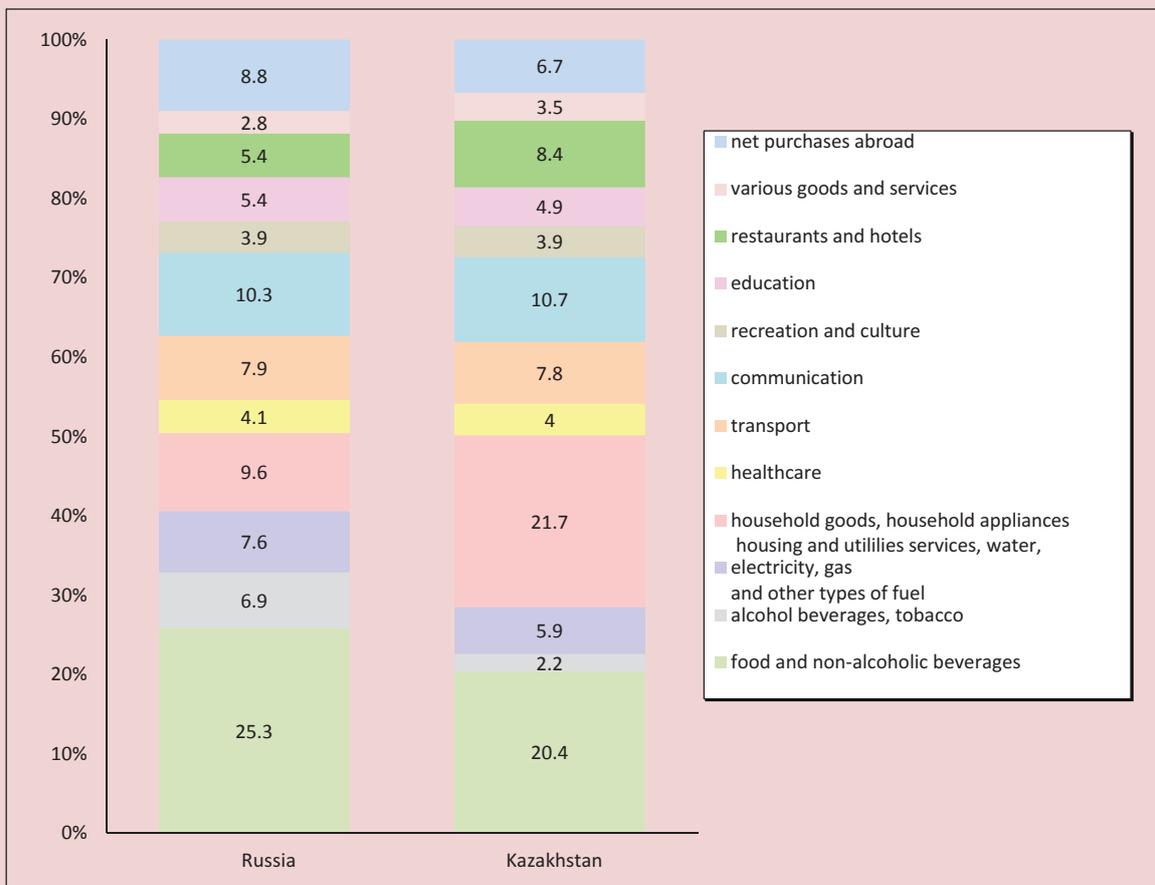
In our study, the calculations of the effect under consideration on the example of domestic tourism will be carried out on the basis of the structure of consumption of goods in the tourism sphere of Kazakhstan, a country that is connected with the Russian Federation through historical and sustainable economic relations, which bear an intensive and dynamic character

and have a high level of comprehensive cooperation.

The analysis has shown that the structure of consumer behavior of residents of Kazakhstan and the Russian Federation in terms of the services is similar (*Fig. 3*). In particular, expenditures on recreation amounted to 5.4% in the Russian Federation and 4.9% in the Republic of Kazakhstan; expenditures on restaurants and hotels – 2.8 and 3.5% respectively.

It should be noted that in Kazakhstan, statistical observation of tourism is carried out in accordance with satellite account methodology, which takes into consideration the various tourism-related aspects of demand for goods and services.

