

MONITORING OF RUSSIA'S ECONOMIC OUTLOOK:

TRENDS AND CHALLENGES OF SOCIO-ECONOMIC DEVELOPMENT

No. 2(125) February 2021

1. MONITORING OF THE SITUATION WITH THE CORONAVIRUS PANDEMIC AND THE MEASURES TO CONTAIN IT OVER JANUARY 15 TO FEBRUARY 1, 2021

Ponomarev Yu., Makarov A., Borzykh K., Radchenko D.3

2. BALANCE OF PAYMENTS: RESULTS OF 2020

Bozhechkova A., Knobel A., Trunin P.9

3. INDUSTRIAL PRODUCTION DYNAMICS IN Q4 2020

Kaukin A., Miller E.13

4. RUSSIAN INDUSTRIAL SECTOR IN DECEMBER 2020

Tsukhlo S.16

Monitoring of Russia's Economic Outlook

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1. MONITORING OF THE SITUATION WITH THE CORONAVIRUS PANDEMIC AND THE MEASURES TO CONTAIN IT OVER JANUARY 15 TO FEBRUARY 1, 2021

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The world is witnessing a rather dire situation in terms of the spread of the coronavirus, however in the second half of January 2021 positive trends were evident: many hard hit by the coronavirus countries have demonstrated either stabilization or gradual decline in the recorded daily new cases. Granting restrictive measures being in place (in particular, in the EU) and the launch of mass vaccination, these trends can get momentum further down the line.

In Russia, despite the growth of social activity following the New Year holidays, the second half of January reported decline in Covid cases, which kicked off easing of restrictive measures in certain regions.

The current situation with COVID-19 around the world

Coronavirus morbidity

Over the second half of January 2021, the coronavirus morbidity level in many countries remained alarmingly high, however positive changes have manifested themselves, for example, from 765,100 new cases of January 15 to less than 600,000 new cases reported by the end of the month. The values of R_t (the measure of how fast the virus is growing) in many major countries of the world did not exceed 1 (Fig. 1).

By February 1, 2021, the total number of COVID-19 incidents in the world was around 103.5 mn (vs 92.75 mn as of January 14, 2021), and the number of coronavirus deaths exceeded 2.24 mn (vs more than 1.99 mn as of January 14, 2021). Overall, there were more than 26.16 current coronavirus cases around the world, and more than 75.15 mn had recovered.

As of February 1, 2021, sixty-five percent of all new cases were recorded in 10 countries: the USA, Brazil, EU countries (Great Britain, France, Italy, Portugal, and Germany), Russia (ranks fourth regarding the total number of cases), Mexico, and Indonesia. In the meantime, one can observe either stabilization of the situation or gradual reduction in the daily rate of new coronavirus cases in the majority of those countries over the second half of January (Fig. 2). Many experts assign it to the effect of the holiday period when the majority of countries strengthened the restrictive measures.

Mortality trends

In November, the daily coronavirus mortality rate worldwide ran into 12,000, by the end of December, the number of coronavirus deaths exceeded 17,000 per day. In the second half of January, the daily coronavirus mortality rate changed drastically from 8,700 to 17,900 (January 20).

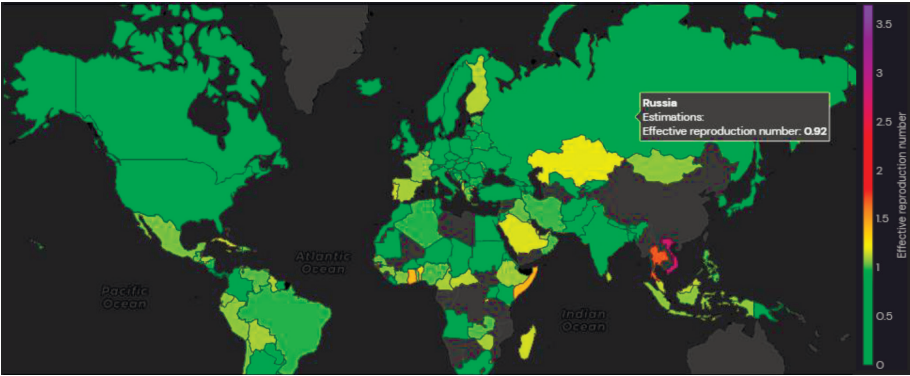


Fig. 1. The R_t estimates

Source: Future of Humanity Institute, University of Oxford (29.01).

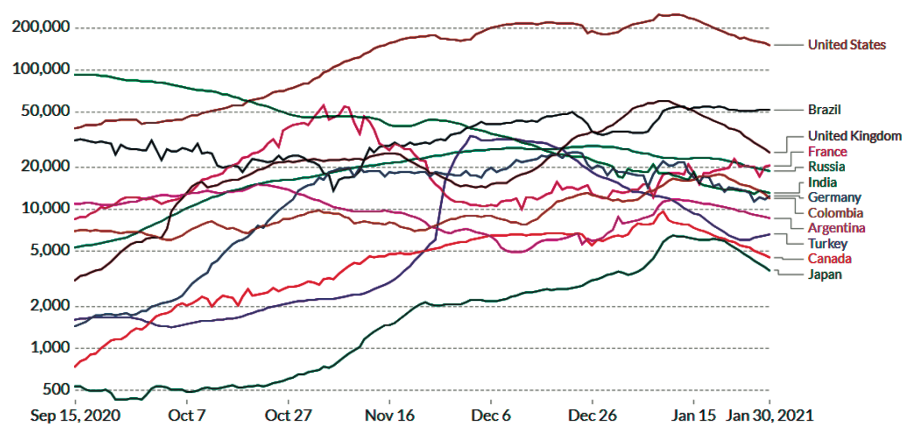


Fig. 2. The new case trajectories, by country (logarithmic scale), moving average per week

Source: ECDC.

