MONITORING OF RUSSIA'S ECONOMIC OUTLOOK:

TRENDS AND CHALLENGES OF SOCIO-ECONOMIC DEVELOPMENT

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1. REVIEW OF FINANCIAL MARKETS (OCTOBER 16 TO DECEMBER 1, 2020)

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The changes observed in the stock markets towards the end of 2020 point to the evolvement of expectations for growth in the share market, based on the scenario of a relatively rapid recovery of the world's leading economies. In the context of soft monetary policies pursued by central banks, this is fraught with the risks of the formation of certain financial asset bubbles. Considering that in many countries during the pandemic, Russia including, the market has been entered by millions of new unsophisticated investors, these developments call for an increased responsibility of regulators in maintaining stability in the financial markets and protecting the interests of private investors.

The expectations of the imminent launch of mass vaccination against the novel coronavirus in different countries, the hopes for progress in the normalization of global trade relations with due regard for the outcome of the US presidential election, and a number of other factors, have all been accelerating the growth of stock indices. As of the end of November 2020, about half of the world stock indexes in US dollar terms had recovered their value and climbed above their quotes as of the start of this year.

Noteworthy growth has been displayed not only by US (especially NASDAQ) and China's indexes, but also by those of some emerging markets like Argentina, Turkey, and India. Against this background, the slow recovery of the RTS Index stands out; despite its rapid growth in November (about 20% over one month), it failed to compensate for its previous downfall, and stays 16% below its level of the beginning of this year *(Fig. 1)*.

The recovery growth of stock indexes, notwithstanding the persistent uncertainty in the global economy alongside sovereign risks, has created preconditions for the emergence of price bubbles in the stock market. The CAPE Ratio, a valuation measure that uses real (inflation-adjusted) earnings per share (EPS) over a 10-year period, is considered to be a predictor of stock market crises. As of November 25, 2020, it had jumped to 33.1, which corresponds to its value just before the onset of the Great Depression in 1929. Simultaneously, in late 2020, the S&P 500 Index began to display an accelerated growth which, coupled with the rising CAPE, can be viewed as an alarming trend (*Fig. 2*).

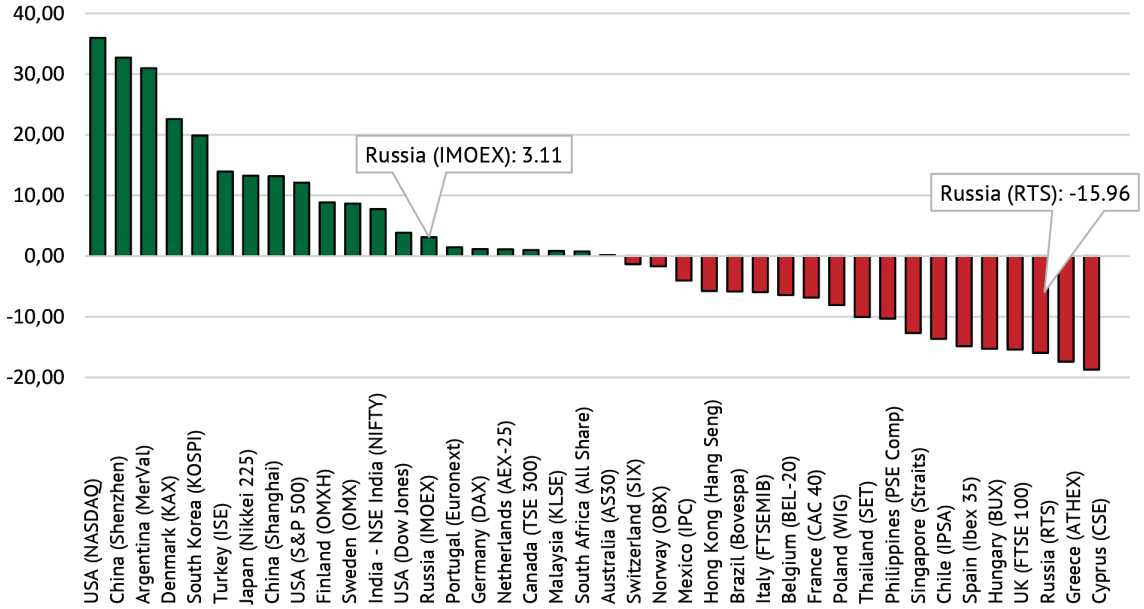

Fig. 1. The upward movement of national stock exchange indexes between January 1 and November 30, 2020, **%**

Source: Bloomberg data, as of December 1, 2020.

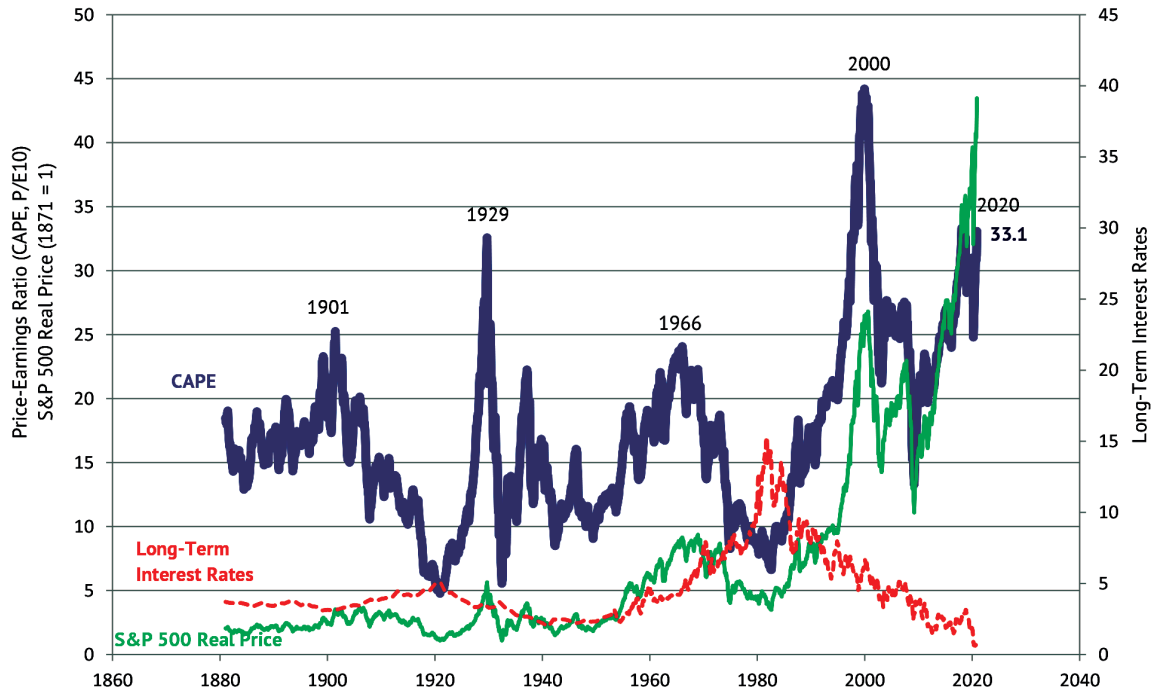

Fig. 2. The movement of the S&P 500 Index, the CAPE Ratio, and long-term interest rates in the USA, 1881–2020 (data for 2020 as of 25 November)

Source: Robert J. Shiller, URL: http://www.econ.yale.edu/~shiller/data.htm.

Three factors contribute to the emergence of bubbles: the presence of innovations in investment attractions; central banks' soft monetary policies; and increasing investor propensity to engage in short-term speculation.[1]

The collapse of financial bubbles in the emerging markets can result not only in the purely financial losses of market participants, but also in some radical economic policy changes. One illustrative example is the stock market crisis in China in June 2015, which became one of the factors behind the national economic policy reversal towards state capitalism and the toughened party control over private businesses.

One of the latest examples of the markedly altered attitude of the authorities towards private businesses has been the decision to halt the world's largest IPO by Ant Group, China's top fintech company. This was done on the personal instruction issued by Chinese President Xi Jinping.[2] On October 24, a few days before the IPO, the company's main owner, Jack Ma, sharply criticized the government's increasingly stringent financial regulation and technology suppression policies. According to the WSJ, such criticism of the authorities' financial policy was extremely painful for the leader of today's China.