Figure 3. Structure of actual final consumption of households in Russia and Kazakhstan, % of total



Source: Russia and countries of the world. 2016: statistics collection. Rosstat. Moscow, 2016. 379 p.

With the help of these statistics, we determine the structure of consumption according to the types of tourism, as well as its impact on the output of other activities.

The analysis shows that domestic tourists consume the most goods and services provided by travel agencies – 17.5% and by catering enterprises – 15.2%. As for inbound tourism, the main part of tourist expenses falls on the sector of accommodation and catering – 25.2 and 15.8%, respectively (Tab. 7).

The analysis of the data of input-output models of the Russian Federation and the types of economic activities related to tourism gives an idea of how the structure of consumption in the Russian conditions looks like (Tab. 8).

Based on this, it can be noted that tourism-oriented products are services of the accommodation industry (99%), travel agencies (98%) and the transport sector (59%).

Using the input-output methodology allowed us to calculate the value of the total costs ratio (Fig. 4), which characterizes the total costs of production of one industry per unit of production of other industries. The higher the value of this indicator, the greater the economic impact of the sector for the economy. As evidenced by the calculations, according to the value of the total costs ratio per ruble of manufactured products, domestic tourism is second only to industry and construction.

Table 7. Consumption related to domestic tourism, broken down by goods and services, %

Goods/services	Consumption related to domestic tourism		
	Expenditures related to inbound tourism	Expenditures related to domestic tourism	Expenditures related to the tourism within the country
<b>Consumer goods</b>	<b>97.2</b>	<b>97.2</b>	<b>97.2</b>
<b>Typical tourism products</b>	<b>67.0</b>	<b>73.7</b>	<b>69.9</b>
Accommodation services	25.2	13.7	29.6
1a. Visitor accommodation services, other than services in paragraph 1	25.2	13.7	20.3
1. Accommodation services related to all types of property in relation to holiday homes	x	x	x
2. Services of public catering enterprises	15.8	15.2	15.5
3. Railway passenger transport services	4.4	6.4	5.3
4. Road passenger transport services	0.2	3.7	1.7
5. Water passenger transport services	0.0	0.0	0.0
6. Air passenger transport services	9.2	8.8	9.0
7. Transport equipment rent services	2.0	0.3	1.3
8. Travel agencies and other booking services	1.0	17.5	8.0
9. Services in the field of culture	2.3	1.2	1.8
10. Sports and recreation services	7.0	6.9	7.0
11. Typical tourism products for a particular country	x	x	x
12. Typical tourism services for a particular country	x	x	x
<b>Other consumer products</b>	<b>30.2</b>	<b>23.5</b>	<b>27.3</b>
<b>Products with a certain value</b>	<b>2.8</b>	<b>2.8</b>	<b>2.8</b>
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Statistics Committee of the Ministry of National Economy of the Republic of Kazakhstan.

Table 8. Tourism-related consumption in the Russian Federation, by goods/services, in %

Goods/services	Tourism-related consumption associated with domestic tourism
Services of hotels, campsites and other places for temporary residence	0.995
Catering services	0.281
Services of long-distance passenger railway transport	0.328
Road passenger transport	0.008
Water transport	0.259
Air passenger transportation services	0.586
Services of travel agencies and tour operators; services for tourists, not included in other groups	0.978
Services in the field of culture	0.122
Other sectors	0.00004