The highest daily coronavirus mortality rates were observed in the USA (1,802 daily deaths by January 31), Mexico ranked second with 1,495 daily deaths, and Great Britain was third with 587 daily deaths (Fig. 3). In Russia, according to the Operational Headquarters, the mortality rate remains at a relatively

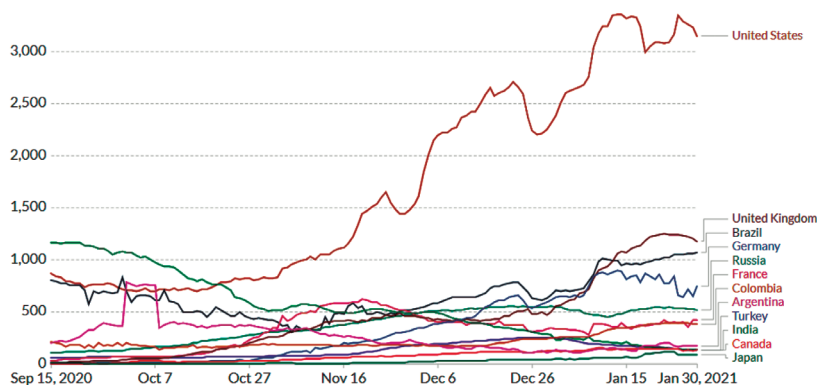


Fig. 3. The daily mortality dynamic by country, smoothed over week

Source: OurWorldInData.

1. Monitoring of the situation with the coronavirus pandemic...

low level (having climbed from 1.7% in November to 1.9%¹). The demographic structure can be the key factor determining the mortality rate².

The measures being introduced

Stringency quarantine restrictions is rather versatile and depends on the concrete situation in a country or territorial zone (Fig. 4).

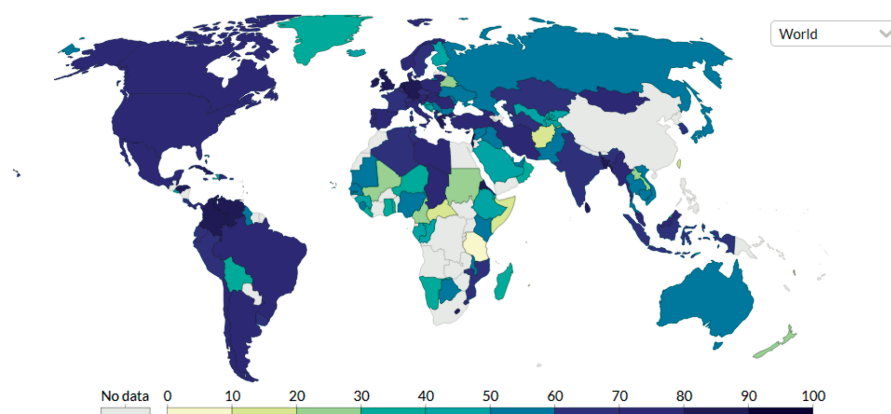


Fig. 4. The Government Stringency Index (100 = most stringent) a composite measure (based on nine response indicators schools closure, remote work, travel ban, and other measures)

Источник: OurWorldInData, January 30, 2021.

Restrictions remained in place in Europe due to the spread of the new strains of coronavirus. National lockdowns are in place in a number of countries (Great Britain, Germany, Portugal, and Denmark) through mid-February. France has put in place a ban on travel outside the EU as well as restrictions on shopping and entertainment centers work hours. Spain introduces restrictions on the border with Portugal. From January 30, the Czech Republic tightened restriction on hotels, shutdown of shops and services companies is being extended, curfew is in place. Restrictions triggered mass public discontent, in particular, in Netherlands. From February 1, mask wearing in public transport is being put in place in the USA. Given the coronavirus morbidity growth local restrictions are being put in place in Brazil (the city of Manaus). North Korea has extended restriction for 2 weeks, gatherings of over 5 people have been banned.

Simultaneously, the number of countries, including Russia, went to the length of easing restrictions on the back of positive dynamic. Poland lifts restrictions on shopping centers and museums.

In a number of countries, mass vaccinations are underway (Fig. 5). Mass vaccination has been launched in India on January 16, over the first week 1.39 mn people have been given vaccine. That said, a number of countries introduced easing on travel for the people who have been given vaccine (Georgia, UAE, and Seashell Islands).

1 Due to the specificity of statistical records, operational data only account for those deaths where COVID-19 is identified as the main cause of death. In this connection, in some cases certain additional medical tests are required in order to confirm this fact, and so the relevant data can be updated within 40 days. Therefore, the coronavirus mortality rate for Russia, which is released by Rosstat on a monthly basis, is actually higher. For more details on the specificities of mortality statistics, see: URL: <https://стопкоронавирус.рф/news/20200911-1920.html>.

2 URL: <https://tinyurl.com/y4h3bj8q>.

Monitoring of Russia's Economic Outlook

Mass vaccination has been launched in Russia from January 18. As of January 29, according to the Gamaleya National Center, 2 mn people were given vaccine dose, and over 4 mn vaccine doses have been distributed. There are 3,100 sites now offering vaccination. In Moscow, the list of categories of citizens approved for vaccination has been extended. Russia is lagging behind the world's major economies in terms of vaccination coverage and rates (Fig. 5).