As a result of the US cabinet reshuffle under the new president-elect, a number of companies, primarily BlackRock Inc. (global investment management corporation) have significantly increased their administrative resources. Joe Biden is expected to appoint Brian Deese, Global Head of Sustainable Investing at BlackRock, to head the National Economic Council. Besides, Adewale "Wally" Adeyemo, a former chief of staff at BlackRock, is set to serve as second top official at the US Treasury Department.[3]

BlackRock, along with Goldman Sachs Group and JPMorgan Chase & Co, is relied upon by the Chinese government as an advancer of China's national interests in the USA.[4] As its trade relations with the USA were deteriorating, China provided opportunities for US financial companies to expand their business activities in China. Thus, for example, in August 2020, BlackRock became the first foreign company to receive a regulatory approval to launch its mutual fund business in that country. This was its "entrance ticket" to China's capacious domestic savings market.

BlackRock was also instrumental in implementing some controversial initiatives championed by the Chinese leadership. China had been actively lobbying for the decision of MSCI Inc. on the inclusion of China A shares in its Emerging Markets (EM) Index. BlackRock initially had been against this proposal, but then supported it. As a result, the weighting of China A shares increased from 28% in 2018 to 40% in 2020.

According to our estimates, the Russian stock market, which attracted about 8 mn new private investors, is vulnerable to stock market bubble risks. At the same time, as shown in *Fig. 1*, the RTS Index remains 16% below its value as of the beginning of 2020. Besides, as follows from *Fig. 3*, over the first 11 months of 2020, the ruble lost 18.4% against the US dollar, which is comparable to the plunges of the Ukrainian hryvnia, the Turkish lira, and the Brazilian real.

1 *Quinn William, Turner John D.* (2020). Boom and Bust. A Global History of Financial Bubbles. Cambridge University Press.
2 *Yang Jing and Wei Lingling* (2020). China's President Xi Jinping Personally Scuttled Jack Ma's Ant IPO. The Wall Street Journal on-line. Nov. 12.
3 Lim Dawn and Zuckerman Gregory (2020). BlackRock Emerges as Wall Street Player in Biden Administration. The Wall Street Journal on-line. Dec. 1.
4 Davis Bob and Lim Dawn (2020). China Has One Powerful Friend Left in the U.S.: Wall Street. The wall Street Journal on-line. Dec. 2.

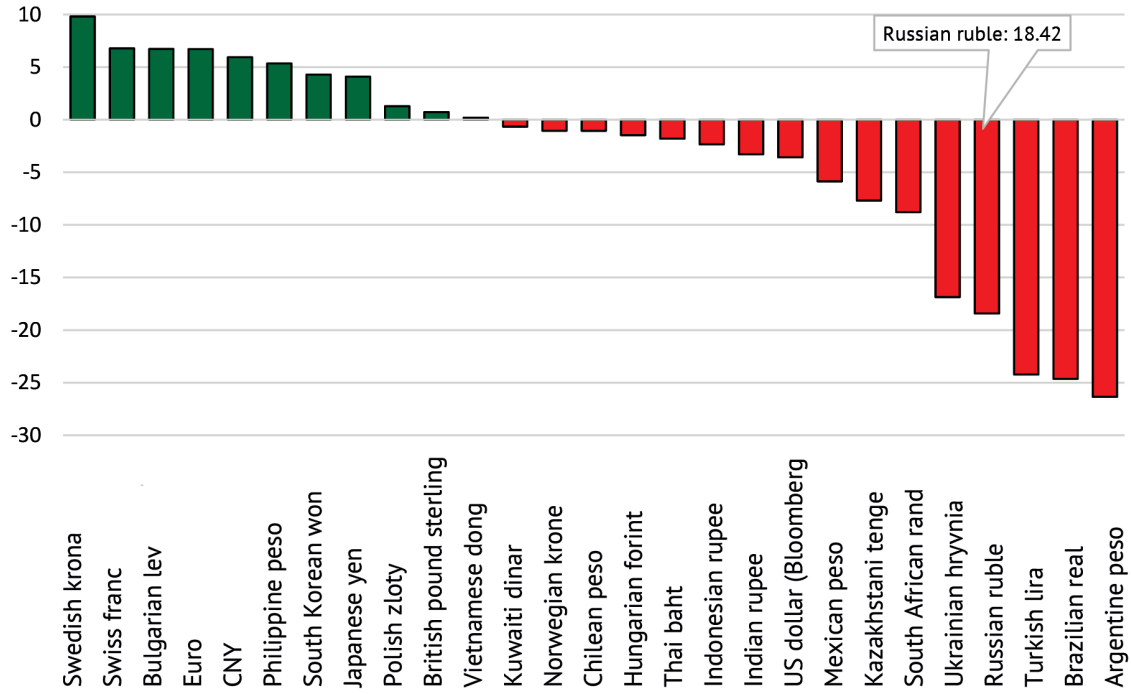

Fig. 3. The movement of national currencies against the US dollar after January 1, 2020, %

Source: Bloomberg data, as of December 1, 2020.

However, alongside the exit of the global economy from recession in 2021, a recovering demand for oil, the ruble strengthening, and the return of foreign portfolio investors into the domestic market, the Russian stock market will probably demonstrate growth. At the same time, the future growth in share prices is unlikely to be long-lasting, because so far it has not been sustained by the corresponding internal factors of economic growth. Under such a scenario, it is necessary to develop a strategy designed to prevent the growth of a stock market bubble. From our point of view, the risks of private investors who entered the domestic stock market in the context of the pandemic need to be properly managed, that is, private investors should be more actively reoriented to investing through open-ended mutual funds, including exchange-traded index funds. It is also necessary to promote accelerated development of institutional investors and to create incentives for long-term saving through individual investment accounts (IIA).

2. RUSSIAN FOREIGN TRADE IN 2020: PRELIMINARY OUTCOMES

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In January-September 2020, exports of energy commodities and other minerals decreased by 36.5% (45% of the level seen in 2013) on the relevant period of the previous year. Non-oil and gas exports increased by 1.8% following a six-fold increase in gold sales. Without including gold exports, non-oil and gas exports contracted by 8.0%. A decrease in exports of energy commodities, metals, chemical products and timber was driven by an unfavorable pricing environment. Exports of high-tech goods fell by 17% because of reduction in export volumes. In January-September 2020, imports decreased by 6.9%.

Exports and Imports Trends

In January-September 2020, exports decreased by 22.6% on the relevant period of 2019 amounting to $240.8 bn on the back of a 36.5% reduction in the value of exports of minerals and energy commodities to $130.2 bn. On the contrary, non-oil and gas exports (NOGE[1]) did not virtually change (+1.8%), amounting to $110.6 bn (*Fig. 1*). From April to August, exports outturns were the worst compared with the relevant period of the previous year: fuel and minerals export supplies were half as high (48–59%) with exports of other goods being sustainable (94–103%).

In Q1-Q3 2020, imports decreased insignificantly to $163.7 bn, 93.1% of the level seen in 2019 (*Fig. 2*). The most dramatic drop in imports took place in April (-19.4%) owing to introduction of the lockdown regime and a spike in economic turbulence. Overall, import volumes did not change much compared with the previous year, particularly taking into account the pandemic-related specifics of the year 2020.

As seen from the past seven years' dynamics of trade turnover's three main components, in 2020 there is lack of codirectional trends in exports of fuel and minerals, imports and non-oil and gas exports (*Fig. 3*). Specifically, exports of fuel and minerals fell to the minimum, 45% of the level seen in 2013, while non-oil and gas exports attained the new maximum of 107% on the 2013 outturns and imports prevailed at 70%-76% of the 2013 level as in the past few years. In 2020 the Ruble/Dollar real exchange rate index returned virtually to its minimum seen in 2016.

The Ruble/Dollar exchange rate affects differently Russian export prices depending on a commodity group and sales market. Overall, non-oil and gas

1 The classification of minerals, energy commodities and non-oil and gas goods can be found on the Russian Export Center's website. URL: https://www.exportcenter.ru/international_markets/classification/.