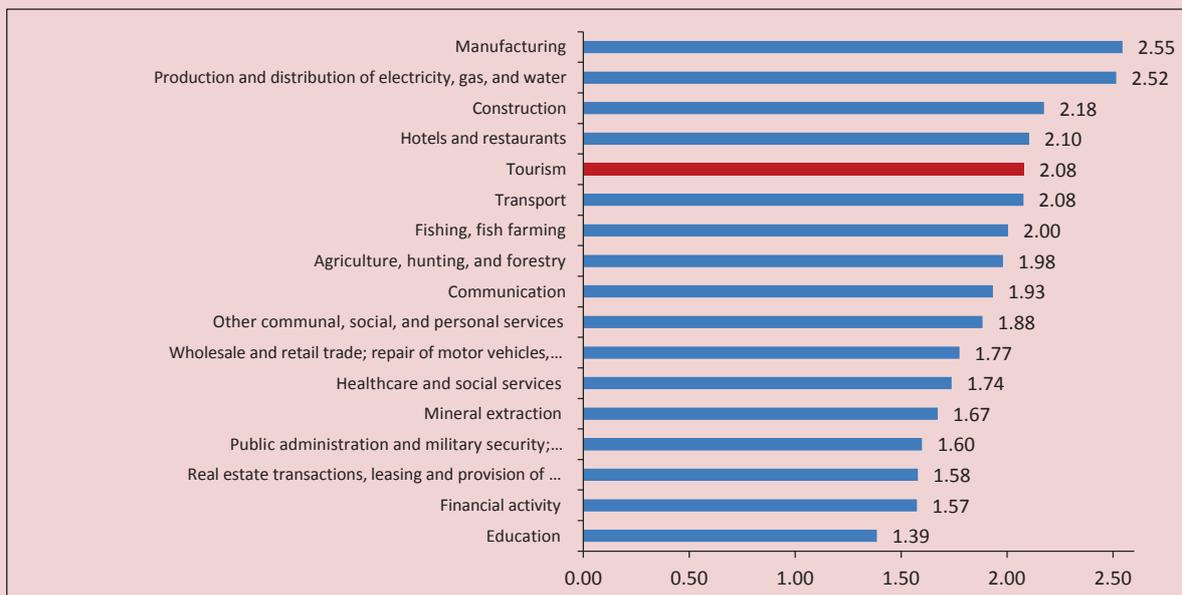
The use of input-output models makes it possible to calculate the effect<sup>10</sup> produced by the changes in demand in the economy.

Let us assume that, as a result of stimulating residents' consumption of goods and services produced by the sphere of domestic tourism,

<sup>10</sup> The effect is understood as an increase in gross output, the number of employees and the wage fund in the relevant types of economic activity.

the final demand for its goods and services increased by 10% (which may be due to an increase in people's incomes, the implementation of investment projects in tourism, infrastructure development, an active information campaign, etc.). The increase in the volume of final demand in this area will lead to an increase in the main economic indicators for all types of economic activity.

Figure 4. Total costs ratios in various economic activities in Russia, rubles per one ruble of production



Note. In the formation of the type of economic activity "Tourism", tourist consumption was deducted from all economic activities.

Source: our own calculations on the basis of Rosstat data.

According to our calculations, stimulation of final demand for domestic tourism by 10% will provide an overall economic growth in gross output by 346 billion rubles and the number of employees by 142.8 thousand people (*Tab. 9*). In addition, the wage fund will increase. The increase in average wages will be 416 rubles.

Stimulating the consumption of goods and services of domestic tourism will produce the greatest effect on the transport industry. This is due to the fact that transport has the largest share in the structure of the type of economic activity "Tourism".

In addition, the growth in demand for domestic tourism will have a significant impact on the production and on the provision of real estate, hotel and electricity, gas and water services. The effect produced by stimulating the demand for goods and services of domestic tourism (by 10%; *Fig. 5*) will be the largest in types of economic activities such as "hotels

and restaurants" (output growth of 2.02%), "transport" (1.43%) and "provision of public services" (0.55%). The overall economic effect will be 0.24%.

*Figure 6* shows that in the structure of distribution of the effect that will be produced by stimulating the consumption of domestic tourism goods and services by residents of the country, the largest share by types of economic activity (almost 45%) falls on transport. It can be noted that to some extent all of its types will experience a positive influence of the effect.

