

# MONITORING OF RUSSIA'S ECONOMIC OUTLOOK:

## TRENDS AND CHALLENGES OF SOCIO-ECONOMIC DEVELOPMENT

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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).

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# 1. THE OIL MARKET IN LATE 2020

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*The refusal to sharply increase oil output by the OPEC+ deal participants and the news of the launch of vaccinations against the coronavirus were positively received by the world oil market: on December 10, for the first time since March 2020, Brent crude futures rose above \$50 per barrel. The risks threatening oil price recovery and market balancing have been the additional containment measures adopted in a number of countries in response to the “second wave” of the pandemic and the resulting demand shrinkage. The upward trend may be sustained by the start of mass-vaccination programs and the subsequent confirmation of their effectiveness, as well as the continued concerted actions by the OPEC+ participants.*

## **The current situation in the world oil market and predictions of its price dynamics**

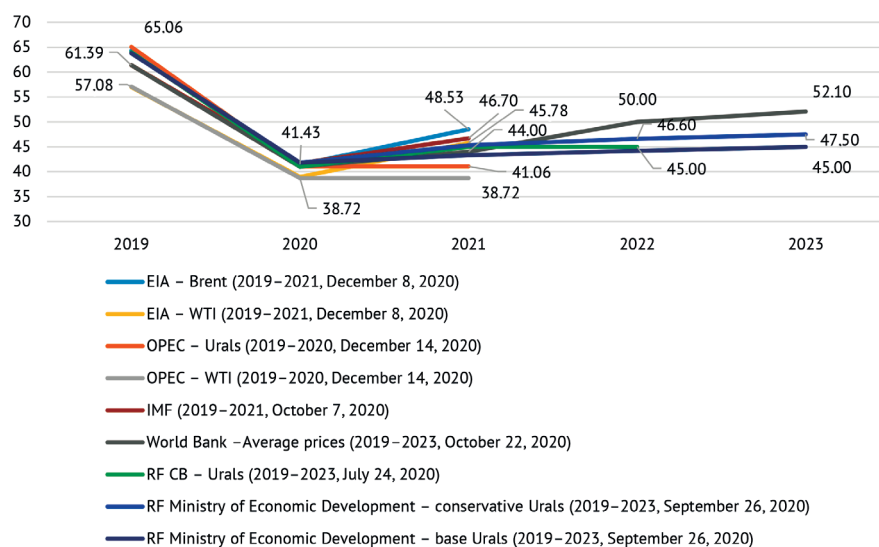
Initially, the countries participating in the OPEC+ deal had planned to ramp up their collective oil output by almost 2 mn barrels per day from 2021, but their ultimate compromise decision turned out to be much more modest, of an increase by only 0.5 mn barrels per day. The reasons behind the smoother output adjustment were the “second wave” of the pandemic, the introduction of new containment measures that pushed down the demand for oil, and the rapid oil production recovery in Libya, which is not a party to the deal. The decision to increase the oil production quotas on a rather moderate scale created the potential for a more flexible response to the future changes in both supply and demand by stabilizing oil prices within a predictable range.

Although the oil market is still burdened with excessive stocks of crude oil, in the second week of December the benchmark price of Brent, for the first time since March 2020, exceeded \$50 per barrel. This growth can more likely be explained by the general expectations of market participants rather than by some fundamental factors. Oil quotes have been responding to the news of the development and use of an efficient coronavirus vaccine, thus raising hopes for a demand recovery. At the same time, oil prices displayed practically no reaction to an increase in US oil reserves by 15 mn barrels in early December 2020.

According to the forecasts released by the US Energy Information Administration (EIA), in 2021 we can expect a reduction in oil reserves due to an increased global demand and the fulfillment of the terms of the OPEC+ deal. This will result in the world consumption of oil and liquid fuels averaging 92.4 mn barrels per day in 2020, which is 8.8 mn barrels per day less than in 2019, and in 2021 this figure will grow by 5.8 mn barrels per day. In addition, according to the EIA forecast, prices for Brent crude oil in Q1 2021 will average \$47 per barrel, and by Q4 2021 they will further increase, on average to \$50 per barrel. The EIA

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expects that the high level of global oil stocks and oil overproduction will keep the oil price growth rate low for the larger part of 2021 (*Fig. 1*)<sup>1</sup>.