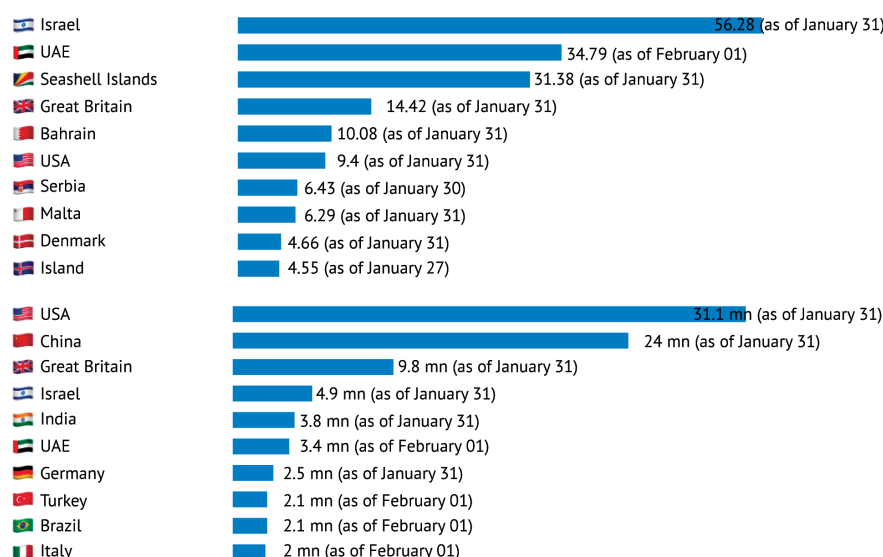


Fig. 5. Top 10 countries by the number of vaccinated per 100 of people (upper diagram) and vaccination coverage (lower diagram)

Source: Yandex, based on data released by OurWorldInData.

The current situation with COVID-19 in Russia

As of February 1, 2021, 3,868,087 coronavirus cases in Russia have been recorded (up by 10.6% from January 14 (Fig. 6). The average daily increase in the number of new coronavirus incidents shrank by 14% over the second half of January. The R_t level has stabilized at 1, and 0.96 on average for the period.

In January, the number of new active coronavirus cases has displayed a stable downward trend (476,300 or 12.3 of the total number of cases) similarly to that of hospitalizations. All-time excess of the number of daily recoveries over the number of new cases was registered on January 27 (+10,200).

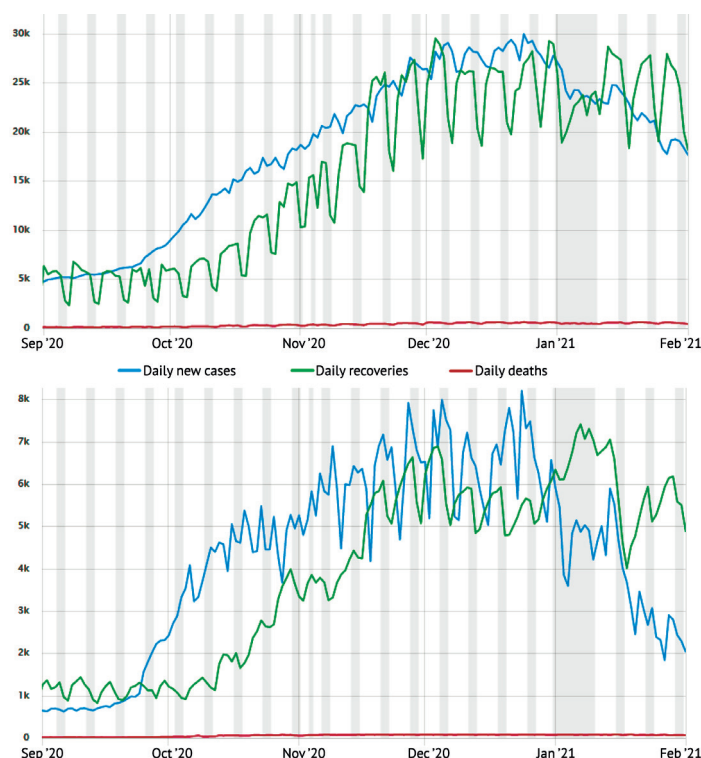
Following the growth of social activity following the New Year holidays there was no significant coronavirus morbidity growth. Primarily, that was due to the network breakdown of virus transmission owing to a low social activity of the citizens during New Year holidays, stringent control over the health of people arriving from abroad¹, as well as the morbidity level reaching winter plateau² (Fig. 7).

As of January 26, the hospital bed occupancy rates for treatment of COVID-19 patients in Russia averaged around 70% (77% as of January 12), in Moscow – 50%. According to Minzdrav, the number of patients in intensive care units contracted by 10%.

1 URL: <https://стопкоронавирус.пф/news/20210130-0809.html>.

2 URL: <https://iz.ru/1110748/2021-01-13/virusolog-rasskazal-o-zimnem-plato-po-koronavirusu-v-rossii>.

1. Monitoring of the situation with the coronavirus pandemic...



Note. Holidays and weekends are highlighted in grey.

Fig 6. The number of new cases, recoveries and deaths during the second wave in Russia (top chart) and in Moscow (bottom chart)

Source: Yandex, data as of February 1, 2021.

Region	New daily cases	Rt	Total cases	Infections per 100,000 population	Total deaths	Deaths per 100,000 population
Moscow		1.01	932 109	7453.0	13 495	107.9
St. Petersburg		1.16	335 958	6277.3	9 786	182.8
Moscow region		1.02	193 810	2583.0	3 796	50.6
Nizhny Novgorod region		0.99	84 904	2624.7	2 130	65.8
Sverdlovsk region		0.96	70 820	1637.4	2 048	47.3
Rostov region		0.98	64 067	1518.0	2 655	62.9
Voronezh region		0.98	58 592	2510.6	1 566	67.1
Krasnoyarsk Krai		0.97	56 740	1972.5	2 369	82.4
Arkhangelsk region		0.97	51 465	4632.2	475	42.8
Irkutsk region		1.01	48 931	2035.2	1 573	65.4

Fig. 7. Top 10 regions, by number of cases

Source: Yandex, data as of February 1, 2021.

Measures to prevent the spread of the coronavirus in Russia

Against the backdrop of the stabilization of epidemiological situation, the gradual easing of restrictive measures has emerged. The Ministry of Education and Science has called for the renewal of face-to-face learning in universities and colleges from February 8. In Moscow the requirement to transfer no less than 30% of employees to remote work has become a recommendation; the number of maximum cinema- and theater-goes has been increased as well as

the restriction on work hours of catering business has been lifted together with night clubs work hours after 11PM. Museums, theaters, aqua parks have resumed work and restrictions have been eased on restaurants and cinemas.