#### 4. Suggestions and conclusion.

The results of our study show that the development of domestic tourism is a prospective direction to stimulate domestic consumer demand. In view of its underdevelopment in the Russian Federation and, consequently, its insufficient current contribution to the economy, it is necessary to identify ways to contribute to the increase in the

Table 9. Growth of the main economic indicators by types of economic activity from stimulating the consumption of goods and services in the sphere of domestic tourism by 10%

Type of economic activity	Increase in gross output, million RUB	Increase in the number of employees, people	Increase in the wages fund, million RUB	Increase in average wage, RUB
Transport	155428	54046	27,855	515
Real estate transactions, leasing and provision of services	38740	12251	5,853	478
Hotels and restaurants	28852	27035	6,808	252
Production and distribution of electricity, gas and water	15093	3996	1,768	442
Production of coke, oil products and nuclear materials	14704	358	0,351	979
Wholesale and retail trade; repair of motor vehicles, motorcycles, household goods and personal utensils	14236	9092	2,940	323
Provision of other communal, social and personal services	12141	7480	2,108	282
Mineral extraction	9140	667	0,572	857
Manufacture of vehicles and equipment	7825	2369	1,027	434
Financial activity	7071	2297	1,932	841
Production of food, beverages and tobacco	5849	1505	0,484	322