*Fig. 1. Oil price forecast, USD per barrel*

Source: own compilation.

According to the World Bank forecasts, oil prices are expected to average \$44 per barrel in 2021, up from an estimated \$41 per barrel in 2020, because the gradually increasing demand will go hand in hand with the eased supply constraints in the OPEC+ countries. The duration of the pandemic has been identified as the main risk for predicting the movement of oil prices, including the risk of an intensification of its “second wave” in the northern hemisphere, as well as the speed of public vaccinations.<sup>2</sup> The International Monetary Fund does not expect any rapid recovery of oil prices in the near future, predicting that in 2021, they will stay in the range of \$40 to \$50 per barrel.<sup>3</sup>

The Bank of Russia upgraded its oil price forecast for Russia's export grade Urals oil price, to \$41 from \$38 per barrel in 2020. The Urals oil price forecast for 2021 has also been improved, to \$45 from \$40 per barrel. In 2022, the regulator expects the price of oil to stand at \$45 per barrel, and in 2023, at \$50 per barrel.<sup>4</sup>

According to the RF Ministry of Economic Development's forecast released in late 2020, Russia's Urals oil will cost \$41.8 per barrel, and by 2023 its price will rally to \$47.5 per barrel. The base price for 2021 is set to be slightly above \$43 per barrel.

The risks that may cause a slide in oil prices, according to Sberbank Investment Research, are as follows: a possible new surge in the coronavirus

- 1 Short-term energy outlook / EIA. 08.12.2020. URL: [https://www.eia.gov/outlooks/steo/report/global\\_oil.php](https://www.eia.gov/outlooks/steo/report/global_oil.php).
- 2 World Bank Commodities Price Forecast (nominal US dollars / World Bank. 22.10.2020. URL: <http://pubdocs.worldbank.org/en/478961602618430208/CMO-October-2020-Forecasts.pdf>.
- 3 World Economic Outlook Update, October 2020 // IMF. 07.10.2020. URL: <https://www.imf.org/en/Publications/WEO>.
- 4 Bank of Russia's medium-term forecast following the Bank of Russia Board of Directors' key rate meeting // Bank of Russia. October 23, 2020. URL: [http://www.cbr.ru/collection/collection/file/29374/forecast\\_201023.pdf](http://www.cbr.ru/collection/collection/file/29374/forecast_201023.pdf).

## 1. THE OIL MARKET IN LATE 2020

infections in Asia; a further reduction in motor fuel demand in the USA; active negotiations concerning the Iran nuclear agreement and the possible gradual lifting of the oil sanctions on Iran; oil output growth in the OPEC+ countries at a more significant rate than expected.

### **The daily oil production by the OPEC+ deal participants in excess of their quotas**

In June, at the OPEC+ meeting, the participating countries subscribed to the concept of compensation for the member nations who were unable to attain full conformity (100%) with the approved oil production cut plan. In May-August 2020, 13 participants exceeded their production quotas by 2.4 mn barrels per day. Iran, Nigeria, Gabon, Equatorial Guinea, Congo and South Sudan had the worst compliance rates with regard to their prescribed individual oil production cuts during that period.