Opening of the border went on: Russia resumed flight connections with Finland, Vietnam, India, and Qatar, and from February 8 with Greece and Singapore.

The projections for the situation development

Overall, the projections indicate that Russia passed its “second wave” morbidity peak in late December 2020 and further gradual reduction in the number of new cases (Fig. 8). According to the updated IHME projection¹, including the spread of COVID-19 strains named B.1.1.7 and B.1.351, plunge in mortality is expected by the end of February 2021.

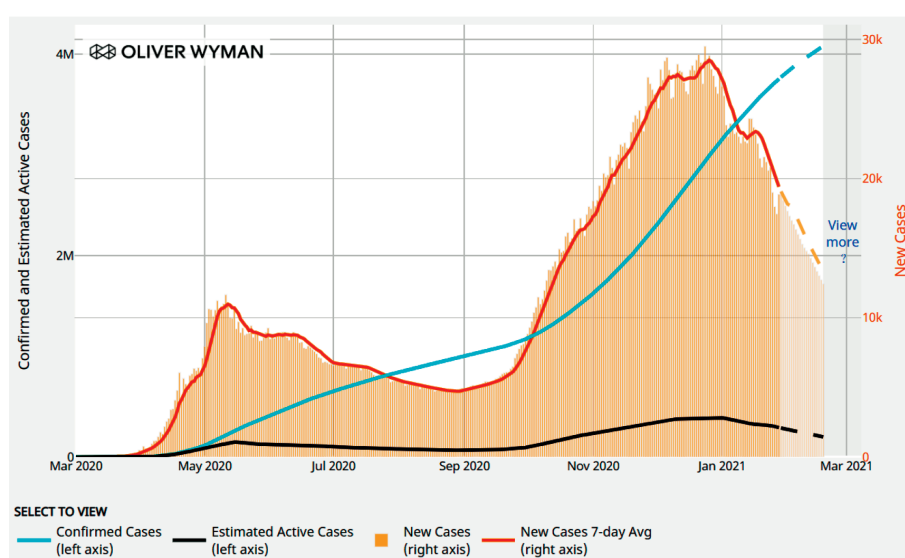


Fig. 8. Morbidity growth estimation in Russia

Source: Johns Hopkins University, January 28, 2021.

As and when the new information on specifics of the new strains is available, one of the main tasks of vaccine producers becomes adaptation of vaccine to new mutations. We can expect a technological race in the months to come where the main criterion for success will be fast vaccine adaptation.

While working out the possible scenarios for the development of the situation and during the vaccination campaign, with due regard for the following factors:

1. the potential and prospects for ramping up the vaccine roll out and its distribution across regions;
2. diffusion and spread of new strains on the territory of Russia²;
3. vaccination efficacy in term of the formation of post-vaccinal immune response and the length of immunity in the population (with due regard for virus strains). ▀

¹ URL: <https://tinyurl.com/y47sbc5y>.

² In Britain strain B.1.1.7 dominates, in South Africa strain B.1.351 accounts for over 90% of new coronavirus cases.

2. BALANCE OF PAYMENTS: RESULTS OF 2020

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In 2020, Russia's export balance of trade plunged against 2019 on the back of decrease in exports value amid slight decline in imports. Current account balance remained positive in spite of a blend of most adverse factors. In 2020, net outflow of private capital doubled compared to 2019. Decrease of banks' and other sectors foreign liabilities in the wake of geopolitical risks, falling interest of investors to emerging markets' assets and growth in global uncertainty have played the key role. This led to ruble to dollar exchange rate to drop by 19.3% in 2020 hitting Rb73.9 to 1 USD.

According to the Bank of Russia preliminary data on balance of payments for 2020, the current account balance ran at \$ 32.5bn, shedding 50% (down by \$32.4bn in absolute terms) of 2019¹.

The balance of trade in goods reached \$89,4bn, slashing 46% (down by \$76bn in absolute terms) from 2019 (\$165.3bn) (Fig. 1). The major contribution came from decreased exports down by 22% in value terms (down by \$90bn in absolute terms) from \$419.9bn in 2019 to \$329.5bn in 2020. Firstly, the plunge was due to a decrease in the average annual export price on crude oil, petroleum products, natural gas, metals, and other basic commodities of Russian export (Table 1). This being said, prices on some basic commodities of Russian export have even grown: this is true of grain, timber and vegetable oil, however the general picture remains the same.

Table 1

Change in prices on basic commodities of Russian export in 2020 against 2019

Commodity group	Share of commodity group in exports, %	Average export price, \$/t		Price change, %
		January-November 2020	January-November 2019	
Crude oil	22,0	301	454	-33.6
Petroleum products	13,5	321	471	-31.9
Natural gas*	7,3	123	190	-34.9
Ferrous metals	4,7	399	449	-11.3
Hard coal	3,7	63	78	-19.5
Wheat and meslin	2,3	209	201	+4.1
Natural liquefied gas**	2,1	99	124	-19.7
Mineral fertilizers	2,1	203	246	-17.4
Timber	1,3	231	227	+1.9
Aluminium	1,3	1573	1691	-7.0
Copper	1,3	5773	5900	-2.2
Fresh and frozen fish	0,9	1645	1825	-9.9
Vegetable oil	0,8	743	708	+4.9
Iron stone	0,6	75	97	-23.1

1 A. Bozhechkova, P. Trunin. Balance of payments in 2019 // Russian Economic Developments. 2019. Vol. 27. No. 3. P. 9–12.

Monitoring of Russia's Economic Outlook

Commodity group	Share of commodity group in exports, %	Average export price, \$/t		Price change, %
		January-November 2020	January-November 2019	
Nickel	0,5	13119	13696	-4.2
Synthetic rubber	0,4	1261	1596	-20.9

* Prices are in USD/ billion m³

** Price is in USD/thousand m³

Sources: FCS, own calculations.

