

MONITORING OF RUSSIA'S ECONOMIC OUTLOOK:

TRENDS AND CHALLENGES OF SOCIO-ECONOMIC DEVELOPMENT

No. 16(118) October 2020

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Monitoring of Russia's Economic Outlook

Monitoring has been written by experts of Gaidar Institute for Economic Policy (Gaidar Institute), Russian Presidential Academy of National Economy and Public Administration (RANEPA).

Editorial board: Sergey Drobyshevsky, Vladimir Mau, and Sergey Sinelnikov-Murylev.

Editor: Vladimir Gurevich.



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1. SEPTEMBER 2020: COVID-19 IN RUSSIA AND AROUND THE WORLD

Yuri Ponomarev, Candidate of Economic Sciences, Head of the Center for Infrastructural and Spatial Research, IAES, RANEPa; Senior researcher, Center for Real Sector, the Gaidar Institute;

Andrey Makarov, Researcher, Center for Infrastructural and Spatial Research, IAES, RANEPa;

Daria Radchenko, Junior researcher, Center for Infrastructural and Spatial Research, IAES, RANEPa;

Ksenia Borzykh, Junior researcher, Center for Infrastructural and Spatial Research, IAES, RANEPa

Over the course of September, many countries around the world, Russia including, were hit by the second wave of the coronavirus pandemic; simultaneously, the discussion of the necessity to renew the lockdown measures was resumed. The situation in this country is characterized by a significantly accelerating spread of the coronavirus – by the end of September, the number of cases approached the levels of May 2020.

The current situation with the spread of COVID-19 in the world

According to Worldometers data, as of October 1, 2020, the number of COVID-19 cases in the world climbed to about 34.1mn (25.7mn as of September 1, 2020), while the number of deaths passed the psychological threshold of 1mn (by September 1, 2020 – 856 000). In total, there were over 7.7mn current coronavirus cases around the world, and around 25.4mn had recovered. Over September, there were days when more than 300 000 new cases were recorded, and sometimes more than 360 000 daily, which indicates an acceleration in the course of the pandemic.

In India, the coronavirus infection is now growing at the fastest rate in the world (in September, India was 2nd in the world by the number of cases), followed by the USA, Latin America and the Caribbean (Brazil, Argentina, Colombia). Meanwhile, the incidence rate in the European countries has likewise increased significantly. The highest surge was noted, for example, in France (12 845 new confirmed cases in a single day, September 30), Spain (11 016), and the UK (7 108). Rising rates by the end of September were recorded in Israel and Russia, the latter remaining 4th in the world by the total number of cases: as of October 1, that index jumped above 1.176mn. More than half of all new cases (similarly to the situation in September) are now being registered in three countries: India, the USA, and Brazil.

According to MIT experts,¹ the values for R_t , a key measure of how fast the virus is growing, have risen significantly in many countries since the end of August, primarily due to a surge in social contacts (among other things, through the resumption of tourist trips, office work, and attendance at education settings).

In September, the reports on the rising second wave of the coronavirus pandemic began to appear everywhere. The onset of the second wave was officially announced in ten EU states, including France, the UK, Austria, Spain, Poland, and the Netherlands. The government of the Czech Republic was among

1 URL: <https://covid19-projections.com/infections-tracker/>.

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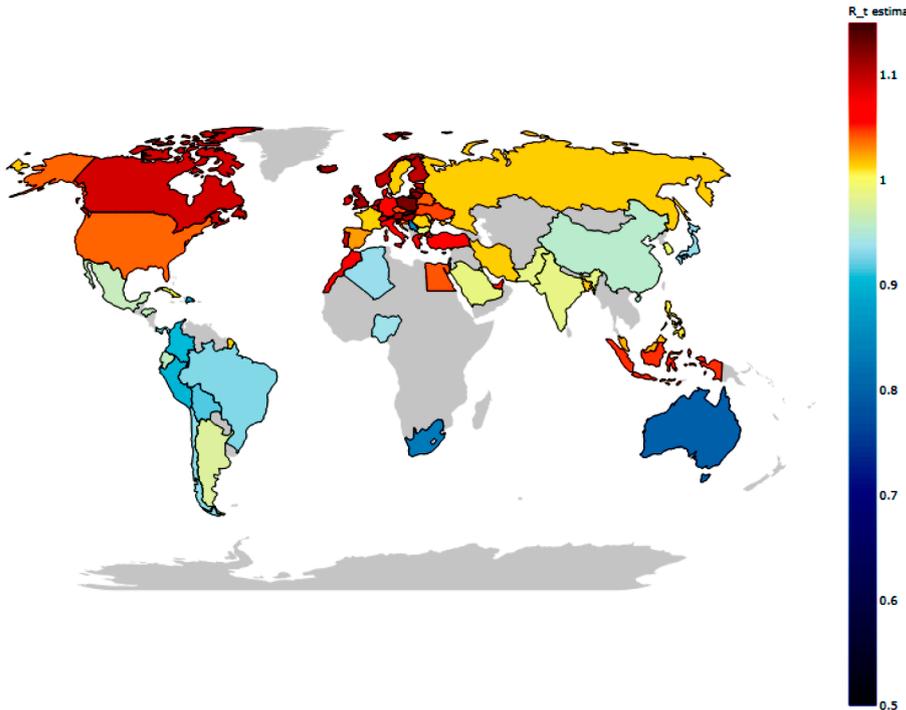


Fig. 1. The R_t estimates as of September 29, 2020

Source: MIT.

Note. The horizontal axis shows the number of days since daily 30 cases were registered in a given country; the color scale (right-hand side) shows the relative share of positive coronavirus tests.

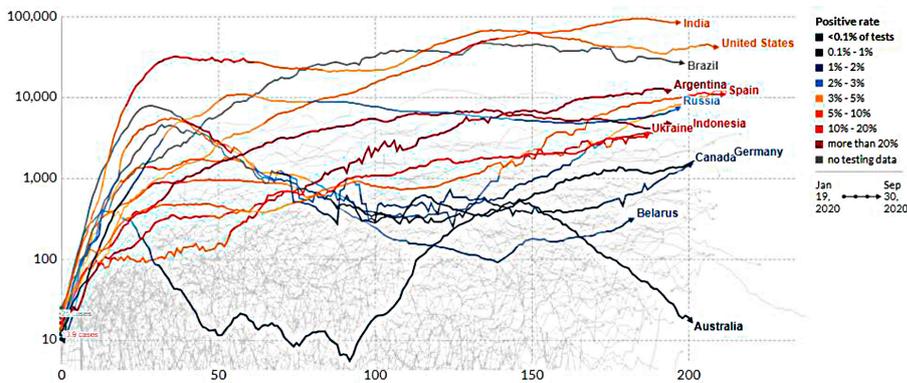


Fig. 2. The new case trajectories (logarithmic scale)

Source: ECDC.

the first to recognize the arrival of a second wave of the coronavirus, when that country, along with Albania, Bulgaria, North Macedonia and Montenegro, once again saw a one-day record high of new cases since the beginning of the year. In 21 states across the USA, the daily number of new cases continued to be on the rise, and in 18 states, that index had remained stable. The decision to extend the lockdown until 2021 was adopted by the Armenian government. Israel maintains one of the strictest lockdown regimes, including a ban on moving more than 1 km from the place of residence. At the same time, the lockdown

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runs contrary to the citizen rights to participate in social life, and so rallies and religious festivals are allowed in Israel.¹

In Jordan, in response to outbreaks of the coronavirus infection, schools, mosques, restaurants and street markets were closed once again for up to two weeks from September 17. In the UK, the containment measures were extended to six months. In addition, a fine of up to £10 000 was imposed on the violators of the lockdown regime with a confirmed coronavirus diagnosis or a confirmed contact with a coronavirus patient. New measures designed to control the growth of new cases were also introduced in Spain, Italy, the Netherlands and France, in particular restrictions on the operation and operating hours of public places (parks, beaches, recreational areas) and entertainment facilities (restaurants, bars), as well as on the number of participants in mass events.