In September 2020, the offending countries additionally reduced their oil output by 249,000 barrels per day, while at the same time, the other participants exceeded their individual quotas by a total of 199,000 barrels per day. As a result, the compensatory oil production decrease to offset the oversupply in September amounted to only 50,000 barrels per day relative to the previous month. The collective compensation obligations of the participating nations totaled 2.33 mn barrels per day (according to the estimates of the Joint Technical Committee, the bulk of oil overproduction was accounted for by Iraq and Russia: the share of Iraq was 578,000 barrels per day, and that of Russia, 430,000 barrels per day). This meant that, in order to achieve a full compensation over October-December 2020, the offending countries not only had to meet their quotas by 100%, but also to implement an additional production cut by 760,000 barrels per day. In September, the overall conformity level was 102%.<sup>1</sup>

In November 2020, the conformity level for the OPEC+ deal was 101%. All the OPEC countries that contributed to the cut had been keeping their output at a stable level, except for the UAE, where production increased by 80,000 barrels per day. Iraq and Nigeria reduced their production by 10,000 and 20,000 barrels per day, respectively. In November, Russia's oil production exceeded the quota by approximately 80,000 barrels per day. During the OPEC+ meeting in November, it was decided to extend the compensation mechanism until March 2021 in order to fully offset the overproduction.

### **The Russian oil market in September-December 2020**

According to OPEC data, in September 2020, Russia produced 9.19 mn barrels per day of oil alone, not counting gas condensate, thus meeting the deal terms by 90%. According to the International Energy Agency (IEA), Russia's compliance in September was 94%, which corresponded to an output of up to 9.11 mn barrels per day. In October 2020, as shown by OPEC data, Russia complied with the deal by not more than 86%. According to the IEA, Russia's compliance with the oil production cut agreement was 95%, as its output was reduced by 30,000 barrels per day, to 9.08 mn barrels per day. In November, according to OPEC data, the compliance with the oil production cut was 86%, because instead of the promised reduction by 2.007 mn barrels per day, Russia's cut amounted to only 1.72 mn barrels per day; by the month's end, total output amounted to 9.28 mn barrels per day, less gas condensate. According to the IEA, in November 2020,

<sup>1</sup> JMMC priority is full conformity by all DoC members / OPEC. 19.10.2020. URL: [https://www.opec.org/opec\\_web/en/press\\_room/6170.htm](https://www.opec.org/opec_web/en/press_room/6170.htm).

the deal was complied with by Russia by 96%. The methodologies for calculating the relevant indicators within the framework of the OPEC+ deal applied by the participating nations, the OPEC Secretariat, and the IEA frequently differ, which explains the variation in the compliance indicators.

Table 1 shows the movement of Russia's total oil output over some months of 2020, as well as that of oil exports, domestic supplies for oil refineries, and the transshipment through seaports of oil and petroleum products.


Table 1

### The movement of production, processing and exports indices of the Russian oil industry

	September 2020		October 2020		November 2020	
	mn tons	change relative to September 2019, %	mn tons	change relative to October 2019, %	mn tons	change relative to November 2019, %
Oil production	40.7	-11.8	42.2	-11.2	41.0	-11.1
Oil exports	17.8	-20.6	19.3	-18.9	18.3	-12.2
Primary oil refining at Russian refineries	21.7	-7.9	21.4	-11.2	22.2	-8.7
Transshipment of bulk cargo in Russian ports, of which:	31.3	-19.9	30.9	-19.5	32.9	-19.6
crude oil	17.8	-22.9	17.9	-20.1	17.9	-27.2
petroleum products	10.5	-18.6	10.3	-24.3	11.8	-10.6

Source: RF Ministry of Energy.

It is expected that from January 2021, Russia will be able to boost oil production by another 126,000 barrels per day, due to the gradual increase to production curbs adopted at the latest meeting of the OPEC+ participants on December 3, 2020.

An analysis of the forecasts prepared by international agencies and the current developments in the global energy market indicate that the coronavirus pandemic has remained a major factor affecting oil prices; thus, the upshot of its "second wave" has been the reintroduction of containment measures in a number of countries and waning economic activity, which means that the demand for energy resources, and in particular petroleum products, will likewise be on the decline. One of the drivers of the energy market recovery could be mass-scale public vaccinations against COVID-19. Another factor triggering a rise in oil prices may become the measures related to the OPEC+ deal to limit daily oil production. 