Gradual decrease (both in absolute and in relative terms) of imports that fell over 2020 by 5.7% (down by \$14.5bn in absolute terms) from \$254.67bn in 2019 to \$240.1bn in 2020 contributed to a deterioration in the balance of trade in goods amid falling exports. Decrease of goods imports was driven first of all by the ruble's depreciation: according to the bank of Russia's data the index for ruble's real effective exchange rate against the dollar in 2020 fell by 7.8% relative to 2019¹.

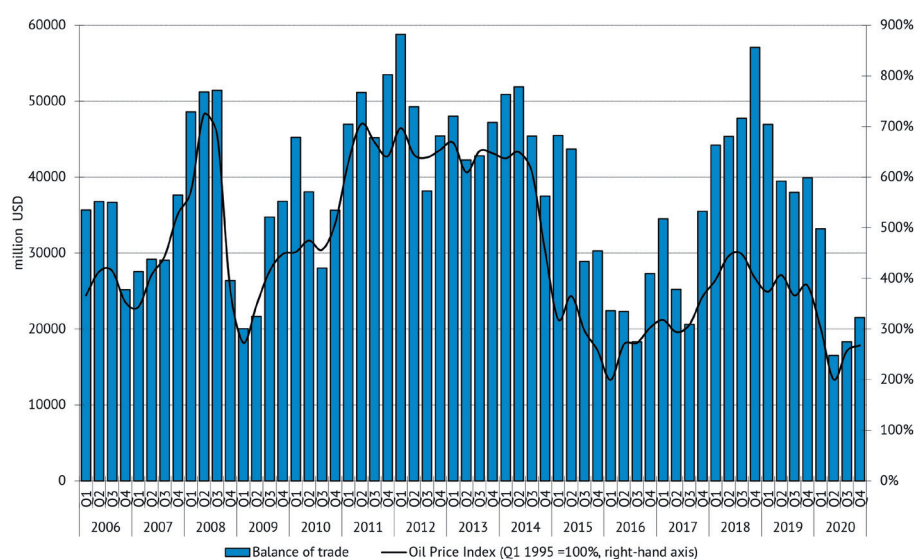


Fig. 1. Balance of trade and the oil price dynamic

Sources: Bank of Russia, IMF.

The deterioration of the balance of trade in goods was partly offset by a significant improvement in the *balance of trade in services* that in 2020 recorded -\$18.3bn, down by 50% in absolute terms against the same index in 2019 (-\$36.7bn). Having said that, exports fell by 28% (by \$5.7bn in absolute terms from \$61.9bn to \$44.5bn on the back of falling trips to Russia and decline in transportation services), while imports of services (mainly due to Russian citizens' trips abroad) decreased by 36% from \$98.7bn to \$62.8bn.

Both the *investment income balance* and the *compensation of employees balance* also underwent serious changes in 2020. The former gained \$19.5bn (from -\$50bn to -\$30bn) mainly owing to a reduction in income payable (repatriation of investment income) by \$32.3bn coupled with a more moderate decline in income receivable (by \$12.9bn), and the latter – by \$1.9bn (from \$3.6bn to -1.7bn).

Thus, 2020 has again proved out that the current account balance of the Russian Federation is immune from serious declines or moreover from going

1 The impact of exchange rate dynamic on trade see: A. Knobel, A. Firanchuk. Russia's Foreign Trade in January-August 2017 // Russian Economic Developments. 2017. Vol. 24. No. 11. P. 12–18.

2. Balance of payments: results of 2020

into the red zone because national currency depreciation due to a reduction in prices on the basic commodities of the Russian export entails contraction of negative balance of both trade in services and factor incomes (capital and labor). However, closure of the borders in 2020 and practically total termination of trips abroad of Russian tourists resulted in a less significant ruble's depreciation and in keeping the positive current account balance.

In 2020, financial account deficit hit \$49.9bn meanwhile in 2019 a surplus was observed to the tune of \$3.9bn. A net capital outflow was mainly driven by a reduction in foreign financial liabilities amounting to \$43.1bn over 2020 (foreign financial liabilities went up by \$28.7bn over 2019) and by an uptick in foreign financial assets (\$6.8bn over 2020 against \$24.8bn over 2019).

Reduction in liabilities before non-residents was due to transactions both of the banking sector and other sectors, which constituted in 2020 -\$25.8bn and -\$20.3bn, respectively (-\$19.8bn and +\$25.2bn). Foreign portfolio investments have contracted by \$14.1bn (-\$6.2bn in 2019); other liabilities before non-residents have gone up barely by \$0.7bn (\$6.7bn in 2019). Foreign direct investments went up by \$1.4bn over 2020 (\$28.9bn in 2019).

Liabilities of federal agencies of state administration before non-residents at 2020 year-end increased by \$3.9bn (\$22.0bn in 2019). According to data as of early December 2020, the share of non-residents on OFZ market decreased to 23.7% meanwhile it constituted 32.2% at the beginning of the year. Contraction of foreign liabilities was apparently due to a high uncertainty of the prospects of world and Russian economies development: Russian and foreign economic agents are less enthusiastic regarding raising non-residents funds into Russian holdings.

Russian residents' foreign assets growth was due mainly to the non-bank sector operations. For example, during 2020 foreign assets of other sectors increased by \$13.9bn (in 2019 their growth hit \$26.5bn). The non-bank sector's assets growth was owing to an increase in outbound direct investments (\$6.3bn in 2020 against \$22.6bn in 2019), the outbound portfolio investments (\$10.2bn in 2020 against \$2.3bn in 2019), and to trade loans and credits (\$7.9bn in 2020 against \$9.6bn in 2019). Banks' foreign assets decreased by \$7.9bn (-\$2.1bn in 2019). Foreign holdings of federal agencies of state administration went up by \$0.9bn (up by \$0.5bn in 2019).

As a result, net capital outflow of the private sector in 2020 spiked and hit \$47.8bn (\$22.1bn in 2019) (*Fig. 2*). This being said, net capital outflow in the banking sector in 2020 reached \$17.9bn that is on a par with the 2019 level when this index came to \$17.7bn. Net-outflow in non-bank sector has spiked and reached \$30.0bn against \$4.3bn in 2019.