During September, the daily number of coronavirus deaths remained high, on average in the range of 3 500–6 300. India continued to top the list (1 179 deaths in a single day, September 30), followed by some Latin American and Caribbean states (952 in Brazil; 560 in Mexico; 418 in Argentina) and the USA (928). Overall, these countries account for about 66.3% of total death cases (Fig 3). In Russia, the mortality rate remains at a relatively low level (about 1.8%).

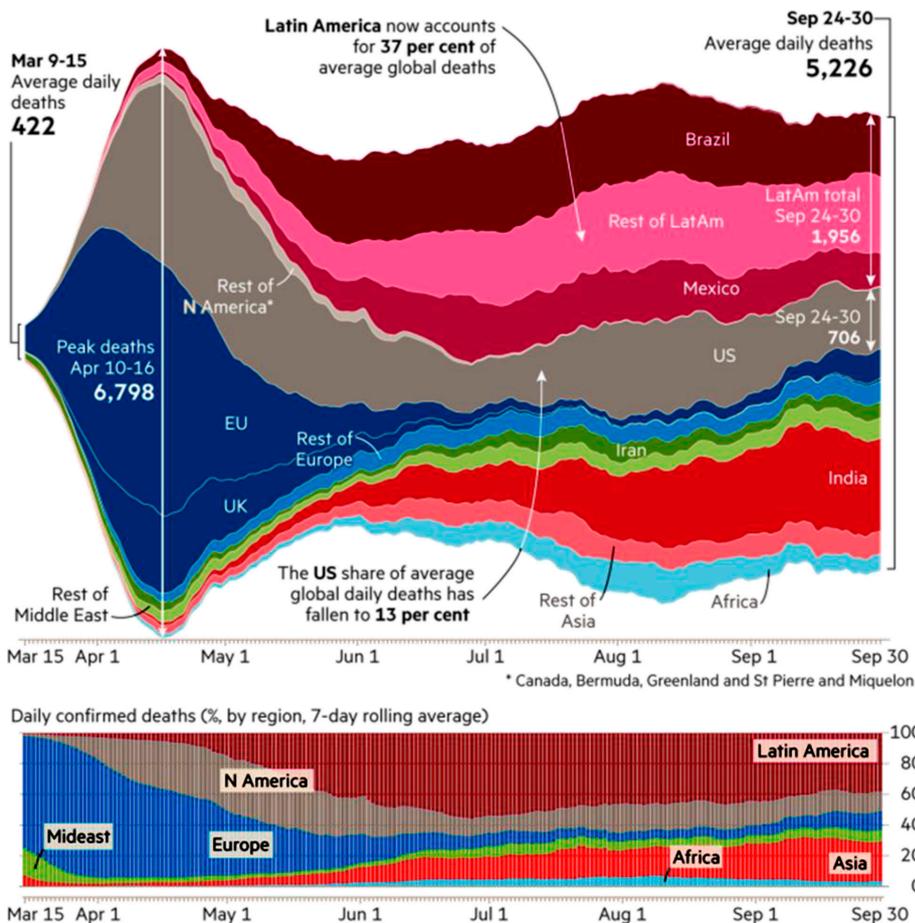


Fig. 3. The daily number of deaths, by country and region, around the world (as of September 30, 2020)

Source: Financial Times.

1 URL: <https://www.kommersant.ru/doc/4499766>.

The current situation with the spread of COVID-19 in Russia

As of September 30, 2020, a total of 1 176 286 coronavirus cases were registered in Russia (i.e., the increase in September amounts to 17.6%) (Fig. 5–6).

While in late August the second wave was only expected in Russia, a month later the expectations came true. This is indicated by the following facts:

- the number of new cases in this country is approaching record high values (if Moscow's coronavirus statistics are excluded from the calculation, that index has surged above the May level), and the growth rate of tests cannot fully account for this trend;
- according to Rospotrebnadzor data on the number of coronavirus cases under supervision, the incidence surge occurred in mid-September;
- record high numbers of new cases have been observed in the Altai Republic, Kemerovo Oblast, the Republic of Udmurtia, the Republic of Crimea, and Stavropol Krai, as well as in the RF subjects belonging to the Southern Federal District (Fig. 4);
- The number of officially confirmed cases (i.e., those with a positive polymerase chain reaction (PCR) test, less the number of deaths caused directly by the coronavirus and the number of those discharged from hospitals) is peaking in an increasing number of regions.

Representatives of the healthcare system attribute up to 85% of cases to the neglect of personal protection measures, and to the attendance of mass events and crowded places. In September, due to the rising number of cases, the burden on the healthcare system, as well as the hospital bed occupancy rate, increased: as of September 28, the relative share of free hospital beds was 31%.¹

In order to enforce increased social discipline in terms of compliance with the precautionary measures in public places in the city of Moscow, face mask enforcement at retail trade shops and transport infrastructure facilities has been tightened,² and an early start of an extended vacation in schools was announced. Regional and local authorities have also been issuing recommendations concerning the lockdown regime and remote work format. In Moscow over the period from September 28 to October 28, the people over the age of 65 and those with chronic diseases are advised to minimize their social contacts and stay at home. Not less than 30% (and recommended up to 50%) of the employees of Moscow's enterprises and organizations are required to switch over to remote work. In its turn, Kaliningrad Oblast imposed a ban on the operation on weekends of movie theaters, and the operation of children's playrooms and restaurants (banquets and corporate parties) is limited.³

Measures to prevent the spread of the coronavirus in Russia

The priority tasks, by way of countering the pandemic in Russia, are to control the spread of the coronavirus infection and prevent the resumption of a strict lockdown and containment measures that destabilize the economy.⁴ In September, the number of regions that had entered the final phases of their exit from the lockdown was increasing; compared with the previous month, several RF subjects were in the first phase, namely Kostroma, Voronezh, Tver, Kursk and Ivanovo oblasts (Fig. 7). As of September 30, 2020, R_t for the coronavirus infection in Russia stood at 1.18 (as of the start of the month, at 1.04; on average over the past period, at 1.06), which points to a negative trend that emerged

1 URL: <http://kremlin.ru/events/president/news/64111>.

2 URL: <https://www.rbc.ru/society/25/09/2020/5f6d85b39a79474e9f440c3d>.

3 URL: http://www.kinometro.ru/news/show/name/Kaliningrad_closed_again_8835.

4 URL: <http://kremlin.ru/events/president/news/64081>.

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Region	The number of new cases by day	Rt	Infections per		Deaths per	
			Total	100,000 people	Total	100,000 people
Moscow		1.65	292 601	2339,6	5 230	41,8
Moscow Oblast		1.04	73 602	980,9	1 338	17,8
St. Petersburg		1.13	43 021	803,8	2 950	55,1
Nizhny Novgorod Oblast		1.05	32 399	1001,6	578	17,9
Sverdlovsk Oblast		1.09	29 154	674,0	601	13,9
Khanty-Mansi AO		1.07	22 513	1360,2	187	11,3
Rostov Oblast		1.03	21 938	519,8	495	11,7
Krasnoyarsk Krai		1.07	20 001	695,3	551	19,2
Irkutsk Oblast		1.06	19 076	793,4	291	12,1
Voronezh Oblast		1.01	18 006	771,5	183	7,8

Fig. 4. Top 10 regions, by number of cases

Source: Yandex, data as of September 30.