## 2. CORPORATE LENDING IN JANUARY-OCTOBER 2020

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*Amid the pandemic, Russian banks adapted to new conditions and kept increasing lending volumes. A pickup in the corporate segment is facilitated by state support measures for business, the Russian Central Bank's regulatory policy and record-low interest rates. The overdue debt ratio remains stable, however, as regulatory easing measures cease to be in effect credit institutions may face overdue debt growth.*

As of November 1, 2020, corporate borrowers<sup>1</sup> overall credit exposure amounted to Rb 45.1 trillion. In January-October 2020, its growth was equal to Rb6.1 trillion or 15.7%. As a result, corporate lending growth rates surpassed exceedingly the previous year's indicator. In the relevant period of 2019, Russian banks' corporate portfolio increased by the mere Rb0.80 trillion (or 2.1%) to Rb38.8 trillion.

The ruble corporate credit portfolio has increased by 11.7% since the beginning of the year and is equal to Rb33.2 trillion or 73.7% of the overall corporate debt. In January-October 2019, ruble portfolio growth amounted to 7.6%, while its share in the overall credit portfolio, to 76.6%.

In 2020 the currency portfolio increased primarily on the back of depreciation of the Russian ruble, a 28.2% increase by November 1, 2020. With appreciation of the ruble last year, this indicator fell by 12.2%.

The credit portfolio maturity structure underwent some changes. In the ruble portfolio, the share of short-term loans (up to 1 year, including demand loans) was equal to 75.8% early in 2020, while in October it fell to 66.2%. The currency portfolio saw quite the opposite trend: the share of short-term loans in US Dollars rose from 69.6% in the beginning of the year to 91.1% in October.

In the beginning of the pandemic, inflation risks did not virtually affect the cost of credit in the ruble segment. A slight uptick was seen in April during the stay-at-home regime, however, in the following months owing to the stabilization of businesses' inflation expectations and cuts in the RF Central Bank's key rate, interest rates were steadily declining and hit all-time lows. In the currency segment, interest rates were prone to fluctuations because of currency market volatility, however, downward trends were evident, as well.

The sectorial pattern of corporate loans did not change substantially. By the debt size, manufacturing industry is in the lead (26.1% in the overall credit portfolio) followed by agriculture (6.1%) and mining industry (5.8%). Based on the outcomes of January-October 2020, above average debt growth rates were registered in mining industry (a 32.1% increase since the beginning of the year), manufacturing (19.5%) and real-estate operations (19.0%). Wholesale and retail trade saw a decrease of 8%.

Despite the RF Central Bank's support measures in terms of soft lending to enterprises in the most vulnerable sectors, numerous business sectors experienced serious difficulties in taking out a bank loan and had to reduce

<sup>1</sup> According to the RF Central Bank's procedures, corporate lending includes loans granted by non-financial and financial institutions (except for credit institutions) and private entrepreneurs.



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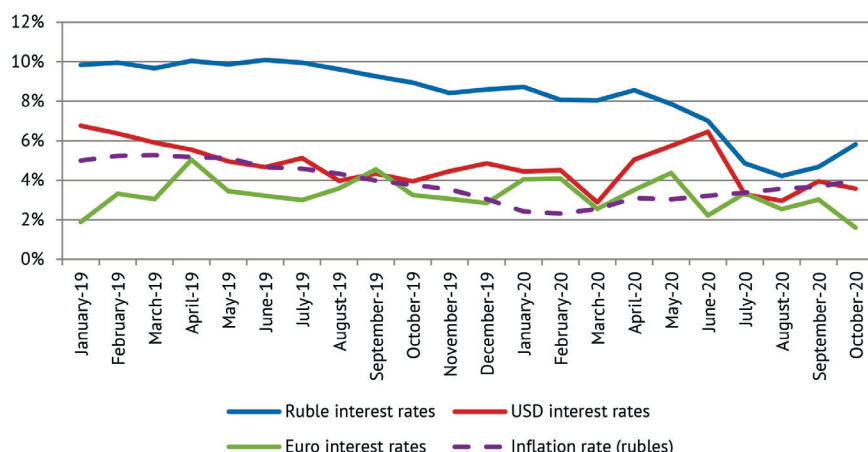