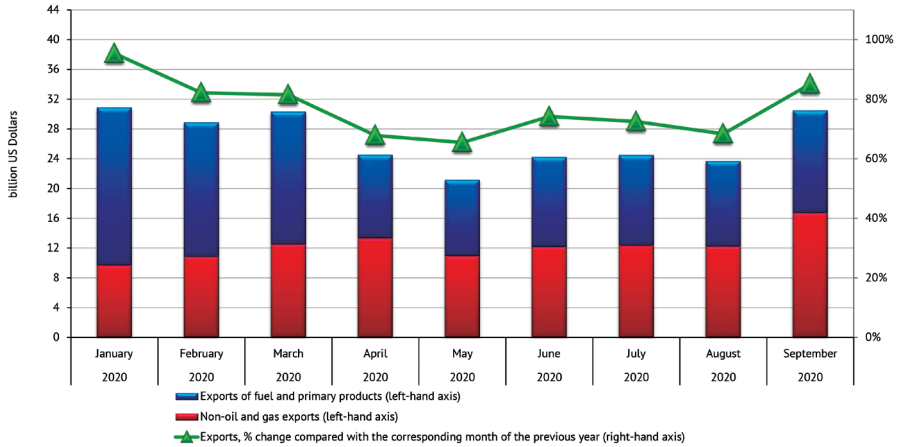


Fig. 1. Russian exports dynamic in January-September 2020

Source: own calculations based on the RF Federal Customs Service's data.

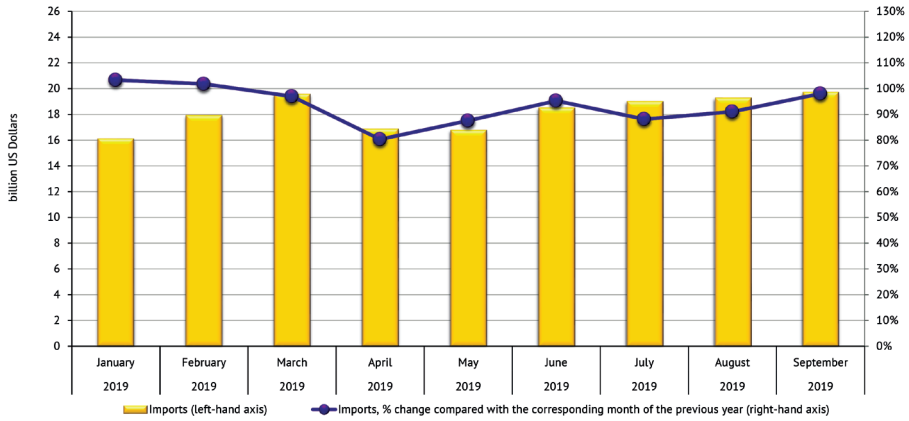
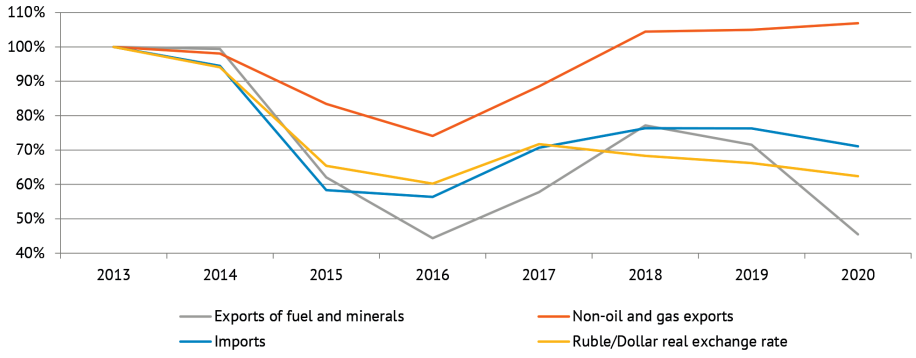


Fig. 2. Russian imports dynamics in January-September 2020.

Source: own calculations based on the RF Federal Customs Service's data.



Note. All outturns are calculated on the basis of Q1, Q2 and Q3 of the corresponding year.

Fig. 3. Dynamics of imports, non-oil and gas exports and exports of fuel and minerals in Russia in 2014-2020, % change on 2013.

Source: own calculations based on the RF Federal Customs Service's data.

exports are characterized by moderate exchange rate pass-through (34%) and quick adjustment of prices to a new exchange rate (within one-two quarters).[1]

Export Prices

In January-September 2020, most prices of Russian export commodities depreciated on the back of the pandemic and decline of global demand for energy and energy-intensive commodities. All main positions singled out by the RF Federal Customs Service saw depreciation of average export prices, but there was no explicit trend in exports dynamics.

In January-September, a 36.3% contraction of exports of fuel and energy commodities on the relevant period of the previous year was triggered by a drop in oil prices (-34%), petrochemicals (-32%), pipeline natural gas (-40%), liquefied natural gas (-20%) and fossil coal (-20%). Oil exports shrank by 10% to 180 mn tons, while exports of petrochemicals remained at the level of 107 mn tons (+2%). Pipeline natural gas supplies fell by 12%, while exports of liquefied natural gas increased by 18%.

Exports of grain (wheat and meslin) in volume terms partially rebounded (by 9%) from the last year's reduction. Exports of other main items of the "food and agricultural primary products" commodity group saw upward dynamics with the value of exports increasing by 14.9%.

Depreciation of prices of ammonia (-17%), raw rubber (-21%) and fertilizers (from -13 to -27%) amid relatively stable export volumes led to a 12.4% reduction in exports of *chemical products*.

Exports of the "timber and articles thereof" commodity group shrank by 5% owing to depreciation of export prices of rough timber (-7%), plywood (-4%), pulp (-19%) and newsprint (-27%).[2]

The value of exports of metals fell by 14% following depreciation of export prices of all main metals: ferrous metals (-14%), copper (-6%), nickel (-4%) and aluminum (-5%) as well as reduction in exports volumes of nickel (-16%) and aluminum (-16%). Exports of other metals (copper and ferrous metals) remained at the same level.

Exports of *gem stones and metals* increased 2.2-fold amounting to $20.4 bn, that is, 18% of the overall non-oil and gas exports.

Exports of *machinery, equipment and transport vehicles* decreased by 11%, while *"other goods"* fell by 37%. The overall exports of products of two high-tech commodity groups saw a dramatic drop of 17% to $19.6 bn.

Non-Oil and Gas Exports

In January-September 2020, the volumes of non-oil and gas exports remained at the previous year's level: a substantial reduction in exports of chemical products, metals and machinery and equipment was compensated by 3-fold growth in exports of precious metals and a pickup in food exports (*Table 1*).

The sustainability of the price index of non-oil and gas exports (-1.1%) can be substantiated by a considerable depreciation of prices of chemical products (-18%) and metals (-11%) and a rise in precious metal prices (+43%).

1 For more information on the effect of the Ruble/Dollar exchange rate on Russian export prices, see: *Firanchuk* A. Ruble/Dollar Exchange Rate Pass-Through to Export Prices in 2012–2020: Sectorial and Geographic Specifics // Russia's Economic Development. 2020. Issue No.11. P. 8–16.

2 In the past few years, owing to changes in export duties on rough timber the share of these products in the overall timber exports decreased.

A substantial decrease (over 10%) in the volumes of non-oil and gas exports took place in "mineral products"[1] (-25%) and "machinery and equipment" (-17%) commodity groups, which included high-tech goods. Non-oil and gas exports increased largely in such commodity groups as *"gem stones and precious metals"* (+99%), *"food products and agricultural primary products"* (16%) and textile (10%).

With gold export supplies not taken into account, Russian non-oil and gas exports decreased in value and volume terms by 8% and 1.6%, respectively, based on the outturns of Q1-Q3 2020. It is noteworthy that the most high-tech commodity groups saw exports contraction.

Table 1

Dynamics of non-oil and gas exports in January-September 2020 across commodity groups

Commodity group name	Supply volume, billion USD		Value change, %	Price change, %	Volume change, %
	January-September 2019	January-September 2020			
Food and agricultural primary products (except for textile)	17.4	19.9	15	-2	16
Minerals*	3.4	1.8	-48	-31	-25
Chemical products, natural rubber	20.0	17.5	-12	-18	7
Rawhide, furs and articles thereof	0.2	0.1	-24	-18	-8
Timber and pulp and paper products	8.8	8.4	-5	-8	4
Textile, textile articles and footwear	1.0	1.0	4	-5	10
Gem stones, precious metals and articles thereof	6.6	18.7	2.8-fold	43	2.0-fold
Including gold	2.0	12.5	6.2-fold	27	4.9-fold
Metals and fabricated metal products	27.7	23.7	-14	-11	-4
Machinery, equipment and transport vehicles (without classified groups)	15.5	12.5	-20	-3	-17
Other goods	2.0	2.0	-4	-6	2
Classified commodity groups	6.0	5.0	-17		
Total	108.6	110.6	1.8	-1.1	3.0

* Non-oil and gas exports from the "minerals" commodity group include: salt, daubing and cement.