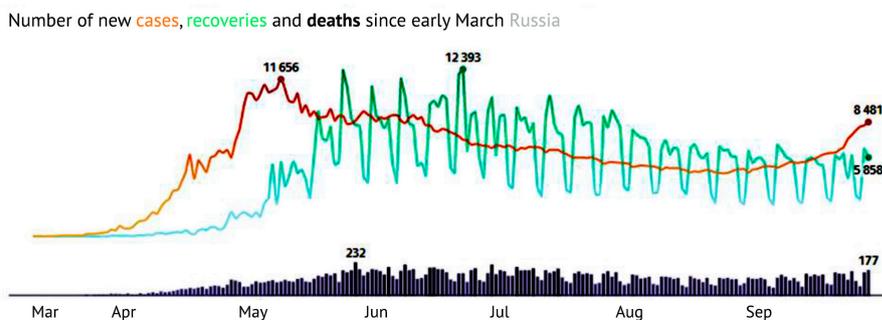


Fig. 5. The number of new cases, recoveries and deaths since early March in Russia

Source: Yandex, data as of September 30.

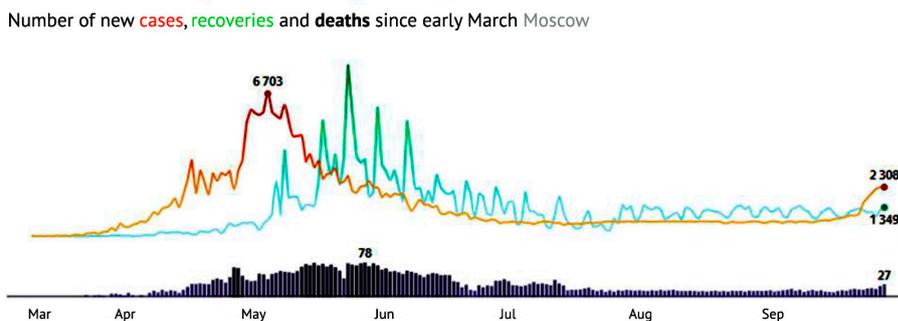


Fig. 6. The number of new cases, recoveries and deaths since early March in Moscow

Source: Yandex, data as of September 30.

in September. Although this indicator on average across Russia is on the rise, that index remains below 1 in 41 RF subjects.¹

In September, the state border continued to be gradually opened, and the geography of international flights expanded significantly: from September 7, air traffic was resumed with Greece (with a weekly limit of not more than

1 URL: <http://kremlin.ru/events/president/news/64111>.

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500 passengers); from September 9, with Egypt; from September 10, with the Republic of South Ossetia; from September 11, with the UAE; from September 10, with the Maldives; from September 21, with Kazakhstan, Kyrgyzstan and Belarus; and from September 27, with South Korea.

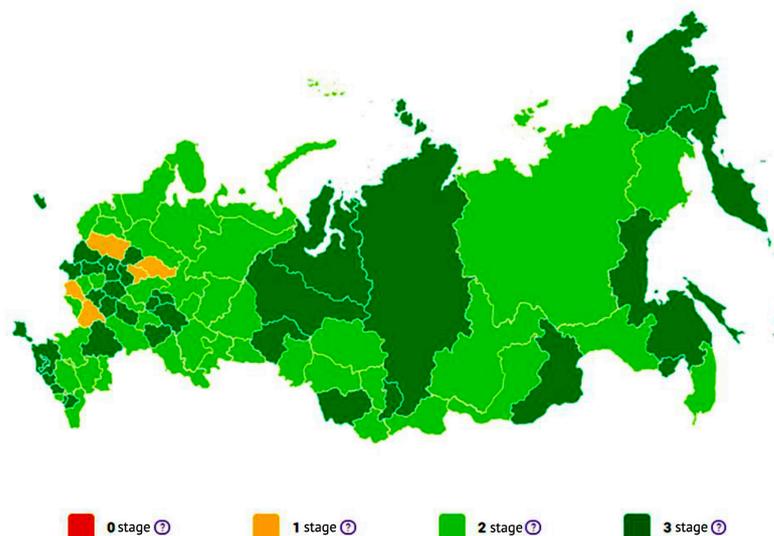


Fig. 7. The map of cancelled containment measures

Source: Стопкоронавирус.рф, September 25, 2020.

In general, the containment measures imposed in Russia are consistent with the measures undertaken in other countries, where the coronavirus infection rates in September increased significantly. Thus, the Russian citizens returning from abroad are obliged to comply with the quarantine measures while waiting for the results of their coronavirus tests.¹ Unlike a number of other countries, Russia has endeavored to curb the spread of the coronavirus without imposing any strict lockdown measures similar to those adopted in the spring of 2020 (Fig. 8).

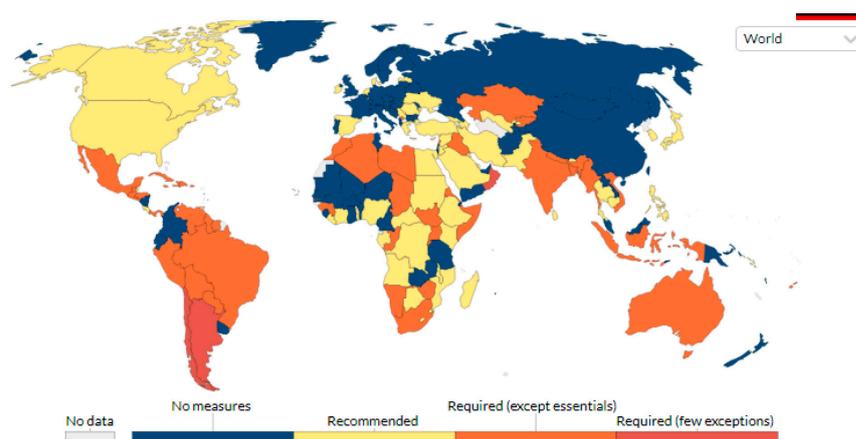


Fig. 8. The lockdown requirements

Source: OurWorldInData, September 30, 2020.

1 URL: <https://rg.ru/2020/09/24/v-rospotrebnadzore-raziasnili-trebovanie-o-karantine-posle-zagranturov.html>.

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The forecasts of further developments

Johns Hopkins University predicts an exponential increase in the number of new cases in Russia over the next two weeks (up to 12 600 daily cases as of October 19).