Metallurgical production and production of finished metal products	5340	1119	0,444	397
Manufacture of electrical, electronic and optical equipment	4928	2546	1,123	441
Construction	4873	2786	1,002	360
Communication	3838	4499	1,768	393
Agriculture, hunting, and forestry	3697	3902	0,924	237
Manufacture of machinery and equipment	3322	2024	0,783	387
Chemical production	2971	611	0,289	472
Manufacture of rubber and plastic products	1551	575	0,172	300
Pulp and paper production; publishing and printing activities	1499	544	0,197	362
Manufacture of other non-metallic and mineral products	1260	655	0,221	337
Extraction of minerals, except fuel and energy	694	215	0,126	585
Public administration and military security; social insurance	640	290	0,146	503
Other production (including furniture and recyclables)	639	245	0,063	258
Textile and clothing industry	546	484	0,091	189
Fishing, fish farming	317	129	0,072	560
Wood processing and production of wood products	313	167	0,041	244
Education	277	656	0,212	323
Health and social services	236	255	0,086	338
Manufacture of leather, leather goods and footwear	19	16	0,003	214
In the economy on the whole	346039	142815	59,461	416

Source: our own calculations based on Rosstat data.

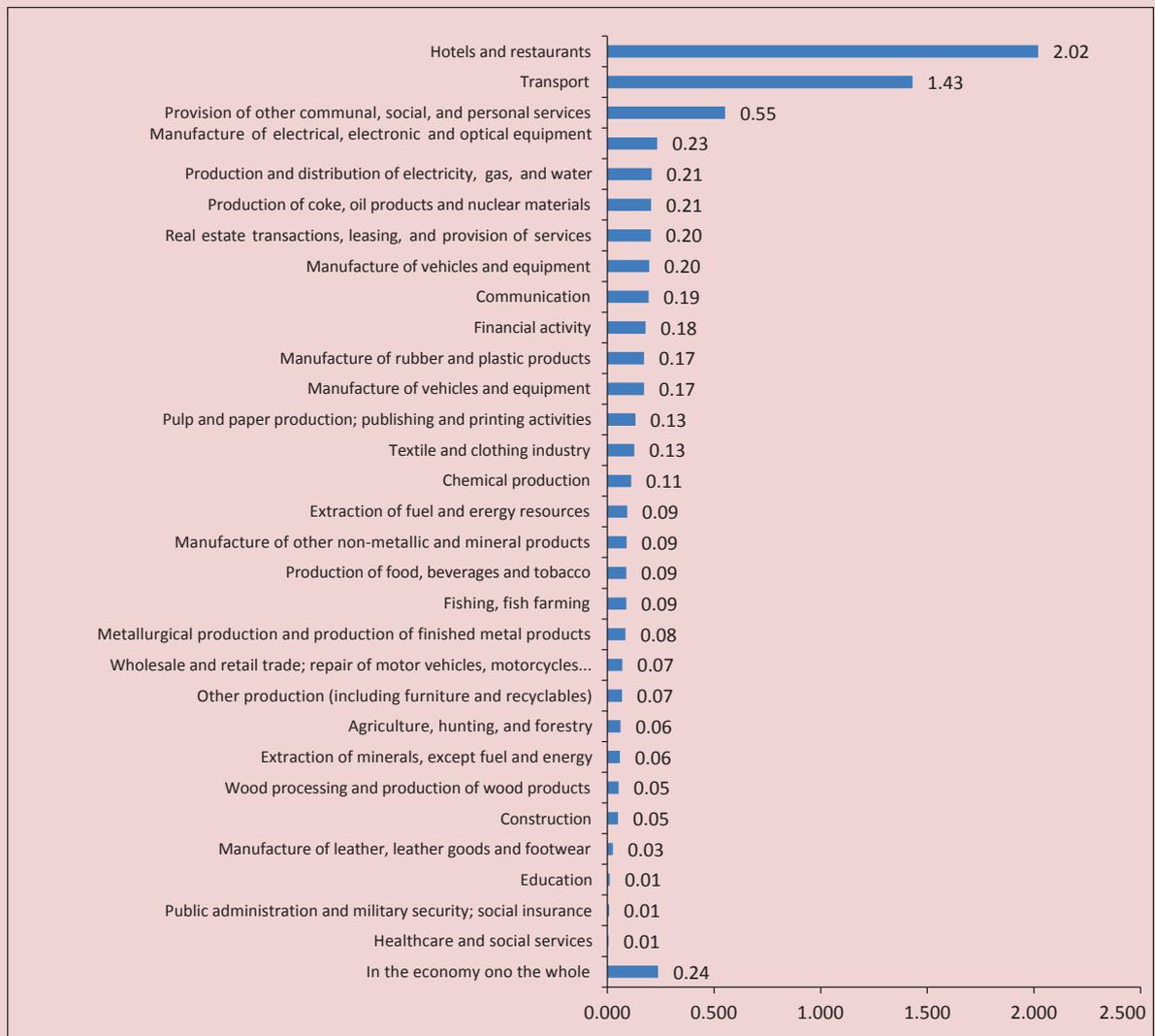
consumption of goods and services produced by this sphere. The main directions of stimulating domestic tourism consumption are as follows.