Excess of capital outflow on financial account over positive current account balance was offset by a reduction in international reserves to the tune of \$13.8bn (+\$66.5bn in 2019). Reduction in foreign currency reserves was due to the sale of foreign currency by the Bank of Russia from March 2020 in the framework of the fiscal rule due to the plunge of the oil price below the cut price. On the whole, The Finance Ministry of Russia sold on the domestic foreign currency market around \$22.7bn over 2020, including for covering the purchase by the government of Sberbank and Aeroflot shares. It should be noted that in August-September 2020, Russia's Central Bank carried out mutual settlement of then unsold foreign currency on the Sberbank deal with all deferred from 2018 currency purchases and preemptive sales. Those operations balance constituted

Monitoring of Russia's Economic Outlook

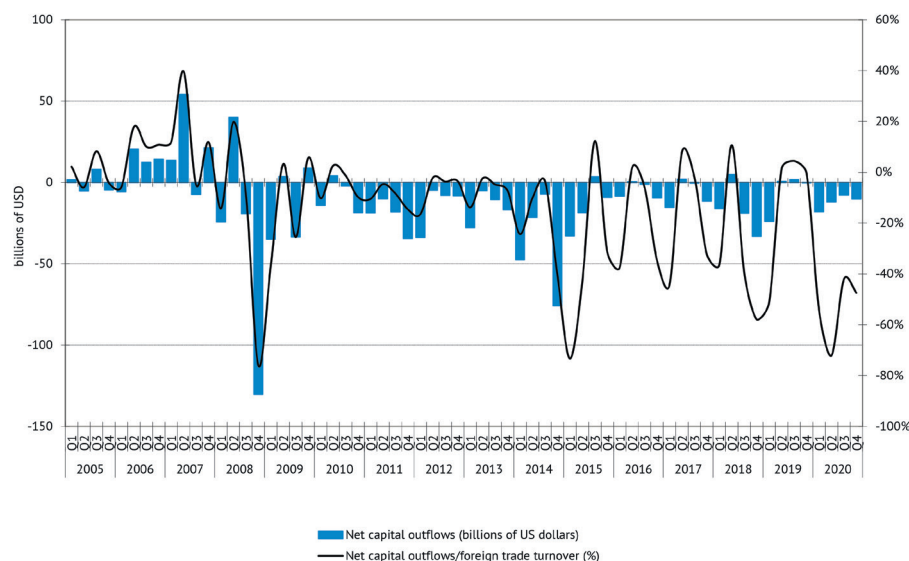


Fig. 2. Private sector's net capital outflow in 2005–2020.

Sources: Bank of Russia, Gaidar Institute calculations.

around \$2.4bn. The regulator gradually sold that amount of foreign currency in addition to regular operations within the fiscal rule in the course of Q4 2020.

During 2020, ruble's exchange rate to the dollar dropped by 19.3% to Rb73.9/\$1. First stage of ruble's depreciation happened in March 2020 (16%) and was mainly caused by plummeting oil prices. Ruble's second plunge was observed in September 2020 (6.8%). It was mainly due to geopolitical risks as well as falling attractiveness of Russian OFZ for non-residents in the wake of decreasing key rate and evaporating investors' interest to emerging markets assets against the backdrop of global uncertainty. In November-December 2020, ruble appreciated by 6.9% relative to October 2020 on the heels of improving terms of trade. At the end of 2020, fundamentally justified ruble exchange rate constituted 68-69 to the dollar, which demonstrates that the ruble remains underestimated by 7–9%¹. According to our estimates, ruble can appreciate to that level solely given the absence of new economic and geopolitical risks. ▀

¹ For more detail see: A. Bozhechkova, S. Sinelnikov-Murylev, P. Trunin. Factors of Ruble's Exchange Rate Dynamic in 2000s and 2010s. *Voprosy Ekonomiki*. 2020. No. 8. P. 1–18. To note, On January 12, 2020, The Economist released next estimates of its Big-Mack index where traditionally ruble is heavily underestimated which also despite a relative cheap services and non-tradables in Russia demonstrates geopolitical premium in ruble's exchange rate.

3. INDUSTRIAL PRODUCTION DYNAMICS IN Q4 2020

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Based on the Q4 2020 results, industrial production outturns increased mainly on the back of extractive industries, particularly, owing to export coal supplies to China and Europe. In manufacturing, output growth still prevails in food, textile and chemical industries.

In Q3 2020, the analysis of trend components of production indices across industrial sectors provided no justification of recovery after the coronavirus infection-driven slump: extractive industries and a portion of the manufacturing sector saw near-zero growth rates and a small uptick, respectively.¹

Based on the up-to-date statistics published by the Rosstat, the Gaidar Institute's experts carried out decomposing and picked out the trend component of production in industrial sectors.² The overall findings of processing of a number of industrial production indices are presented in *Fig. 1* where the trend component's pickup based on the Q2 2020 results can be seen. Extractive industries' trend component was picking up, too.³ The manufacturing sector and production and distribution of electricity, gas and water saw near-zero growth rates (*Fig. 2*).

The factors related to fulfillment of the terms of the OPEC+ deal on reduction of daily oil production kept producing an adverse impact on extractive industries.⁴ Growth in external demand for Russian coal on the part of China (over the ban on Australian coal imports from November 2020⁵) and Europe (owing to a dramatic appreciation of prices of natural gas and reduction in own production volumes), as well as gradual easing of limitations related to the OPEC+ deal had a positive effect on this sector in Q4 2020.

In the manufacturing sector, based on the Q4 2020 results medical equipment manufacturing, food industry, textile and garment industry and furniture

1 A.S. Kaukin, E.M. Miller. Industrial Production Dynamics in Q3 2020 // The Ekonomicheskoe Razvitiye (Economic Development). Issue No. 11(27). P. 28–32.