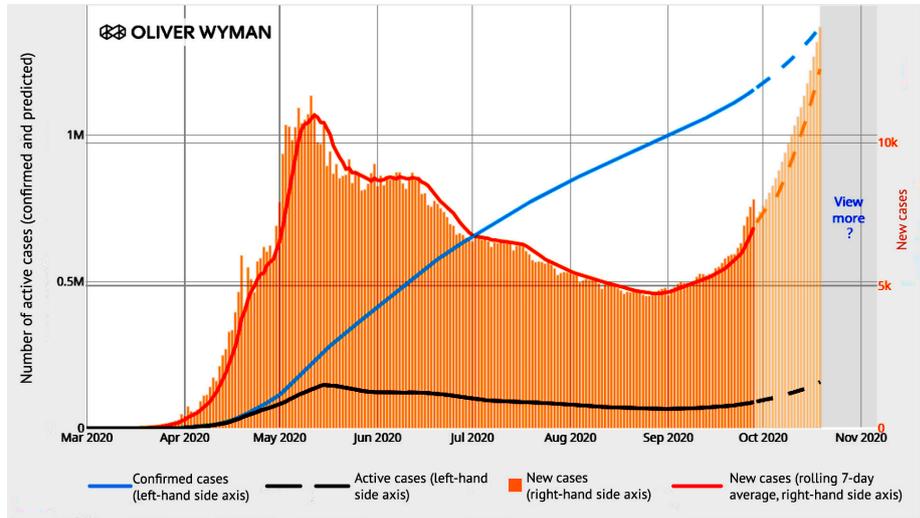


Fig. 9. Forecast of the increase in Covid-19 active cases

Source: MIT, September 28, 2020.

Experts from the Institute for Health Metrics and Evaluation (IHME) at the University of Washington expect that if the current security measures ('weakened regime') are maintained, the onset of an exponential increase in mortality and new cases in Russia will become manifest as early as the second half of October – first half of November (Fig. 9, 10).¹ According to that forecast, by November 1, the required number of intensive care beds may double their current number. IHME experts believe that in case of the introduction of more

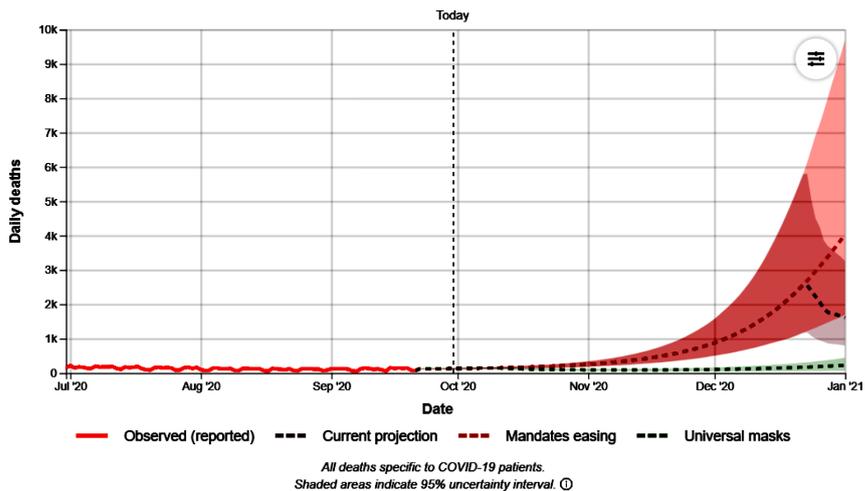


Fig. 10. The daily death increase forecast

Source: IHME, September 30, 2020.

1 URL: <https://covid19.healthdata.org/russian-federation>.

stringent lockdown measures (or stricter control over the enforcement of the currently imposed measures), it can be possible to avoid the dire consequences that will inevitably lead to a resumed lockdown. The IHME model considers three scenarios: the continued easing of the containment measures (non-compliance with the currently imposed measures); the introduction of new containment measures; full-scale control (widespread wearing of face masks, a lockdown).

The further coronavirus spread pattern around the world will be influenced primarily by the onset of the cold season in the northern hemisphere. Other viral diseases are subject to seasonal fluctuations, and become most active during the cold season. Besides, the approaching influenza and SARS season will give rise to a higher incidence of complications, and so the course of the disease can become longer and more severe. Also, the virus is mutating: at present, the G614 mutation is becoming increasingly more common,¹ and this particular type is transmitted much faster than the previous one.²

The number of infections depends on the presence and duration of immunity. The researcher community is considering several scenarios: short-term immunity (~ 40 weeks), with annual outbreaks of COVID-19 (by analogy with influenza and other seasonal diseases); moderate immunity (~ 2 years), which may create the impression that the coronavirus has disappeared, but by 2024 it may return once again; and long-term immunity, when the pandemic will gradually end by 2021–2022 in response to herd immunity. 

1 URL: [https://www.cell.com/cell/pdf/S0092-8674\(20\)30820-5.pdf](https://www.cell.com/cell/pdf/S0092-8674(20)30820-5.pdf).

2 In vitro setting, COVID with G614 mutation infected cell cultures 8 times more often. URL: <https://www.biorxiv.org/content/10.1101/2020.06.20.161323v1>.

2. FINANCIAL RESULTS OF RUSSIAN BANKS IN JANUARY-AUGUST 2020

Sergei Zubov, Candidate of Economic Sciences, Docent, Senior researcher,
Structural Studies Department, IAES, RANEPА

Russia's banking sector as a whole happened to be ready for the current crisis partly owing to the central bank's stabilization policy. Retention of high liquidity level, stepping up the requirements to the quality of banks' products and services by way of setting the Basel standards permitted to raise the banking system sustainability. In the meantime, in the wake of high volatility of financial markets and uncertainty of the pandemic fallout, Russian credit institutions have been forced to markedly adjust policy of the previous years which resulted in a notable decrease in profitability of the Russian banking system compared to the previous year.

Over eight months of 2020, total net-profit of the Russian banking sector hit Rb. 1.15 trillion, however its main volume (around 60%) has been concentrated in three major banks (Sberbank, Alfa-bank, and VTB). This year, the profit indicator has dropped notably (by 15%) compared to that a year earlier (Rb 1.35 trillion).

As of September 1, 2020, Russia boasted of 378 banking credit institutions (402 as of onset of the year), and 268 banks (71% of the overall amount) demonstrated positive financial result in August this year.

Consequently, the impact of pandemic turned out to be rather moderate; so far it has not led to mass bank losses. Nevertheless, at the eight months' end of the current year, the efficiency of bank operations decreased. Decline in cash flows in the banking sector and rise in losses from the pandemic-induced credit risks resulted in fall in profitability. From the onset of the year, the ROE coefficient¹ decreased by around 3 pp. and presently corresponds to 16.2%. Less susceptible ROA indicator² also demonstrated downward trend – from 2.2% on January 1 to 1.8% at August-end. Despite the decline in this indicators, their level still remains rather high against corresponding indicators of banks of the European Union, the USA, and China.