Note. The index is calculated on the basis of the price per unit of product across 10 important positions of this group with standard filters applied.

Source: own calculations based on the RF Federal Customs Service's data.

Trade Turnover's Geographic Pattern

In January-September 2020, the EU's share in Russia's trade turnover kept falling because of a high share of energy commodities in Russian exports to that region (*Table 2*) – it decreased by 29.2%, while dynamics of imports from the EU were slightly below the average outturn (8.3%). The APEC's share kept growing (+0.69 p.p.) primarily on the back of sustainable upturn in trade turnover with China: export supplies to China decreased by 14%, while imports increased by 1%. In the past seven years, the EU's share in the trade turnover declined by 11 p.p., while that of China increased by 9 p.p.

1 Including salt, daubing and cement.

Table 2

Russia's trade turnover geographic pattern in 2013–2020 across main trade partner-countries

Region/country	Share in Russia's trade turnover, %								Change: January-September 2020 on January-September 2019, p.p.
	2013	2014	2015	2016	2017	2018	2019	January-September 2020	
EU	49.6	48.1	44.8	42.8	42.1	42.7	41.7	38.7	-2.90
Ukraine	4.7	3.5	2.8	2.2	2.2	2.2	1.7	1.8	-0.05
Turkey	3.9	4.0	4.4	3.4	3.8	3.7	3.9	3.7	-0.34
Norway	0.3	0.3	0.3	0.3	0.2	0.2	0.5	0.3	-0.27
Switzerland	1.4	0.9	0.9	1.1	1.0	1.1	1.0	1.0	-0.01
APEC	24.8	26.9	28.1	29.9	30.4	31.0	31.8	34.3	2.21
including:									
China	10.5	11.3	12.1	14.1	14.9	15.7	16.6	18.4	1.98
US	3.3	3.7	4.0	4.3	4.0	3.6	3.9	4.4	0.40
Japan	3.9	3.9	4.1	3.4	3.1	3.1	3.0	3.0	-0.21
Korea	3.0	3.5	3.4	3.2	3.3	3.6	3.7	3.4	-0.49
Vietnam	0.5	0.5	0.7	0.8	0.9	0.9	0.7	1.0	0.27
CIS	13.4	12.3	12.5	12.3	12.5	11.7	12.1	13.0	0.78
of which EAEU,	7.4	7.2	7.9	8.5	8.8	8.1	8.6	9.0	0.34
including:									
Armenia	0.2	0.2	0.2	0.3	0.3	0.3	0.4	0.4	0.06
Belarus	4.1	4.1	4.5	5.1	5.2	4.9	5.0	5.0	-0.14
Kazakhstan	2.8	2.7	2.9	2.8	3.0	2.6	2.9	3.4	0.41
Kirgizia	0.3	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.02

Source: own calculations based on the RF Federal Customs Service's data.

In the researched period, the shares of the CIS and the EAEU increased by 0.78 p.p. and 0.34 p.p., respectively. Specifically, the share of Kazakhstan surged, while that of Belarus declined. The share of Ukraine stabilized to 1.7%.

The Q4 Outlook

In Q4 2020, the *value of fuel exports*, primarily oil, is projected to be close to the Q3 outturn, that is, about 60% ($40 bn) relative to the previous year. The Q4 prices (October – the beginning of December) are equal to 71% compared with the relevant period of 2019 (69% in Q3), while the volumes of exports of oil and petrochemicals are still 10% below the 2019 level owing to the OPEC+ agreement.

In 2020 non-oil and gas export volumes are largely determined by gold export supplies which accounted for 11% and 20% of overall non-oil and gas exports in summer and September, respectively. This can be explained by appreciation of global prices of gold, the RF Central Bank's refusal to upscale gold reserves and a small size of the domestic gold market. In Q1–Q3 2020, without gold accounted for, the value of non-oil and gas exports stood at 89–95% relative to 2019 (average quarterly outcomes). With such ratios, driven primarily by downturn in demand because of the pandemic, prevailing and gold export volumes maintained at the level of Q3 2020, non-oil and gas exports can be projected at 95–100% ($43–45 bn) in Q4 2020 on the previous year.

The Ruble/Dollar exchange rate is still the main determinant of short-term demand for imports.[1] In Q3 2020, imports stood at 92.3% with the Ruble/Dollar exchange rate being equal to 88% on the relevant index of Q3 2019.[2] As the Ruble/Dollar exchange rate has prevailed at the level of 83% since October (till the beginning of December), *imports are projected* at *90%* ($60 bn) in Q4 2020 relative to the previous year.

Based on the 2020 outturns, exports are projected to amount to 77% compared with 2019, the value of exports of minerals and fuel commodities to 63%, while non-oil and gas commodities to 100% or $155 bn. For this reason, the target objective of $250 bn worth of non-oil and gas exports by 2024 seems highly unlikely to be achieved. Growth in non-oil and gas exports takes place on the back of food and precious metals export supplies amid appreciation of global prices of these commodities and this compensates the reduction in machinery and equipment exports. At the year-end, import volumes are projected at 92% relative to the previous year.

The objective of securing production chains amid the pandemic is feasible on the whole. Restrictive measures and global GDP contraction have not led so far to a substantial reduction in global trade in goods; Russia has managed to avoid it, too. The Russian trade turnover has seen moderate changes in non-oil and gas exports, except for multiple increase in gold export supplies and considerable decrease in machinery and equipment exports and moderate reduction in imports. The main adverse external factor affecting trade turnover is energy commodities' low prices: reduction in exports is driven primarily by depreciation of prices of oil, while imports were affected by weakening of the Russian Ruble exchange rate against the US Dollar following depreciation of oil prices.

1 The volume of imports was also affected largely by GDP dynamics, but this macroeconomic indicator's volatility is much lower than with the Ruble/Dollar exchange rate.

2 Similar elasticities of imports in value terms were evident over the past few years. See: Knobel A., Firanchuk A. Russian Foreign Trade in 2019: Stabilization of Non-Oil and Gas Exports // Russia's Economic Development. 2020. Issue No.4. P. 7–15.

3. MORTGAGE LENDING IN JANUARY-SEPTEMBER 2020

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On the back of the lending market interest rate cuts and implementation of the subsidized mortgage program (mortgage loans at the interest rate of 6.5% per annum for home buying on the primary housing market), real-estate market demand picked up. In Q1-Q3, 2020, banks increased substantially mortgage lending volumes, having surpassed the high outturns seen in 2018. The downside of the lending-based demand stimulation was the appreciation of prices both on the primary and secondary housing markets and high household debt load. This makes the money authorities point to the need of wrapping up the subsidized mortgage government program in the near future.

During 2019, mortgage lending dynamics slowed down gradually. In H1 2019 lending volume growth was prevented by an increase in market interest rates. These processes were consistent with the residential real-estate market trend: developers were reducing sales volumes in terms of "meters", while a rise in housing prices made it feasible to minimize revenue losses. This trend was related to a shift to the new rules of attracting equity holders' funds (escrow accounts) from July 1, 2019. In H2 2019, the interest rate cut rekindled the market, so the year 2019 outturns were comparable with those of 2018.

As of October 1, 2020, the overall volume of mortgage loans issued by banks was equal to Rb8.59 trillion, a 18.6% increase on October 1, 2019 (Rb7.24 trillion). The share of foreign currency loans in the overall credit portfolio is insignificant and keeps decreasing: 2.3% as of October 1, 2020 (3.2% a year before). The average interest rate on ruble loans decreased to 7.32% from 9.68% a year before. The weighted average loan term[1] remains quite unvarying: 219.7 days in September (217.6 days in September 2019).