Fig. 1. Corporate borrowing market interest rates (six-months to one year)

Source: The RF Central Bank's 2019-2020 Statistical Bulletin.

borrowing volumes. As of November 1, 2020, 19 types of OKVED-2 (23.5% of all lines of business) saw a decrease in bank debt. The most substantial drop was evident in the following OKVED-2 types: "12- Production of Tobacco Goods" (an 86.8% reduction relative to the debt as of the start of the year), "65-Insurance, Reinsurance, Non-Government Pension Funds' Activities, Except for Mandatory Social Security" (a decrease of 82.0%) and "53-Postal and Courier Service" (a decrease of 63.5%).

The highest growth rates of accounts payable can be found in "09-Rendering of Services in Mining" (an increase of 301.8% over 7 months of 2020), "78-Employment Activities and HR Hiring" (an increase of 244.0%), "90-Creative Activities, Art and Entertainment" (an increase of 153.4%).

In this situation, it is difficult to assess adequately the quality of the credit portfolio. As of November 1, 2020, overdue debts amounted to 6.4% of the overall lending volume. A year before, this ratio was equal to 7.2%, but it does not mean that the quality of the credit portfolio has improved. Such a formal improvement is related to loan debt restructuring and provision of repayment holidays. According to the information<sup>1</sup> received from 33 credit institutions, from March 20 to October 31 they actually restructured over 7,400 loans granted to legal entities (except for SME), the restructured outstanding loan debt was equal to over Rb4.8 trillion or 13.8% of banks' overall portfolio (except for SME).

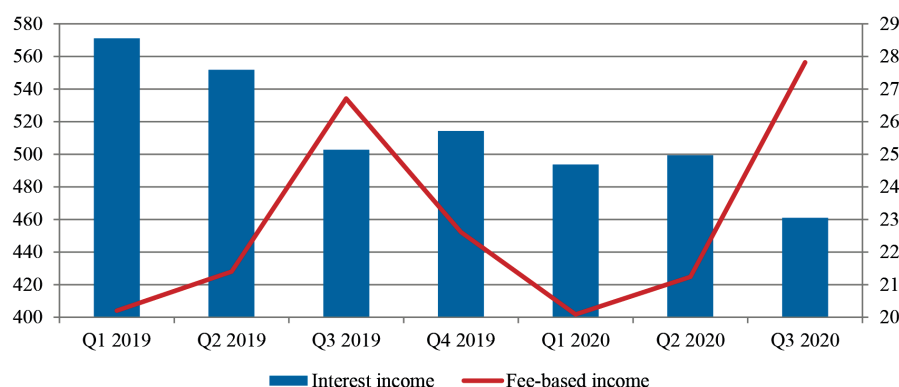
Credit institutions' interest income from corporate loans decreased owing mainly to interest rate cuts. Despite substantial growth in the credit portfolio, in Q1-Q3 2020 the volume of received and accrued interests on loans granted to non-government corporate entities declined by 10.6% compared with the relevant period of the previous year. To some extent, banks sought to compensate interest income by means of fee-based income which used to grow at an advanced rate (72.1%) last year, but remained at the same level this year (a 1.2% increase).

The current financial crisis brought about by the pandemic has led to abnormal growth in banks' corporate portfolios. Overall, the debt burden on the Russian business is quite in harmony with that of emerging market countries. However, in Russia a small number of large borrowers which are customers of major

1 URL: [https://cbr.ru/Collection/Collection/File/31718/drknb\\_12\\_2020.pdf](https://cbr.ru/Collection/Collection/File/31718/drknb_12_2020.pdf).