During the pandemic banks have notably ramped up their assets and liabilities. Total bank assets over eight months of the current year went up by 10.5%; over eight months in the previous year this index decreased by 0.5%. Acceleration of growth rates in bank assets and liabilities was mainly due to accommodative monetary policy of the Bank of Russia as well as to currency revaluation of assets.

Owing to the accommodative monetary policy of the Bank of Russia the volume of loans extended to enterprises (non-financial sector) went up over the indicated period by 10.5% (no changes were recorded over the same period

1 Return on equity – capital profitability, a ratio of net profit to assets (capital) of a credit institution.

2 Return on assets – assets profitability, a ratio of net profit to total assets of a credit institution.

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of last year). Retail loans increased by 8% which is slightly lower than last year's index over eight months (increase by 10.9%).

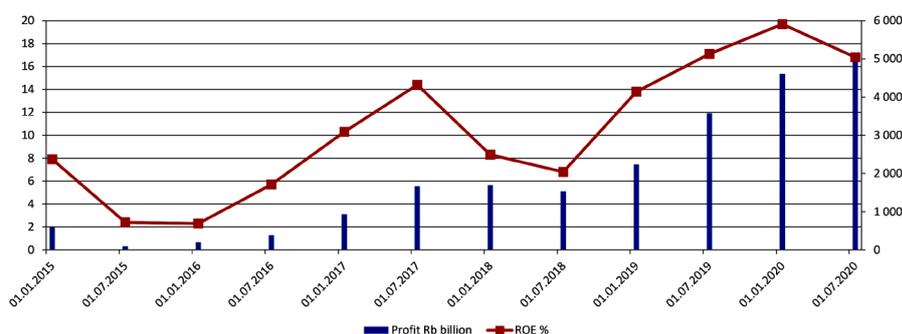


Fig. 1. Dynamics of accumulated profit (right-hand scale) and return on equity (ROE) in 2015–2020

Sources: statistical bulletin of the Bank of Russia for 2015–2020, Review of the banking sector of the Russian Federation (Internet version), cbr.ru website.

Corporate deposits over the period under review went up by 4.0% (over eight months of last year – by 2.6%); retail deposits despite a significant decrease in the interest rates, also exceeded growth rates reported last year; 5.5% against 2.1% for the same period in 2019.

The drop in the interest rates was captured on corporate loans. At H1-end, their value decreased by 2.3% compared to H2 2019. Meanwhile, despite the crisis, banks at H1-end managed to ramp up interest yield on retail loans by 2.1%, that said, the growth rates decreased: at year-end 2019 semi-annual increment came to 6.0%.

On the back of the crisis, dynamics of commission income from loan operations has significantly changed. Upsurge captured at year-end 2019¹ gave way to a drop; commission incomes on corporate loans decreased by 16.2%, on retail loans – by 17.2%. This decline was due to the banks' policy in the wake of the crisis; the Bank of Russia did not apply any restrictive measures regarding levying credit operations amidst the pandemic.

Experts repeatedly pointed at the change in the structure of incomes of the Russian banking sector. Interest payments on extended credits remain the main source of revenues, but their share in recent years has been gradually contracting. In the wake of consistently low inflation and decrease in marginality of banking business due to a fall in rates, commission incomes less dependent on the state of the economy reported growth over prolonged period of time. However, current financial crisis has made its adjustments in trends seen in recent years. Accelerated growth of performing assets, decline in cost of attracted funds and the proportion of non-performing assets resulted in decrease in the share of net commission income in the net operating income from 23.2% in 2019 to 21.8% in H1 2020. The initiative of the regulator applied during the crisis resulted in the fact that free transfers within FSP became mandatory service without which was impossible to retain a client.

On the whole, total commission incomes of banks for H1 2020 decreased by 12.5%. The most significant decrease was captured on incomes from provision of consulting and information services (by 25.2%), from provision of intermediary

1 URL: <https://www.iep.ru/files/RePEc/gai/monreo/monreo-2020-3-1000.pdf>.

2. Financial results of Russian banks in January-August 2020

services on broker and similar contracts (by 21.1%), and from payment and cash services (by 13.7%).

In the context of the ruble's depreciation and growing volatility on the currency market, banks met with feasibility of currency risks. At end-H1, revenues and expenses from operations in foreign currency surged – by 198.5% and 198.9% respectively; the value of these indexes at end-H2 2019 stood at 21.7% and 21.6%. That said, decline in net income on those operations was captured: as of July 1, 2020, reduction came to 13.3% meanwhile at year-end 2019 increase in net income constituted 119.3%. This is mainly due to imbalance in bank currency assets and liabilities (especially this is due to retail loans and deposits).

Amidst the decline in the interest margin and regulatory and supervisory pressure, Russian banks demonstrate falling appetite to risk on credit operations and gradually explore new form of business operations. In the period of the pandemic, lending institutions more energetically offer commission products: legal services, insurance and investment services, asset management, as well as various digital including non-banking products (telemedicine, design projects for dwellings, etc.). In the near future, digital evolution in the banking sector will permit, apparently, to stabilize the profitability rate of lending institutions with simultaneous transformation of income structure in favor of non-interest revenues. General level of banks' profitability will be increasing in proportion to the stabilization of epidemiological and economic situation. 

3. HOUSEHOLDS DEBT FOR HOUSING AND UTILITY SERVICES IN H1 2020: FAMILIAR PATHWAY

Aleksandra Burdyak, Senior researcher, Standard of Living and Social Safety Net Laboratory, INSAP, RANEPА

Households debt for the housing and utility services increased against the 2017–2019 indexes and in H1 constituted 6.3%. Current situation is similar to that in 2013–2014 when the debt for housing and utility services in H1 came to 6.4–6.6% of accruals. On average across the Russian Federation the organizational form practically does not affect the proportion of unpaid debt: it's identical both for services provided through agencies and for utility companies working with the population on direct contracts.

In the context of pandemic, in April 2020 through the end of the current year, the authorities repealed penalties accrual for untimely payment for housing and utility services.¹ On the one hand, the public utility companies could be in a bit of a financial situation due to risks of non-payments as it happened in the entire sphere of paid service in Q2 2020.² On the other hand, this measure had to protect households enabling them to adapt to epidemiological restrictive measures and their consequences. At the beginning, cancellation of penalties was mistakenly taken as abolishment of all payments for housing and community services, however, when households received regular bills it became clear that nobody had abolished fixed payments and despite the crisis-like circumstances utility services sooner or later must be paid for.

In H1 2020, households' payments for housing and utility services covered 93.7%³ of outstanding bills for that period and 6.3% accounted for the non-payments.⁴ Consequently, negative projections were partly confirmed and households' debts for housing and utility services in the current year really went up compared to H1 2017–2019 when 4.7–4.8% of bills for housing and utility services were unpaid. At the same time, in the extended horizon of comparison, current situation does not differ from dynamics of 2013–2014 when outstanding debt for housing and utility services in H1 constituted 6.4–6.6% (*Fig. 1*).