As per the data of Dom.RF[2], within 9 months (January-September) banks extended 283,500 home loans worth Rb794 bn under the government-sponsored programs. Mortgage at the interest rate of 6.5% for home purchasing on the primary housing market accounted for the larger portion of the lending volume (Rb598 bn), while other loans were taken under the family mortgage program (Rb153 bn) and the Far Eastern mortgage program (Rb44 bn). Overall, subsidized mortgages accounted for 26% of all home loans.

Mortgage lending is less prone to pandemic shocks (only 3.1% of debts were restructured) owing in particular to the timely start of the government program for subsidizing the interest rate to 6.5%. As early as Q3 2020, mortgage became the major retail lending driver and this was facilitated among other things by the RF Central bank's shift to easing the monetary policy.

Mortgage lending remains the most quality segment of retail lending: the share of debts overdue for over 90 days is still very low (1.56% of the debt volume), while that on other loans to households exceeds 8%.

1 Calculated on the basis of loans issued within a month.
2 URL: https://дом.рф/upload/iblock/27d/27d100ac054295e293f9708037811749.pdf.

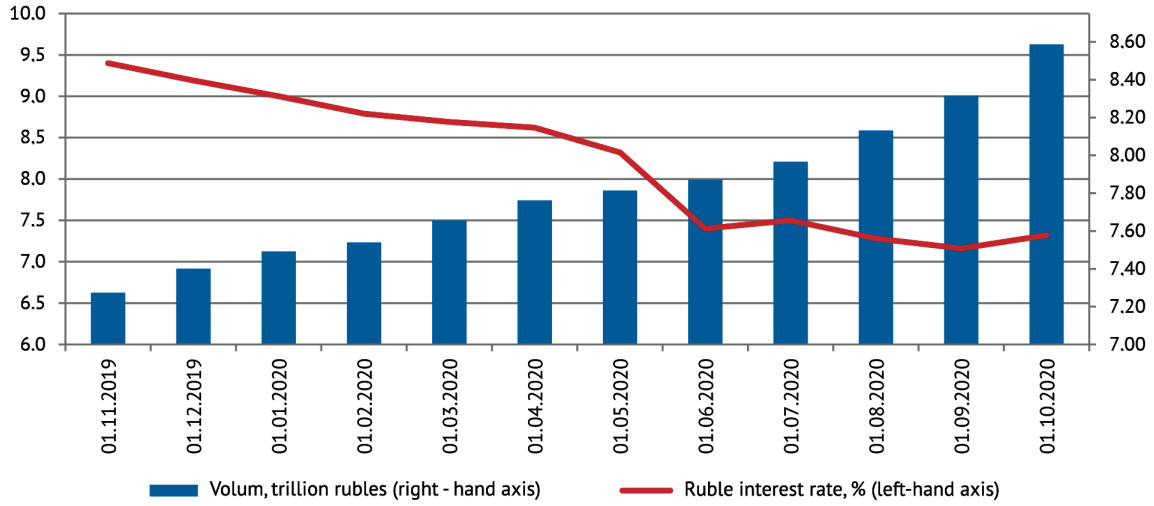

Fig. 1. Dynamics of lending volumes and interest rates on the residential mortgage market in the past 12 months

Source: The RF Central Bank's Statistical Bulletin, Issue No.10, 2020.

The subsidized lending program has become the main driver.[1] In accordance with the RF Government Resolution, the subsidized lending program is applied to home loans for up to Rb8 mn in Moscow and St. Petersburg and for up to Rb3 mn in other Russian regions. The borrower's down payment should amount minimum to 20% of the price specified in the shared construction participation agreement. The program applies only to ruble loans. The difference between the interest rate of 6.5% on the loan amount payable by the borrower and the market mortgage interest rate is reimbursed to banks by the government.

The program establishes the rules of reimbursement of shortfall in incomes on mortgage loans issued in 2020 to credit and other institutions. The reimbursement takes place in the amount making the difference between the RF Central Bank's key rate and the loan agreement interest rate. Specifically, if the interest rate under the loan agreement is equal to or less than 6.5% per annum, the interest rate of 6.5% per annum is taken into account. If the interest rate is more than 6.5% per annum, the actual interest rate under the loan agreement is taken into account.

Initially, the subsidized mortgage government program was to be in effect till November 1, 2020, but late in October it was extended till July 1, 2021.

At the beginning of the pandemic, substantial growth rates of prices on the primary housing market were justified by individuals' higher demand for real-estate amid market volatility, while later, by the implementation of the subsidized mortgage lending government program.

Taking into account the fact that less than 6% of the Russian households have taken mortgage loans, mortgage development has strong growth potential, while higher mortgage affordability can be explained by low interest rates prevailing on the market. Unless the pickup in the lending volumes is underpinned by actual growth in developers' supply, this may lead to further appreciation of housing prices, reduction in housing affordability and higher household debt burden. For this reason, the RF Central Bank stands out for the

1 RF Government resolution No.566 of April 23, 2020 "On Approval of the Rules of Reimbursement to Credit and Other Institutions of Shortfall in Incomes on Home (Mortgage) Loans Issued to Citizens of the Russian Federation in 2020."

limited effective period of the subsidized mortgage government program.[1] The RF Central Bank's regulation makes it feasible to limit risks related to household mortgage debt burden: they introduced higher risk ratios in respect of loans with a high debt ratio indicator and macroprudential margins on loans with a small down payment.

To mitigate credit risk growth implications, in April the RF Central Bank made a decision to liquidate the accumulated buffer[2] on mortgages and this permitted banks to release Rb126 bn worth of capital (1.6% of the overall portfolio as of the date of buffer liquidation). This regulatory easing was aimed at compensating losses incurred by banks owing to loan restructuring, as well as stimulated banks' activities on the mortgage market.

In Q1-Q3 2020, the RF Central Bank was carrying out counter-cyclical easing of bank capital requirements to newly issued mortgages and unsecured consumer loans by reducing macroprudential margins to risk ratios. These measures were adopted to compensate household income reduction during the lockdown which led to a temporary increase in the borrower debt ratio indicator and tougher bank capital requirements. Margins on mortgages with a small down payment were reduced from April 1 and depend currently on the borrower debt ratios. In September 2020, the RF Central Bank's Instruction No.199-I as amended became effective and envisaged lower risk ratios for mortgages depending on the values of the debt ratio indicator and LTV[3] on a loan. This reduced the overall risk ratio on newly issued mortgages from 127% to 76% for banks utilizing a standardized approach to the calculation of capital adequacy ratios. The specified instruments are meant to stimulate mortgage lending growth on account of borrowers with a low debt ratio.

The extension of the subsidized mortgage program for home buying on the primary housing market with further interest rate cuts in the forthcoming months will facilitate the mortgage lending positive dynamic. However, in the long-term both banks and borrowers may face overheating of the market and that will affect individuals' debt burden growth and the quality of the overall credit portfolio. In this situation, the RF Central Bank may limit mortgages with a small down payment by means of increasing margins to risk ratios on mortgages with a high debt ratio indicator and small down payment. Also, a risk situation may arise because of the ongoing pandemic and possible problems which developers may encounter owing to the breakup of process chains, failures in delivery of building materials, labor shortages in various regions and additional difficulties related to the unstable external environment. To ensure higher affordability of housing, it is not enough to reduce mortgage interest rates alone, it is necessary to facilitate sustainable household real income growth.

1 "The RF Central Bank explained why the subsidized mortgage program should be gradually completed." URL: https://tass.ru/nedvizhimost/10107693.

2 Capital buffer is formed by banks to cover possible losses which arise during financial and economic tensions.

3 Loan-To-Value ratio (LTV) is the ratio of the sum of the requested loan to the value of the property provided by the borrower as security. It is applied by banks in calculating a possible loan amount. This ratio shows the ultimate loan amount which the credit institution can grant the borrower proceeding from the value of the provided security. Specifically, the Loan-To-Value ratio should not exceed 70–80%.

4. RUSSIAN INDUSTRIAL SECTOR IN NOVEMBER 2020

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The enterprises needed three months to overcome the April decline in demand, and in July, the estimates reached the pre-crisis level. Then there was a three-month pause, followed by growing demand, according to manufacturers' estimates. The growth rate of sales increased by 9 p.p. in November after an interruption in August-October.