1. Implementation of policies aimed at changing household consumption patterns.

This involves the implementation of a number of measures to increase the share of residents' consumption of goods and services of domestic tourism by changing the proportions of other types of activities.

Thus, the obtained value of the multiplier of domestic tourism confirms the great economic importance of this sphere in comparison, for example, with wholesale and retail trade. In this regard, it is advisable to carry out a large-scale state propaganda of domestic tourist destinations and encourage people to purchase tours within the country in return for the purchase of consumer goods, especially imported ones.

Figure 5. Effect produced by stimulating residents' consumption of goods and services in the sphere of domestic tourism by 10% by types of economic activity, %



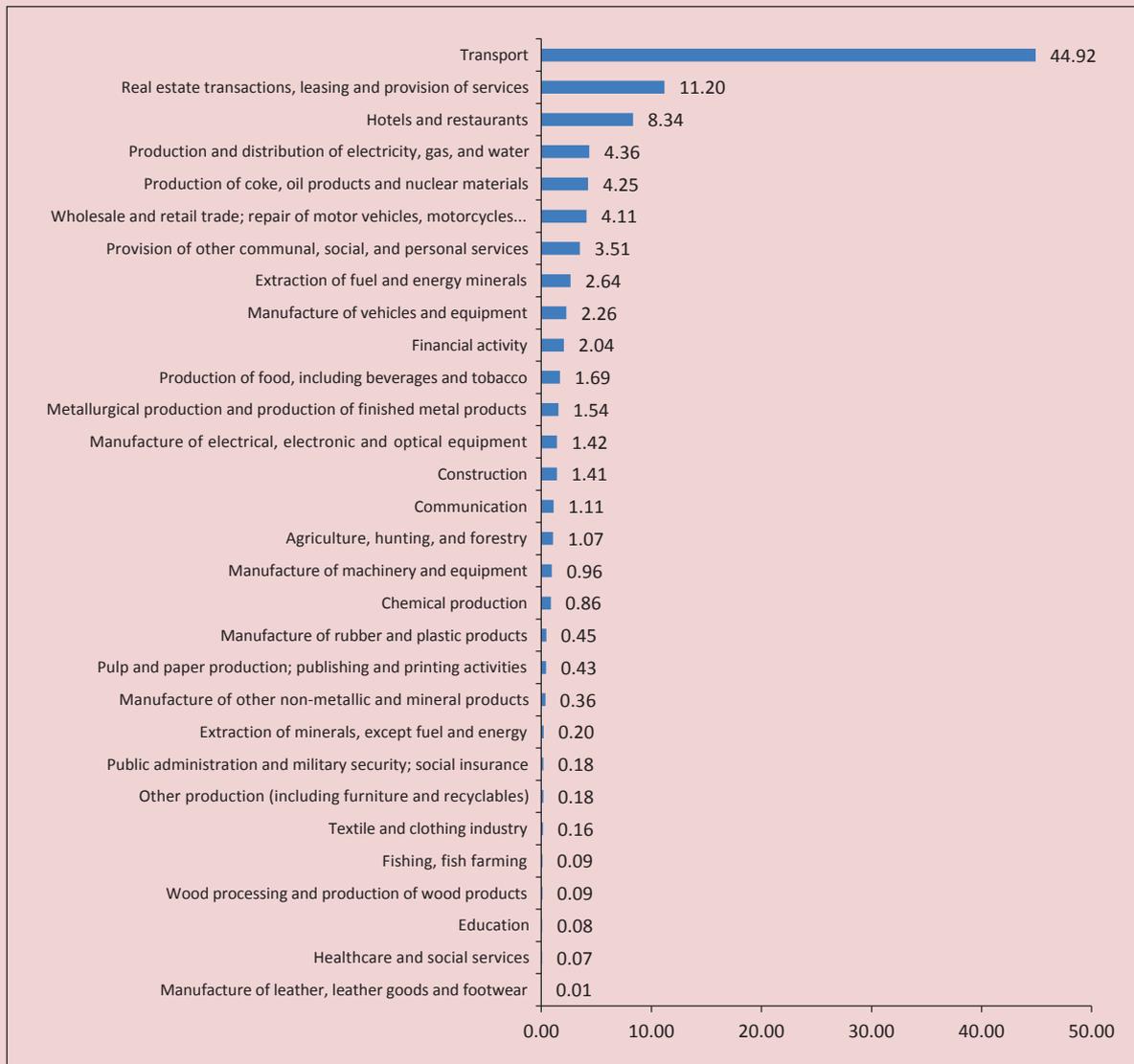
Source: our own calculations based on Rosstat data.

It is also useful to use targeted marketing that is focused on the consumer and that implies that the tourism industry enterprises adapt their proposals to the needs of individual customers or collective buyers [27]. In this case, we are talking about the development of domestic tourism product for a certain segment, depending on the consumer preferences of domestic tourists. In addition, it involves the implementation of measures to promote

the sale of domestic tourism product. For example, in Kazan, according to the program “Weekend in Kazan”, on weekends tourists are accommodated in hotels with 40% discount and have special discounts offered by “guest cards” for services in food facilities, museums and museums-reserves, and entertainment facilities<sup>11</sup>.

<sup>11</sup> As a result of the program, the number of customers in hotels at weekends increased from 15% in 2009 to 65% in 2014.

Figure 6. Structure of distribution of the effect from stimulation of residents' consumption of goods and services of internal tourism sphere by types of economic activity, % to the total



Source: our own calculations based on Rosstat data.

To improve the quality of services offered, it is proposed to form regional standards of hospitality that will allow the region to form the image and reputation of the “hospitable territory” both in the eyes of tourists and in the eyes of the local population [28].

2. Creation of priority competitive tourism products based on the development of tourism activities, ensuring the increase in the flow of

domestic tourists. For example, these types of tourism include event tourism, which involves visiting the most interesting events for tourists. It makes it possible to create tourist products lasting more than 24 hours (for example, festivals, forums, sports competitions, etc.), thereby increasing the length of stay of tourists, as well as increase the “load” of tourist infrastructure.

Previously, we calculated the effectiveness of development of event tourism on the basis of long-term forecast changes in tourist expenditures. The calculations carried out on the example of the Vologda Oblast show that the ratio of daily tourist expenses, including accommodation in collective accommodation facilities, to GDP will be 49.9 billion rubles or 9.3% of GRP by 2030 (for comparison: 4.4% of GRP in 2014) [29].