Across Federal Okrugs the situation has changed unevenly compared to the previous year. At year-end 2019, outstanding debt of the population turned out

- 1 Regulation of the Government of the Russian Federation dated 02.04.2020 No. 424 "On Special Aspects of Provision of Utility Services to the Owners and Users of Rooms in Multi-Dwelling Units and Residential Houses" // Official internet-portal of legal information. URL: <http://publication.pravo.gov.ru/>.
- 2 In contrast to other types of paid services which consumption plummeted by 20% and more, the housing and utility services sphere remained 'an island of stability', contracting in H1 2020 by only 4.5%.
- 3 Calculated on UISIS data. URL: <https://www.fedstat.ru/>.
- 4 Outstanding debt is being calculated as the difference between the sum of drawn up bills for January-June and the sum of obtained for 6 months payments. It regularly pops up due to following reasons: (a) the bill is paid next month, (b) citizens delay payments for 1–2 months.

3. Households debt for housing and utility services in H1 2020: familiar pathway

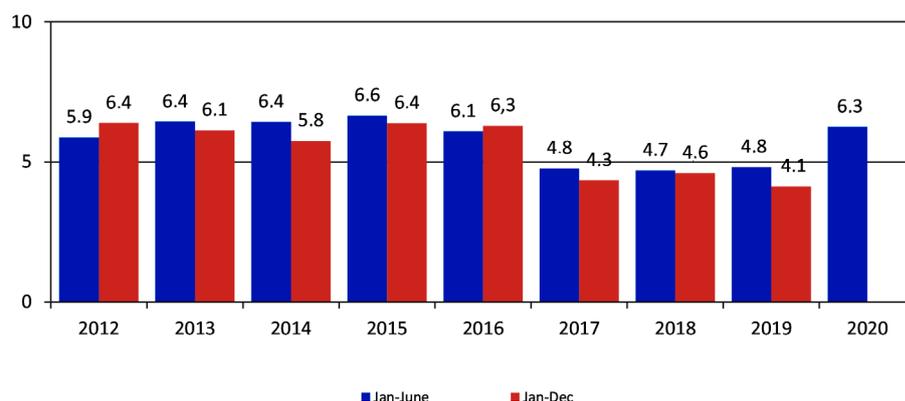


Fig. 1. Difference between accrued and paid bills for housing and utility services, % of the volume of accrued for January-June and January-December 2012–2020 bills

Source: calculated on UISIS data. URL:<https://www.fedstat.ru/>.

to be high in North-Caucasus Federal Okrug – in H1 2020 non-payments went up to 28% of all drawn up bills.

On the backdrop of other Federal Okrugs Volga and Urals FO look better off: the latter boasted of declining debts compared to the same period in the previous year. Sothern Federal Okrug where outstanding debt for housing and utility services a year earlier were minimal, today stays in the middle with 5.7% (Table 1).

Table 1

Outstanding debt of the population for housing and utility services payment in 2019 and in H1 2019-2020 across Federal Okrugs in submission form breakdown, %

	2019	2019	2020	Including those provided by:	
	January-December	January-June	January-June	Directly from utility companies	Through organizations providing services in HCS sphere
RF	4.1	4.8	6.3	6.3	6.2
Central FO	2.4	4.1	5.1	4.1	5.9
North-West FO	5.2	4.1	6.2	5.8	6.4
Sothern FO	3.2	3.1	5.7	4.7	8.2
North-Caucasus FO	14.2	19.4	27.9	29.6	18.3
Volga FO	3.9	3.7	4.4	3.8	5.1
Urals FO	5.9	4.5	4	2.6	5.5
Siberian FO	3.8	6.2	6.9	8.0	5.6
Far-Eastern FO	5.2	5.5	7.6	6.6	9.7

Source: calculated on UISIS data. URL:<https://www.fedstat.ru/>.

Information of the payments of population for housing and utility services is gathered by enterprises on a quarterly basis. Beginning with 2019, statistics are being collected separately for services received by the population on direct contracts with utility companies and separately through companies that provide services in the sphere of housing and utility sector, for example, through property management companies. Citizens of large cities with predominance of multi-family residential fund mainly receive and pay for housing and utility services through intermediaries and in rural areas – directly from utility companies.

On average across the Russian Federation, 54% of utility services in January-June 2020 were received and paid by the population on direct contracts, and 46% – through companies providing services in housing and utility sphere. With a breakdown of the Russian Federation subjects there is an extremely diverse correlation of two forms of provision of utility services: in H1 of the current year the proportion of payments for housing and utility services on direct contracts vary in the range from 15% in Moscow, 18% in St. Petersburg, and 28% in the Republic of Tatarstan to 87–88% in Republics of Tyva and Kalmykia and to 90% and more in all subjects forming part of North-Caucasus FO, except Stavropol krai.

On average across the Russian Federation, the organizational form practically does not affect the volume of outstanding debt for housing and utility services: it amounts to 6.2% on services provided through intermediaries and 6.3% on direct contracts. However, in North-Caucasus Okrug which boasts of the predominance in provision of utility services directly by utility companies, outstanding debt before them hits 30% of the volume of drawn up bills in H1 2020. The satiation with the payment through organizations that provide services in housing and utility sphere is better – in this sector the outstanding debt of the population on housing, capital repairs, and utility services constituted 18%. In Siberia FO outstanding debt is also below when paying through intermediaries (6% through intermediaries and 8% directly).

In Far Eastern and Southern Federal Okrugs where 70% of utility services are provided by the utility companies directly, on the contrary, outstanding debt on direct contracts (7 and 5%, respectively) are lower than in case of dealing with the population through organizations of HUS (10 and 8%).