A pause in recovery of anticipated demand forecast fell on September-October, while the balance of expected changes in sales even decreased by 4 p.p. in October. However, in November, the indicator rose by 12 p.p. and reached eight-year high, while such optimistic demand forecasts have not been recorded since the beginning of 2013.

The 2020 crisis sharply reduced the satisfaction of enterprises with the level of demand from 60% in March to 37% in April. However, already in August, the share of "normal" sales estimates reached the pre-crisis level. Then there was a pause in post-crisis recovery growth required by enterprises to assess the economic situation. Recovery in demand growth increased satisfaction with its volumes up to 62%.

Furthermore, the balance of estimates of stocks of finished products continues to decline, thus, the share of estimates "below norm" exceeds the share of responses "above norm". Industrial enterprises understand that their warehouse accumulations are lagging more and more every month behind the current demand and its possible and, most likely, positive changes, but they are not yet ready to switch to maintaining a small manageable surplus of stocks in the current extremely specific crisis.

Based on the results of the culminating crisis year, the Russian industrial sector demonstrates confident control over its stocks, both over finished products and inputs. The share of "normal" estimates of both types of stocks reached historic highs in 2020: 83% for finished goods stocks and 74% for finished goods stocks. In the course of 2015–2016 crisis, the industry also brought the share of "normal" stocks to historical (at that time) highs: 79 and 72%, respectively.

The resumption of growth in demand accompanied by a growing shortage of finished goods stocks allowed the Russian industry to restore the increase in output, which had interrupted in October. The balance (growth rate) of actual changes in production increased by 12 p.p. in November after falling by 5 p.p. and return to almost zero growth in October. The output plans for October-November fully bounced back the September decline of the indicator and returned to a stable pre- and post-crisis level of optimism lost by the industry in the period from February to May 2020.

Quarterly monitoring of hindrances to the growth of output that we launched in 1993, makes it possible to evaluate the scale of restrictions in industrial growth in the crisis 2020, taking into consideration the view of a wide range of enterprises. According to results of 2020, the insufficient domestic demand retained its 1st place in the rating of restrictions. Nevertheless, the reference

of this factor during the crisis year grew only from 50 to 54%. However, there have been more surprising situations in the history of our polls. Thus, in the crisis 2015, the insufficient demand was mentioned even less often than in the pre-crisis 2014, i.e. 48% after 52%.

Whereas the largest increase in the references in 2020 was due to the factor "the uncertainty of the current economic situation and its prospects." It was indicated by 50% of enterprises on average for the year compared to 33% in 2019. At the same time, the main contribution to the average annual growth of references logically fell on the April survey, when the responses of 72% of enterprises awarded this factor to the 1st place. In QI of 2020, its reference traditionally was 30%, relevant for the previous non-crisis quarters.

In Q3, during the energetic resolution of the April breakdown, the ambiguity of the situation reduced the negative impact to 50%, remaining, nevertheless, in the first place. In the beginning of QIV, when the industry took a time-out in the recovery process in order to understand the authorities' reaction to the obvious increase in the morbidity, the "ambiguity" increased its negative impact on Russian industrial growth to 61% and remained in the first place.

However, the traditionally significant superiority of insufficient demand over the ambiguity of the situation in Q3 of 2020 (54% versus 30%) and a small gap in references in the other three quarters (5–8 p.p.), did not allow "the uncertainty of the current situation and its prospects" factor to take the 1st place in the rating of hindrances according to results of 2020.

Enterprises ranked third the low export demand, with their references increased in 2020 compared to 2019 even amid weakening ruble. The reason is most likely in the global viral crisis, having had its strong negative impact on traditional consumers of Russian exports. Russian industry awarded the 4th place to competition against imports, which, at first glance, is surprising given the weakening national currency.

However, the gradual course of devaluation activated the outstripping demand for imported products or for Russian goods with a significant share of imported components, apparently, to the detriment of sales of purely Russian products.

According to enterprises, "the weakening ruble and the rise in the cost of imported equipment and raw materials" round out the top five restrictions of the industrial growth in 2020. The reference of this factor showed the second largest (after the "uncertainty of the situation") growth: from 9% in 2019 compared to 19% in 2020.

Consequently, the "weak ruble" rose from the 15th place in the rating of 17 frictions to the 4th place, and for the third quarter in a row it has been steadily in the top 5 restrictions, displacing the "lack of qualified personnel". Moreover, the "strong ruble" received only 9% of references (in late 2019 – early 2020) and reached only the 13th place in this rating as a negative factor for Russian industrial growth.

Enterprises awarded the last 17th place in the rating of restrictions on growth of output to "lack of credit". The Russian industry has already awarded the last place to this factor for three years now with a 3% reference.

After intensive recruitment of personnel in September-October (the balance reached +5 p.p. during these months, having demonstrated the best value of the indicator after the April collapse to -36 p.p.), the industry decided to adjust the hiring intensity in November and the balance dropped to +3 p.p.

However, plans of the enterprises for recruiting qualified personnel continued to gain optimism and rose to +8 p.p. in November, demonstrating a 10-year high. The resumption of recruiting and plans to continue it were developed by the Russian industry in 2020 under the influence of the 1st place of the "lack of qualified personnel" factor in the sub-rating of resource restrictions of industrial growth. However, the current crisis allowed the industry to get rid of the personnel shortages registered in 2019 and close the 2020 with a zero balance of staffing estimates.

Upon completion of the two-month pause, the Russian industry resumed the restoration of investment plans, albeit a modest one: in November, the balance improved only by 4 p.p. However, after this indicator fell in September by 14 p.p. added by another 2 p.p. of decline in October, the November growth gives hope that the industry has believed in the authorities' intention to waive the second lockdown. Last spring, the lockdown resulted in a collapse of investment plans of the Russian industry by 40 p.p. at once (April).

In November, banks continued to tighten the terms of lending to the Russian industry: the share of messages about "normal" availability of loans in November fell from 66 to 60%. The post-crisis maximum (corresponding to the average pre-crisis value) of this indicator was reached in August and constituted 69%. For the next three months, banks reduced the availability of loans, but not by increasing the interest rate. This indicator has dropped from the April value of 10.7% during the current crisis to 8.9% per annum in rubles. The latter value is the historical minimum for the entire period of our monitoring of the average minimum proposed rate on ruble loans in 2001–2020.

5. MONITORING OF THE SITUATION WITH THE CORONAVIRUS PANDEMIC AND THE MEASURES TO CONTAIN IT IN NOVEMBER 2020

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In November 2020, the number of new coronavirus cases continued to rise in many countries around the world. Some national governments reintroduced containment measures, while others, on the contrary, were already prepared to ease the previously introduced measures. In Russia over the past month, both morbidity and mortality indexes continued to climb (surging above their previous record highs), while the government kept to its strategy of relatively mild restrictions (remote work, online learning, banned or restricted mass events). The prospects for improving the situation depend on the establishment of herd immunity, which can be significantly influenced by the launch of the mass COVID-19 vaccination campaign announced in Russia. However, it is extremely important to promptly and systematically investigate
the possible scenarios for further evolvement of the situation during the vaccination campaign and the related necessary administrative acts.

The current situation with COVID-19 around the world

Morbidity

The spread of the pandemic in November 2020 remained at a high level, and in many countries (Russia including) it accelerated relative to the previous month. Thus, in November, the global number of daily new cases often exceeded 500,000, jumping to 671,900 on November 27 (vs around 300,000 daily new cases in September-October). The values for R_t increased dramatically[1] in many countries since the summer due to a surge in social contacts (*Fig. 1*).

According to updated data as of December 1, 2020, the total number of COVID-19 cases in the world was about 63.57mn (vs 46.37mn as of November 1, 2020), and the number of deaths exceeded 1.47mn (vs more 1.2mn as of November 1, 2020). Overall, there were more than 18.15mn current coronavirus cases around the world, and about 45.42mn had recovered.

The highest rising rates of new cases have been observed in the USA, Turkey, India, Russia, Brazil, the EU member states (Italy, Germany, the UK), and Iran; as of November 30, these 9 countries accounted for 65.9% of all new cases. Russia remains 4th by the total number of cases (around 2.296mn people as of November 30).