2 To justify clearly that negative trends in some industries have prevailed or been overcome, it is necessary to carry out decomposing of output into calendar, seasonal, sporadic and trend components; the interpretation of the latter is of substantial interest. The trend component is singled out by means of the Demetra package with X12-ARIMA procedure applied. The authors express gratitude to M. Turuntseva and T. Gorshkova for their assistance in statistical analysis.

3 It is noteworthy that in April 2020 a structural shift is evident in the extractive industry's dynamics and reflected in the overall industrial production index. This shift can be explained by the overlapping of shrinkage of global demand for energy commodities and the break-up of the OPEC+ deal which triggered off the collapse of global prices of oil. For more details, see A.S. Kaukin, E.M. Miller. The Global Oil Market in May-August 2020 // Russia's Economic Development. 2020. Issue No. 10(27). P. 34–38.

4 A.S. Kaukin, E.M. Miller. The Oil Market Late in 2020 // Russia's Economic Development. 2021. Issue № 1 (28). P. 7–10.

5 On November 6, the Chinese authorities declared the suspension of coal imports from Australia; the official embargo became effective from December 14, 2020. The conflict between both the countries started in August 2018 because of the obstacles Chinese-produced 5G technologies faced in the Australian market, that is, a ban on utilization of Huawei's and ZTE's telecommunication solutions. The escalation of the conflict took place after Australia accused China of spreading the coronavirus.

industry were showing growth. The main growth drivers were import substitution, particularly, owing to consumer demand's shifting to a lower price segment.

In chemical industry, a vast product range was instrumental in facilitating output growth: in low-tonnage chemistry it was driven by import substitution and re-orientation of some enterprises to antiseptics production and oxygen supplies to medical institutions; in large tonnage chemistry, by implementation of modernization programs, higher production capacities and quick re-orientation of manufacturing processes to a non-stop mode which had a favorable impact on growth in related industries, for example, manufacturing of rubber and plastic articles.¹

Q4 2020 saw negative dynamics in leather, leather articles and footwear manufacturing on the back of a drop in demand for leather on the part of external consumers and the domestic market. The anti-COVID measures triggered the suspension of production capacities in countries which were consumers of Russian leather products and consequently brought about a drop in this commodity group's exports. With domestic demand shrinking following a decrease in consumers' incomes, consumers reduced purchases of related industries' products (car and furniture manufacturing) and switched over to buying lower price segment products (man-made material products). Also, an important factor affecting the industry's manufacturing process is the quality of raw feedstock (rawhide): during the shutdown leather- and leather goods-producing enterprises did not work, while the main leather supplier – the meat industry – kept operating and consequently increased rawhide stockpiles which had to be shelved and this could not but compromise the quality.

Apart from that, based on the Q4 2020 results the pulp-and-paper industry's trend component turned out to be negative, particularly, on the back of contraction of packaging consumption amid suspension of manufacturing processes in

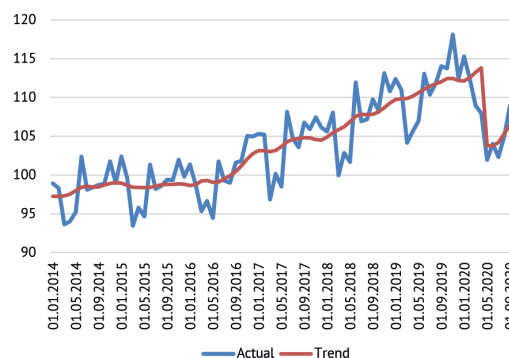


Fig. 1. Dynamics of the industrial production index in 2014–2020 (actual data and trend component), % change relative to the 2016 average annual value

Source: The Rosstat, own calculations.

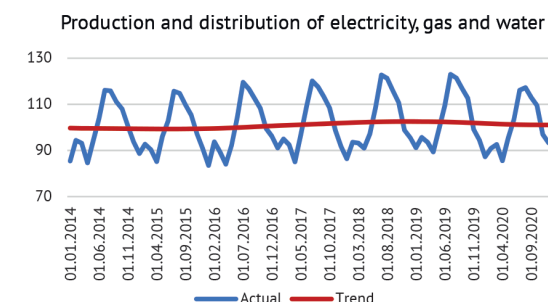
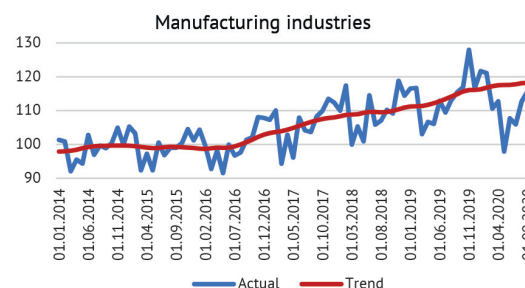
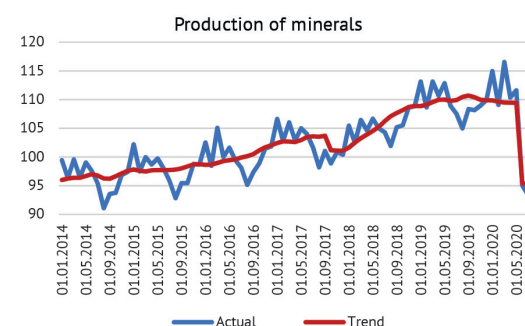


Fig. 2. Production indices' dynamics across sectors in 2014–2020 (actual data and trend component), % change relative to the 2016 annual average value

Source: The Rosstat, own calculations.

1 See, for example, The Russian Chemical Industry Survey – 2020 // The Deloitte CIS Research Center. 2020. URL: <https://www2.deloitte.com/content/dam/Deloitte/ru/Documents/manufacturing/russian/obzor-rynka-himicheskoy-promyshlennosti-2020.pdf> and IPEM indices. The Russian Industry Monitoring // IPEM. 20.01.2021. URL: http://ipem.ru/files/files/index_archive/20210120_index_dec2020.pdf.

3. Industrial Production Dynamics in Q4 2020

some industries and the services sector, as well as reduction in demand for various types of bank paper as main consumers switched over to remote work and consequently to electronic document flow.