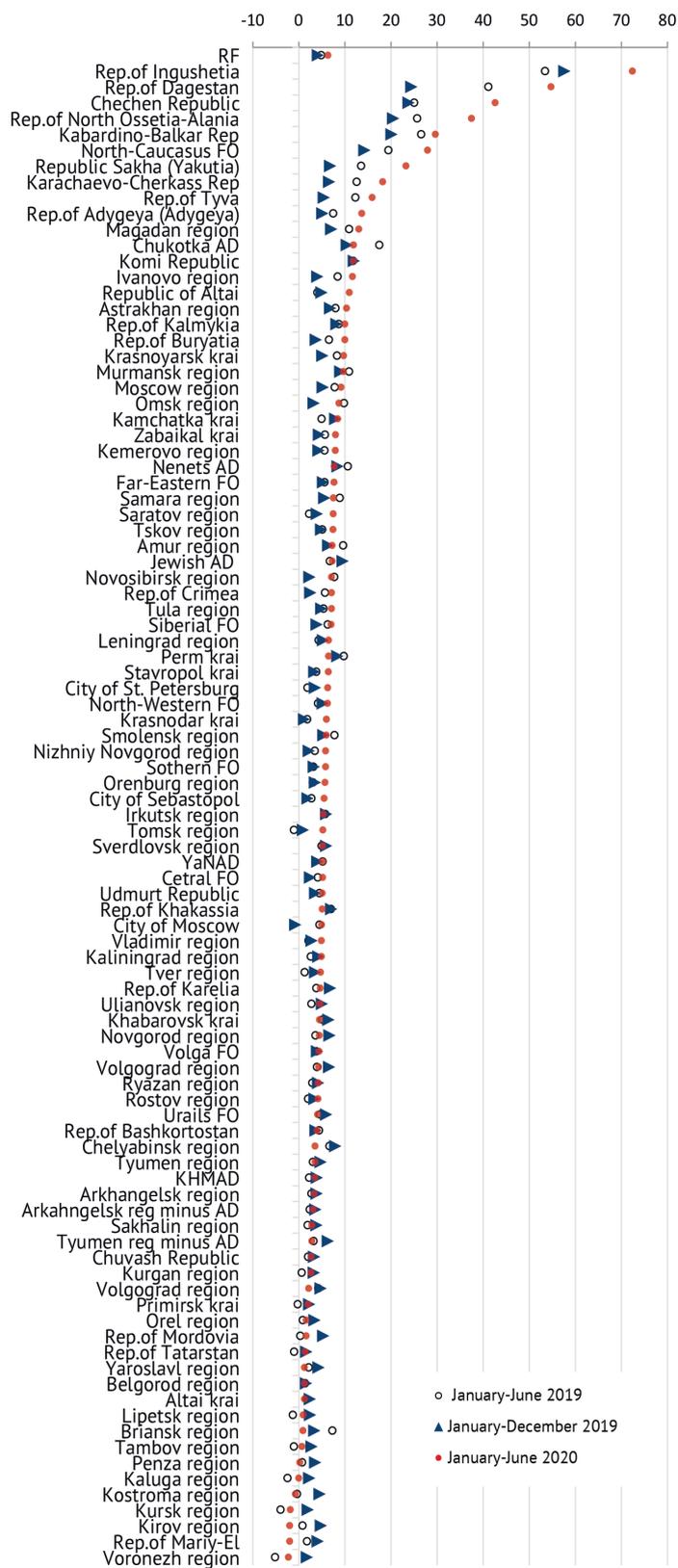
Regional picture¹ is presented in *Fig. 2*. Against the backdrop of a moderate on average across the Russian Federation growth in outstanding debt of the population on HUS payments, in January-June 2020 compared to the same period in the previous year, the situation in the regions markedly deteriorated where as before this problem was in acute form – first of all, in subjects of the Federation comprising North-Caucasus Federal Okrug. In part of those regions, the situation got better by end of 2019: the proportion of unpaid bills in annual terms decreased. Possibly, current upsurge in non-payments for HUS will be better in those regions by December 2020.

In representative surveys of the population “Observation of household budgets” we observe the share of households that paid for HUS untimely in the course of last 3 months. The most up to date information for Q1 2020 the situation slightly improved compared to the same period in the previous year; the proportion of those who was in a bit of a financial situation and failed to pay on time for HUS decreased from 7.4 to 6.0%: and the number of households that failed to timely pay for electricity supply contracted from 4.7% in Q1 2019 to 4.1% in Q1 2020.

As was demonstrated in survey “Person, Family, Society” payment past due for HUS in the course of last year were permitted by 17% of respondents. The highest proportion of 24% is among the age group of 30–39 years; with age it gradually decreases (to 9% in the range of 60–72 years of age). Natural factor that directly reflects financial capabilities of a household are its cash income and the poorest first quintile group by 1.8-2-fold delayed payments compared to average

¹ Because citizens pay their debts including for the previous periods, in a small number of regions excess of amounts received for H1 over drawn bills presents “negative” arrears.

3. Households debt for housing and utility services in H1 2020: familiar pathway



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Fig. 2. Outstanding debt of population on HUS payment in H1 2019–2020 and in 2019 across regions, %

Source: calculated on UISIS data. URL: <https://www.fedstat.ru/>.

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across the entire population. The risk of outstanding debt by financial reasons is raised 2-fold in case of single-parent families (single-parent with children). If we identify groups of families with dependent children and pensioners, we will see that 17% of households comprising only able-bodied grownups untimely paid for HUS which is at the average level across all surveyed values. Families of able-bodied with children 1.5-fold oftener permit outstanding debt on HUS (24%); the presence of pensioners in a household (with no children) reduces risk of an outstanding debt by half (9%) and in mixed households with children and pensioners average indexes are observed (18%). Although the importance of certain factors changes with time, socio-demographic determinants of indicated financial difficulties operate permanently, obviously operating the same way during the pandemic. 

4. UNCERTAINTY INDICATORS OF RUSSIAN INDUSTRIAL SECTOR

Sergei Tsukhlo, Candidate of Economic Sciences, Head of Business Survey Laboratory, Gaidar Institute

Business survey laboratory of Gaidar Institute for Economic Policy conducted on-line computation of uncertainty indicators for the Russian industrial sector. As it appears from this computation, in 2020 the peak of uncertainty in projections for demand, output, and employment accounted for May. If in the wake of April lockdown and related economic shock the majority of enterprises held together in their negative projections, then from May the situation commenced to change for the better.

Economic uncertainty can be measured by various statistical instruments, including on the basis of business surveys. IEP surveys embrace all periods of economic history 1992–2020, they are conducted annually and allow obtaining a host of evaluations of uncertainty.

At the bottom of questions about the expectations of enterprises is an assumption that an increase in inconsistency of expectations of economic agents points to uncertainty growth in their perception of economic development. And conformity of expectations, on the contrary, speaks about high uncertainty.

Uncertainty can be measured by business surveys with the help of different coefficients (metrics). The first was proposed even in the middle of the last century. Other were developed later, some – literally over recent years. Activity in this sphere creates significant problems – abundance of results hamper understanding. Especially taking into consideration strangeness of measure of this phenomenon in on-line regime and possibility to make calculation in any cross section.

Presently we have 11 similar coefficients by application results: for example, minimum matching value of matrix correlation coefficients in 11 annualized coefficient series of uncertainty price projects 0.906. This allows getting along with any of above mentioned indicators.

2020 crisis: growth in uncertainty in business projections

Crisis-like Q2 is coming to an end in Russian industrial sector (and economy as a whole). Six months of crisis and its rapid termination (if ‘the second wave of the pandemic’ does not force the authorities to forcefully stop economic activity again) allow to draw conclusions about the behavior of enterprises during this period. As well as to assess dynamics of certainty/uncertainty in enterprises’ projections. Precisely this type of indicators is applied primarily for measuring uncertainty.

First computations (Fig. 1) by 9 months of each of 29 years that our survey was conducted demonstrate a sharp growth of uncertainty in demand and output

projections in 2020 and moderate growth of uncertainty in employment projections. Having said that, by 2019 (both as of entire year-end and first 9 months) projections for all three indicators declined to all-time low of uncertainty. Or hit maximum for 1992–2019 certainty.

However, it was certainty of stagnation, i.e. decrease of uncertainty and, correspondingly, growth in certainty happened at the expense of growing proportion of responses ('will not change') in expectations of enterprises. Such responses in 2019 in projections for changes in employment accounted for 77%, in projections for demand – 69%, and in projections for output – 59%. The remainder of percent (reflecting spread of hopes for a change in the situation) accounted for responses 'increase' and 'decline' which demonstrate a downward trend each year.

First 9 months of 2020 were crisis-like – uncertainty in projections as it was due in the ongoing crisis. Along with this, it grew by record figure for demand and output expectations. In the first case, the uncertainty index moved up by 0.18, in the second one – by 0.12. These indicators never registered such growth since 1992. Even during classical crisis year of 2009 growth rates in uncertainty projections for demand constituted 0.06, and output plans – 0.09. The crisis year of 2015 exerted even less influence on uncertainty in business projections: uncertainty growth came to barely 0.01 and 0.03, respectively.