1 URL: http://epidemicforecasting.org/global-rt-map.

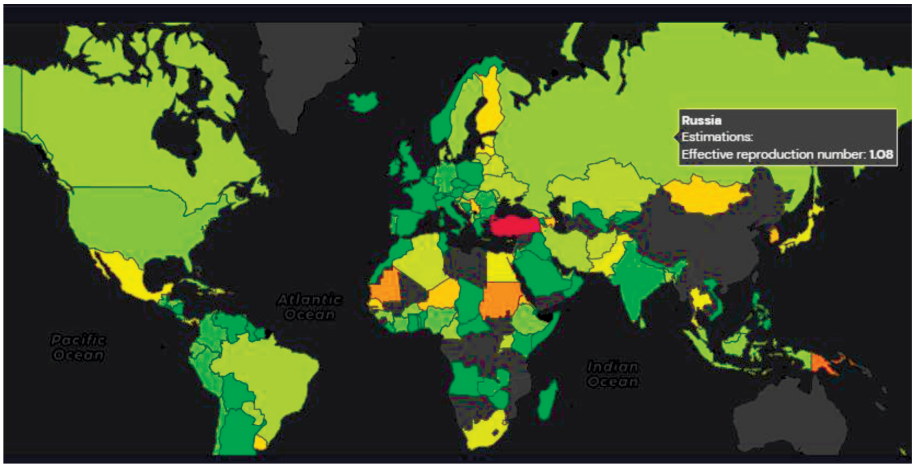
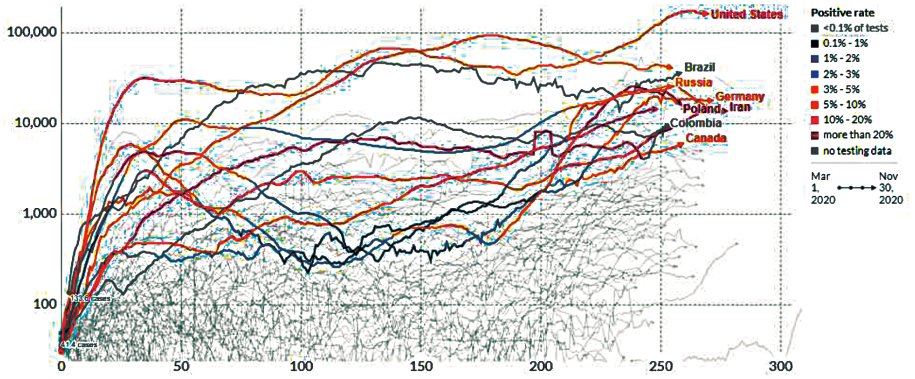


Fig. 1. The R_t estimates

Source: Future of Humanity Institute, University of Oxford.



Note. The abscissa shows the number of days since daily 30 cases were registered in a given country; the color scale (see the symbol chart in the diagram) shows the relative share of positive coronavirus tests.

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

Source: ECDC.

Mortality

Following the general morbidity rate acceleration, the number of coronavirus deaths likewise increased in November. While by the end of October the number of deaths had exceeded 7,000, in November it rose to 12,000. The USA continues to make the largest input in the daily mortality rate (1,191 daily deaths on November 30), followed by Italy (672) and India (482) (*Fig. 3*). In Russia, mortality remains relatively low (about 1.7%) compared to the other countries with the highest morbidity rates. The latest research data indicate that the demographic structure of the population can be a key mortality factor.

The measures being introduced

The responses to the deteriorating epidemic situation vary broadly and depend on the specific situation in each country *(Fig. 4)*; many governments have introduced containment measures.

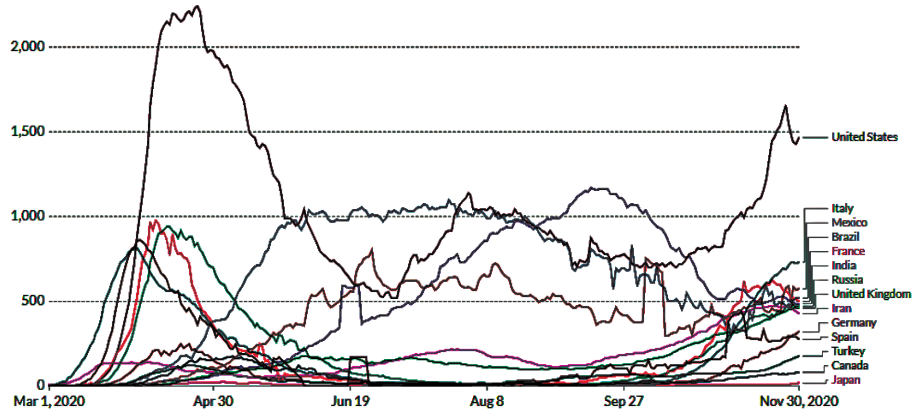


Fig. 3. The rate of 7-day smoothed daily deaths around the world, by country (as of November 30, 2020)

Source: OurWorldInData.

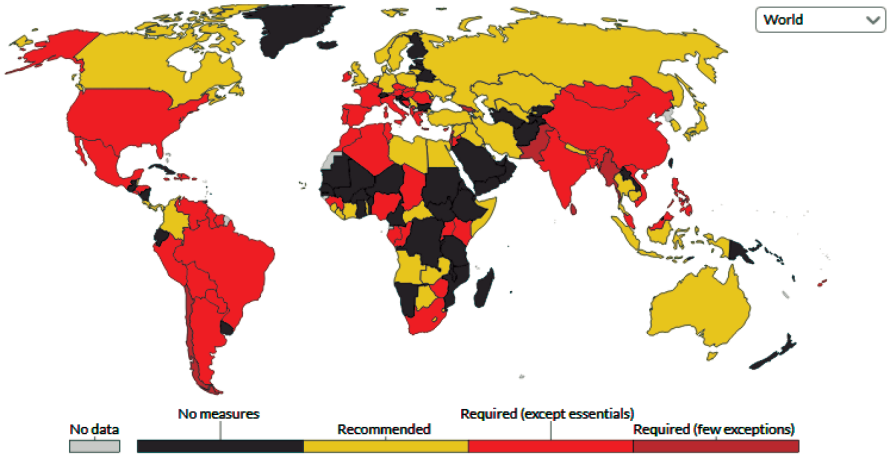


Fig. 4. The stay-at-home requirements

Source: OurWorldInData, November 16, 2020.

Local containment measures were reintroduced in response to the increasing number of new cases in Japan and Indonesia. In Turkey, a nationwide weekend curfew has been implemented, from 9 pm Friday to 5 am Monday; and cafes and cinemas are closed on weekdays. A ban on the use of public transport was introduced for citizens aged 65+ and under 20 years. Access to shopping centers can only be possible with a QR code pass, and the fine for being on the street without a face mask is 900 lira (about Rb9,000). In Europe, strict containment measures were in force over November (in Austria, Estonia, etc.). In Serbia, from November 24 for 10 days, the entertainment establishments and shops must stay closed from 6 pm to 5 am. France introduced a 9 pm to 7 am curfew from 28 November. However, some of the countries have gradually been lifting the previously introduced containment measures (the UK, Spain, and the Czech Republic).

The current situation with COVID-19 in Russia

As of December 1, 2020, 2,322,056 coronavirus cases were registered in Russia (an increase of 41.9% over November) *(Fig. 5)*. A record high daily increase in the number of new cases over that month was recorded on November 27 (27,543). The Rt level stays high, amounting to 1.05 as of December 1 (1.09 as of November 1, and 1.06 on average for November).

The largest daily death increase was seen on December 1 (569). The number of active cases remains at a high level of 478,100, or 20.6% of the total number of cases.

Record numbers of daily new cases were detected in Moscow (7,918), St. Petersburg (3,701), and Nizhny Novgorod region (471) (*Fig. 6*); the infection rate remains high in Irkutsk and Novosibirsk regions.

There has been a significant increase in hospitalizations and hospital bed occupancy rates, including in the intensive care unit: the average for Russia hovers near 78–80%, while in a number of regions (Ivanovo and Oryol regions, the republics of Komi and Mordovia, the Crimea, and St. Petersburg) these indices are critical, in excess of 90%.