The retail trade and fee-based services to households saw negative dynamics because of a drop in households' real disposable incomes. After being negative, cargo turnover's trend component dynamic picked up a little following an increase in exports of coal and fertilizers. The wholesale trade showed a slight uptick based on the Q4 2020 results owing to sales of grain, medicine and chemical fertilizers.

The analysis has revealed that slump in the Russian industry was relatively small (Table 1). This can be substantiated by the following factors:

- large industry-leading and strategically important enterprises are directly related with the state via the state-guaranteed order system or by virtue of their ownership pattern; consequently, for such enterprises consumer demand contraction is not a big problem as for SME;
- Russian industries' weak involvement into global value-added chains (except for production of fuel and energy commodities) during global downturns yields a positive effect (however, in the longer-term this factor may slow down development during the global economic recovery);
- in industry, non-stop operating enterprises, even in case of epidemiological restrictions being introduced in respect of other companies, account for a substantial share in the pattern of the Russian economy.

Table 1

Output index change across economic sectors, %

Name of sector	Share in industrial production index	September 2020 on June 2020	September 2020 on September 2019	Last months' changes
Industrial production index		104.63	96.77	growth
Extraction of minerals	34.54	105.85	91.89	growth
Manufacturing, including:	54.91	100.79	102.09	stagnation
Production of food products, including beverages and tobacco	16.34	104.93	110.21	growth
Textile and garment industry	1.14	108.05	118.70	growth
Manufacturing of leather, articles thereof and footwear	0.27	95.05	95.60	decline
Wood processing and woodware manufacturing	2.02	103.44	108.78	stagnation
Pulp-and-paper industry	3.35	89.27	77.40	decline
Production of charred coal and petrochemicals	17.25	102.03	92.70	slow growth
Chemical industry	7.56	106.75	120.56	growth
Manufacturing of rubber and plastic articles	2.14	107.42	110.59	growth
Manufacturing of nonmetallic mineral products	4.02	100.94	102.73	stagnation
Metallurgy and manufacturing of ready-made fabricated metal products	17.42	109.25	121.80	growth
Manufacturing of machinery and equipment	6.97	106.55	109.47	growth
Manufacturing of electrical, electronic and optical equipment	6.27	100.66	103.05	stagnation
Manufacturing of transport vehicles and equipment	6.75	109.12	111.22	growth
Other industries	2.42	118.79	112.57	stagnation
Electricity, gas and water supply	13.51	99.83	99.24	stagnation
Wholesale trade		101.93	102.06	slow growth
Retail trade		97.02	100.67	decline
Cargo turnover		101.32	96.95	slow growth
Building		100.04	99.68	stagnation
Volumes of fee-based services to households		99.66	92.53	slow growth

Source: The Rosstat, own calculations. 

4. RUSSIAN INDUSTRIAL SECTOR IN DECEMBER 2020

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Continued demand growth amid increasing shortage of finished goods inventories allowed Russian industry to maintain the output growth at the end of the year. Rather stable and planned recruiting of personnel coupled with a downward trend in investment pessimism allow to discuss the future industrial indexes with cautious optimism.

In December, the balance of demand changes (growth rate) following seasonal factors adjustment went up by another 2 points and reached values that have not been registered by business surveys since 2010. Consequently, demand for Russian industrial products continued recovering following a pause seen in August-October when consumers were expecting authorities' reaction to a spike in morbidity. However, Russian industrial sector demonstrated a decline in sales projections for the first months of 2021. In December, balance of expectations plunged by 31 points down to the pessimistic level seen in April 2020. Indicator's slide seen in 2020 was the continuation of the downward trend that emerged as far back as 2018.

Average annual balances of demand change demonstrate that the crisis reduction in 2018. Then, the industrial sector failed to continue exiting from stagnation of 2012–2016 and was dragged into stagnation period discontinued by the virus crisis of 2020. The average annual estimates of domestic demand confirm the 2012–2016 period to be a stagnation one for the industry exiting from which commenced in 2017 and later been dragged into a new stagnation period. Following an obvious satisfaction with sales growth in 2017, the share of normal estimates declined by 3 points in 2018–2020 plus another 5 downward points in recession year 2020. However, 5 downward point recorded in 2020 significantly differ from the indicator's decline by 14 points seen in 2008 and by 27 points posted in 2009. Over the recession year 2015, the share of normal demand estimates (52%) was recorded against the backdrop of official non-crisis year 2014.

The balance of finished goods inventories began sliding in April 2020 from August was in the negative zone and by December plunged to -13 points. Business surveys did not record such excess of response "below normal" over "above normal" for already 20 years since December 2000.

Demand growth coupled with growing lack of inventories of finished goods allowed the industrial sector to keep output growth in December. The balance (growth rate) of actual production changes remained positive (growth month-on-month) and increased by 5 points (according to firms' estimates growth surged). However, December output plans lost optimism which was gained in

4. Russian Industrial Sector in December 2020

May-November 2020. The balance of expected output changes declined to +1 point. Business surveys registered worse expectations solely in April 2020.

Despite pessimistic expectation regarding the beginning of 2021, long-term personnel issues make Russian industry to recruit personnel. In December 2020, the balance of actual headcount changes demonstrated a surge, which was lacking for many years already. Industrial jobs are becoming appealing. This fact spared the industrial sector from the outflow of personnel common for December. Rapid recovery of personnel recruitment maintained the annual balance of headcount changes in Russian industry from collapse.

In December, the recovery of investment optimism following the pause seen in September-October went on. The balance increase by another 14 points and hit the highest values since the outbreak of pandemic. However, it remained in “minus”, i.e. plans of investment decline in Russian industry still outnumber plans of investment growth. In this context, it is more correct to speak about the reduction in investment pessimism then about growth of investment optimism.

The reported in September-November decline of estimates of industrial loans accessibility as being “normal” terminated. In December this indicator went up by 2 p.p. and hit 62%. The highest value in 2020 was registered in February and stood at 73%. 