3. Creation of favorable conditions for investment in domestic tourism.

High prices for capital goods remain an urgent problem for large businesses engaged in capital investments. Thus, entrepreneurial activity is constrained by the high cadastral value of real estate, which exceeds the market value. A significant obstacle for businessmen engaged in recreation is the rental rate for land in some regions of the Russian Federation. These circumstances affect the price of the final tourist product for domestic tourists.

In this regard, it is necessary to bring down the values of rental rates for land and real estate. This is possible through the adoption of relevant legislation at both the regional and federal level.

One of the areas of support for domestic tourism service producers may be the revision of the value added tax for tourist business entities engaged in the production of domestic tourism product (tour operators, owners of collective accommodation facilities)<sup>12</sup>. Improvement of tax legislation can not only support businessmen, but also attract new actors to the market.

4. Providing subsidies to tourism entities engaged in the production of domestic tourism product.

On the part of the government, it is possible to subsidize investment loans for the

<sup>12</sup> For comparison: in Europe, the average VAT rate for hotels is 10.3% vs. 20% for other businesses.

implementation of projects that are important for the development of this sphere (for example, the construction of accommodation facilities). Since transport costs form a significant share in the package of tourist services, then providing support to the transport industry companies is a promising measure. It is necessary to subsidize not only flights, but also railway transport and intercity buses. Currently, this measure is applied only in a few regions of the Russian Federation.

5. The use of tools that allow for partial compensation of recreation expenditures.

Successful experience of foreign countries with regard to the development of domestic tourism (for example, in Hungary) suggests that in Russia it is promising to provide support to employers who allocate funds to pay for the recreation of their employees. Thus, under the preferential system “Map of Széchenyi recreation”, operating in Hungary, companies place their employees’ wages to special credit cards; as a result, employees get the reduced rate of taxation. Cardholders have the right to spend the money thus saved on their vacation or the vacation of their relatives. Every year, 25% of the costs of domestic tourism are paid via such cards<sup>13</sup>.

In France, there is a widespread system of holiday checks with a certain nominal value for full or partial payment of tourist services within the country. This measure applies mainly to employees of industrial enterprises and civil servants. The average cost of such checks for a family is about 400 euros, and the actual spending of citizens on vacation exceeds this amount in four times<sup>14</sup>.

<sup>13</sup> Fomin I. We could take 80 million tourists. *Parlamentnaya gazeta*. Available at: <https://www.pnp.ru/social/my-mogli-by-prinimat-80-millionov-turistov.html>

<sup>14</sup> Data of the Association of Tour Operators of Russia. Available at: <http://www.atorus.ru/news/press-centre/new/40178.html>

We think that the use of such mechanisms in the Russian Federation should increase residents' demand for domestic tourism services.

Thus, the proposed tools have allowed us to determine the potential economic effect from stimulating consumer demand on the example of the consumption of goods and services of domestic tourism, considered as a driver of economic growth.

Summing up, we should note that the results of the study contribute to the development of methodological aspects of assessment of

domestic tourism, its impact on other industries, as well as the potential effect of its development.

In general, there exist other promising directions that determine the promotion of domestic consumer demand on the basis of domestic tourism. Further studies will continue to improve the tools of structural simulation that helps substantiate regional economic policy at the level of the economy as a whole, and in the framework of inter-sectoral interactions of sectoral complexes and types of economic activity.

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### Information about the Authors

Evgenii V. Lukin – Candidate of Sciences (Economics), deputy head of department, Vologda Research Center of the Russian Academy of Sciences (56A, Gorky street, Vologda, 160014, Russian Federation; e-mail: [lukin\\_ev@list.ru](mailto:lukin_ev@list.ru))

Ekaterina G. Leonidova – Junior Researcher, Vologda Research Center of the Russian Academy of Sciences (56A, Gorky street, Vologda, 160014, Russian Federation; e-mail: [eg\\_leonidova@mail.ru](mailto:eg_leonidova@mail.ru))

Maksim A. Sidorov – Junior Researcher, Vologda Research Center of the Russian Academy of Sciences (56A, Gorky street, Vologda, 160014, Russian Federation; e-mail: [maxis44@yandex.ru](mailto:maxis44@yandex.ru))

Received July 4, 2018.