Uncertainty in employment projections after the 2008–2009 crisis has its distinctive dynamics. Reduction in uncertainty seen in 2010–2012 was due to the fact that the proportion of responses 'will not change' reached the pre-crisis level. However, exacerbating staffing problems forces businesses in 2013–2014 to raise their share of responses 'decline' at the expense of reducing the share of responses 'will not change'. With the outbreak of the 2015–2016 crisis, the Russian industry got a chance to resolve its personnel problems and spare the Government of the Russian Federation from the need to kick start aggressive measures aimed at combating unemployment. As a result, the proportion of projections for decline in employment from the onset of the 2015–2016 crisis is decreasing and the proportion of projections for headcount retention demonstrates a sharp growth and hits in 2019 the all-time high. By the end of Q3 2020 the industrial sector did not critically change projections for employment: the net across 9 months of the year remains positive: industry as before is ready and, above all, retains capacities for hiring workers. The proportion of projections regarding retention of personnel barely dropped from the all-time high of 77% to 75%. The latter became the reason for a moderate growth of uncertainty in employment projections in 2020 by 0.05 (Fig. 1).

In 2020, the peak of uncertainty in projections for demand, output, and employment fell, as it may look strange, on May. However, if we remember that uncertainty in our case means coordination of projections then we have to admit that May maximum of uncertainty looks logical. Actually, if in the

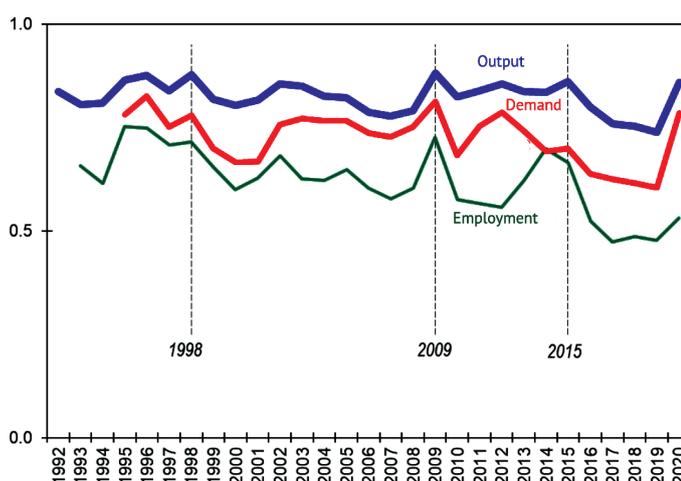


Fig. 1. Uncertainty in projections for demand, output, and employment, 1992–2020, by first 9 months of each year

4. Uncertainty indicators of Russian industrial sector

wake of the April economic shock the majority of businesses were united in their negative projections, then in May the situation, as we can now confidently say, commenced changing for the better. The April lockdown for the Russian industrial sector turned out to be not so spooky and was not the onset of a protracted crisis. Those producers who believed in prompt improvement in the situation already in May commenced to review their negative projections. Others, who remained in the grip of downbeat mood retained negative plans. Such situation provoked local maximum of uncertainty in projections in May 2020.

2020 crisis: lack of growth in uncertainty in enterprises' assessments

Below we will try with the help of the same indicators (metrics) of uncertainty to assess the unity of enterprises assessments of demand and two other types of stocks (finished products and primary materials) which they place on the scale 'above the norm', 'the norm', and 'below the norm.'

If enterprises' projections in 2020 demonstrated their due crisis-like growth in uncertainty, then assessments of demand for the products, finished products inventories and inventories of primary materials demonstrated either insignificant (practically symbolic) growth or plunge in uncertainty (*Fig. 2*).

The first conclusion that we can draw from our computations consists in the fact that certainty of business assessments revealed from all observed by us crises in the course of 1992–2020 demonstrated different dynamics. In 1990s, assessment of demand boasted of low uncertainty (i.e. high certainty) because the majority of businesses held together in the fact that demand was insufficient ('below the norm'). In 1996, minimum uncertainty (maximum certainty) in assessments of demand was driven by the fact that 91% of enterprises assessed demand for their products 'below the norm.' Assessments of finished products inventories, on the contrary, demonstrated extremely high annualized uncertainty because their breakdown did not peak explicitly. In 1998, maximum level of uncertainty was obtained driven by the fact that assessments of stocks of finished products split as 31, 35, and 34% between three versions of responses.

Assessments of stocks of primary materials demonstrated in 1990s not very high level of uncertainty on the back of predominance of responses 'below the norm.' Maximum uncertainty seen last century in the assessments of inventories of primary materials was obtained in 1995, when the share of responses 'below the norm' hit 72% which was an all-time high for this indicator. The 2008–2009 crisis provoked growth in uncertainty of assessments of inventories of finished products and primary materials due to leveling of breakdown of responses and decline in uncertainty of assessments for demand in the wake of increase in the proportion of responses 'below the norm' to 70%. The official crisis of 2015–

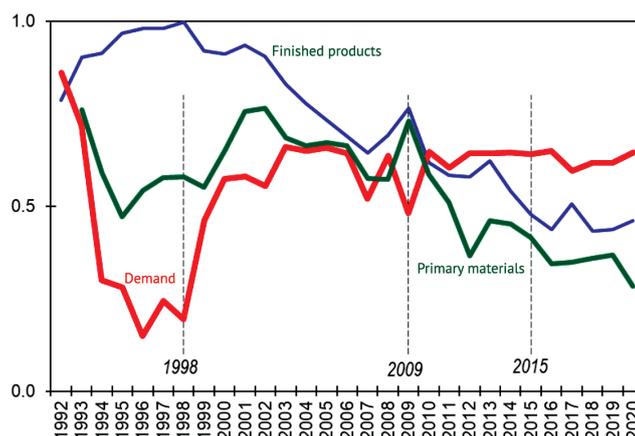


Fig. 2. Uncertainty in assessments of demand, finished products, and inventory of primary materials, 1992–2020

2016 did not trigger crisis-like change in uncertainty of business assessments of demand and inventories – sooner on the contrary.

Uncertainty of assessments of inventories of finished products continued decreasing during the crisis year 2015 on the back of growing share of responses 'norm' and decrease in the share of responses 'above the norm.' These processes went on in the crisis year 2016. As a result, 2018 repeatedly recorded an all-time (for the period of 1992–2020) minimum in uncertainty of assessments of finished products inventories. Business assessments of inventories of primary material also became more certain on the back of increase in responses 'norm' to 76%. In 2016, such assessments accounted for 80% which decreased the level of uncertainty to minimum for 1993–2019. Certainty in assessments of demand for 2015 remained unchanged and were strikingly stable over entire stagnation seen in 2012–2016.

Crisis year 2020 so far slightly increased uncertainty of assessments of demand and inventories of finished products. In the first instance, uncertainty grew by 0.03, in the second – by 0.02. Uncertainty of assessments of inventories of primary materials in the first 9 months of the year decreased. In the wake of lockdown and stoppages of production at supply chain and logistic problems in Russian industrial sector, the proportion of normal assessments of inventories of primary materials went up to an all-time maximum of 84% which cut uncertainty of corresponding assessments to an all-time minimum. 