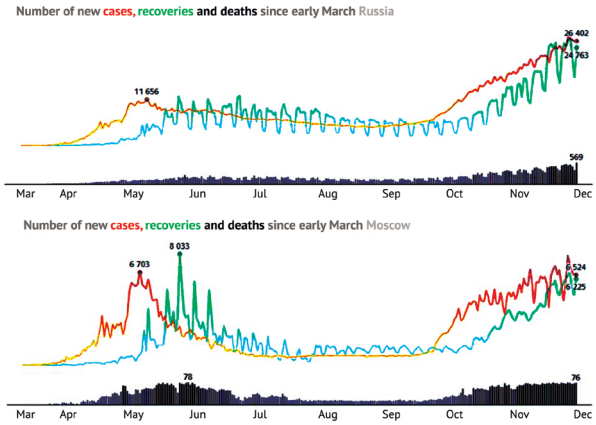


Fig. 5. The number of new cases, recoveries and deaths since early March in Russia and in Moscow

Source: Yandex, data as of December 1.

Region	New daily cases	Rt	Total cases	Infections per 100,000 population	Total deaths	Deaths 100,000 population
Moscow		1,11	612 248	4895,5	8 978	71,8
St. Petersburg		1,06	129 604	2421,6	5 517	103,1
Moscow region		1,06	112 130	1494,4	2 092	27,9
Nizhny Novgorod region		1,02	54 947	1698,6	1 186	36,7
Sverdlovsk region		0,97	46 693	1079,5	1 037	24,0
Rostov region		1,05	40 339	955,8	1 351	32,0
Krasnoyarsk Krai		1,00	36 568	1271,3	1 140	39,6
Voronezh region		1,03	34 764	1489,6	618	26,5
Khanty-Mansi AO		1,06	34 557	2087,9	413	25,0
Irkutsk region		1,01	32 361	1346,0	806	33,5

Fig. 6. Top 10 regions, by number of cases

Source: Yandex, data as of December 1.

Measures to prevent the spread of the coronavirus in Russia

In spite of the generally deteriorating coronavirus morbidity situation in November, the strict lockdown measures were not reintroduced across the regions of Russia (*Fig. 7*). Only the Republic of Buryatia established a two-week lockdown (from November 16).

In general, the existing restrictions and recommendations (the use of PPE,[1] social distancing, banned or restricted mass events) have remained in force, and many of them have been extended.

From November 13 to February 6, the universities in Moscow and St. Petersburg switched over to online learning.[2] In Moscow, the stay-at-home regime for citizens aged 65+ years and individuals with chronic diseases was extended until January 15, 2021; remote work is still mandatory for not less than 30% of employees; and the restrictions on cultural and leisure activities are still in place. In the services sector, visitors must undergo electronic registration by their phone number or receive QR codes.

In St. Petersburg, the playgrounds, ice skating rinks and food courts inside shopping centers were closed. Some regions also toughened their stay-at-home requirements for the elderly people and the remote work format rules for employees.[3]

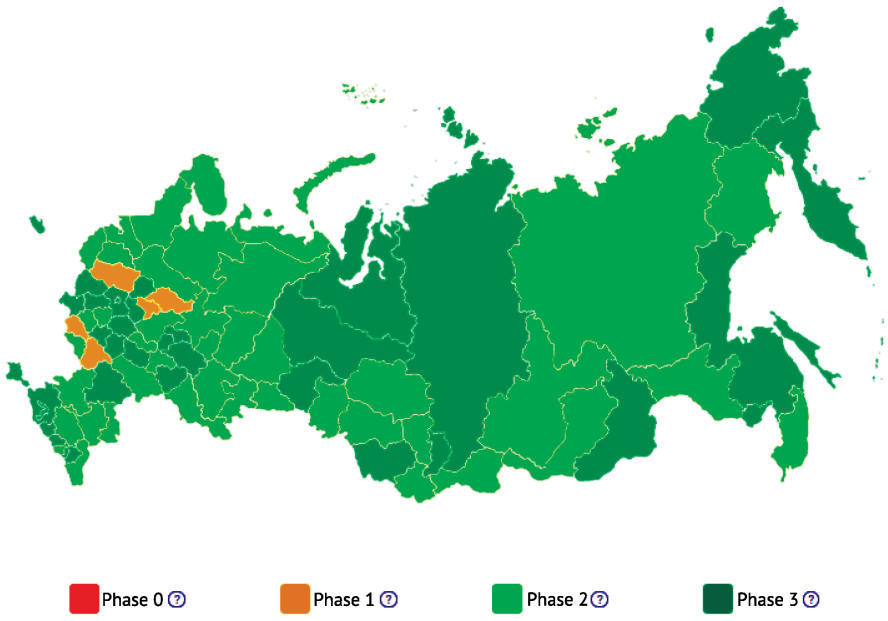


Fig. 7. The map of phases in lifting the containment measures in the regions

Source: Стопкоронавирус.рф, November 27, 2020.

The forecasts for the situation in Russia

Overall, the forecasts point to the "second wave" of morbidity peaking over the period from late December 2020 (Johns Hopkins University) to late February 2021 (IHME[4], *Fig. 8*), depending on a particular scenario.

1 The general mask wearing regime in Russia is extended until January 1, 2022.
2 Order No 1402 of the RF Ministry of Science and Higher Education.
3 URL: https://tinyurl.com/y6hrywx5.
4 URL: https://covid19.healthdata.org/russian-federation.

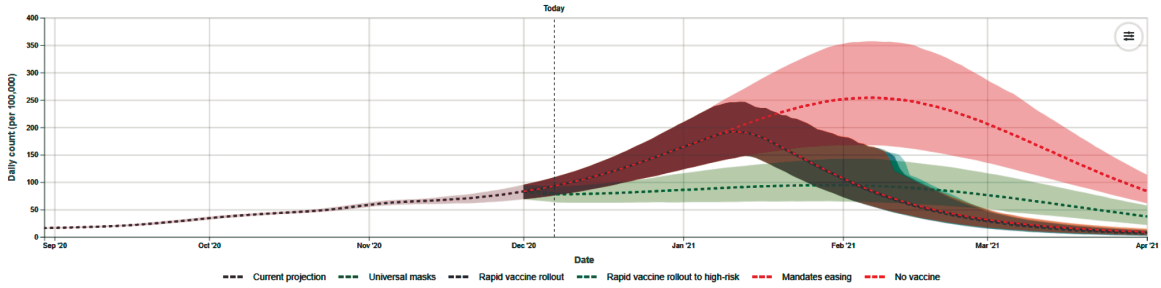


Fig. 8. Morbidity growth forecast (per 100,000 population)

Source: IHME.

WHO has announced that, based on the results of serological studies conducted by Rospotrebnadzor, signs of the emerging herd immunity are showing in Russia, but its significant effect on the spread of the pandemic is still far away in the future. At the same time, according to the Swedish authorities, the absence of a strict lockdown could not guarantee the acquisition of herd immunity, because the number of hospitalizations in Sweden is growing faster than in the other European countries. However, experts estimate that the impact of the virus on the human body is likely to recede over time.

At the same time, recent studies show that a re-infection with coronavirus is possible in 4–8 months.[1] In addition, it is difficult to predict the prospects for further changes in the coronavirus. For example, the appearance of mutations in the coronavirus was registered in the Siberian region of Russia.[2]

Therefore, an important role has to be played by vaccines, a number of which proved to be effective in the clinical trials carried out in November. On December 2, 2020, the President of Russia announced the start of large-scale vaccinations against the coronavirus. However, as the experts' analysis shows, the planned vaccination campaign still can be faced with a number of potential problems.

Therefore, it is extremely important to *promptly and systematically analyze* the whole set of possible scenarios describing the situations that could emerge during the vaccination campaign, as well as the corresponding administrative *actions* that could become necessary in order to cope therewith, especially taking into account:

- 1) the possibilities and prospects for increasing the volume of vaccine production, and for the fair distribution of the vaccine among the regions of Russia;
- 2) the existing regional material and technical base for vaccination, opportunities for its rapid increase;
- 3) the attitudes and reactions of the population to the initiation of vaccination (for example, when additional side effects are detected), the need for some further measures to stimulate the population to undergo vaccination;
- 4) the effecathy of vaccination in terms of the formation and duration of immunity in the population who receives the vaccine, the need for regular vaccination;
- 5) changes (mutations) in the coronavirus;
- 6) international obligations for the supply of vaccines.

1 URL: https://tinyurl.com/y2z9ywqw.
2 URL: https://www.interfax.ru/russia/737435.