## 2. Corporate Lending in January-October 2020



*Fig. 2. Dynamics of banks' interest and fee-based incomes from corporate loans, billion rubles.*

Source: The Profit and Loss Report (Form No.102) for January 1, 2019 – October 1, 2020 / The RF Central Bank. URL: [http://www.cbr.ru/banking\\_sector/otchetnost-kreditnykh-organizatsiy/](http://www.cbr.ru/banking_sector/otchetnost-kreditnykh-organizatsiy/).

banks account for a larger portion of corporate debt. The high concentration of corporate debts may trigger off a system risk in the banking sector, so, it would be advisable for banks to revise and adopt more prudent requirements to financial dimensions and risk-based models.

Banks are allowed not to create additional provisions in full on restructured loans to the big business until April 1, 2021, while as regards loans to the small business this period is extended till July 1, 2021. In the forthcoming months, credit risks may materialize and banks' risk management faces a challenge of identifying timely risky borrowers and carrying out comprehensive measures to make up for losses. 

### 3.THE AGRICULTURAL SECTOR DURING THE PANDEMIC

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*The agriculture saw sustainable production amid the pandemic, growth of 1.8% over ten months. The agricultural sector's exports are surpassing the 2019 volumes and as early as December exceeded the 2020 FP Target Indicator "Exports of the Agricultural Sector's Products" amid stagnating imports. The depreciation of the national currency and appreciation of prices on international markets incited motivation for exporting products, which in its turn led to a rise in domestic prices. With households' incomes falling, the government had to develop new instruments to regulate food prices.*

Despite problems related to restrictions on the movement of migrant workers, resources and products, the agricultural sector's outturns are quite good at the year-end: based on the January-October 2020 data agricultural output increased by 1.8% year-on-year. Growth drivers were grain (+9.3%), pork (+11.4%) and milk (+2.7%) (Fig. 1). Downward dynamics were evident in the production of sugar-beet (-37.0%), sunflower (-12.1%) and potatoes (-11.6%). The production of vegetables (-0.9%), eggs (+0.5%), poultry meat (+0.7%) and cattle stock (+2.1%) remains quite sustainable.

The main factors affecting crop farming's output dynamics were crop yield fluctuations; in case of production of potatoes and sugar-beet they were caused to a great extent by a substantial reduction in cultivated areas (-5.0% and -19.0%, respectively). Specifically, the reduction in sugar-beet cultivated areas can be substantiated by a dramatic drop in prices of sugar after the 2019 record-high yield, while in case of potatoes, by the long-term trend of cultivated areas shrinkage at households' farms. Furthermore, in 2020 beet producers complied with the RF Ministry of Agriculture's urgent request to reduce beet cultivation.

The main pork production growth driver is still high domestic consumption. It is noteworthy that the import substitution potential is exhausted: after the tariff quota on imports was replaced by an import duty of 25% (from January 1, 2020) the volume of imports in October-September 2020 decreased by 91.5%, while its share in consumption was equal to 0.2% against 2.6% a year before.

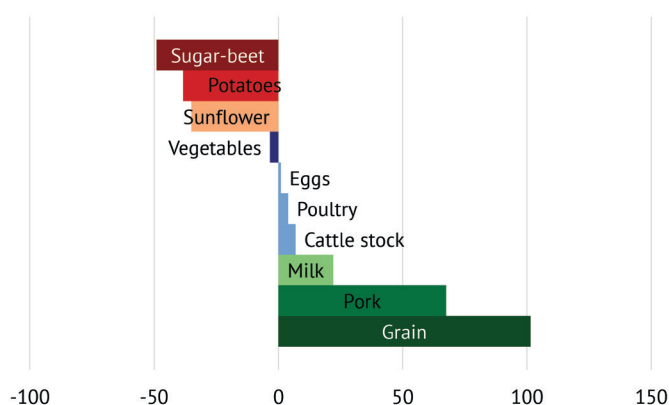


Fig. 1. The input of the main agricultural products into gross output growth in 2020, preliminary estimates in prices of 2018, billion rubles

Source: own calculations based on the Rosstat's data.

### 3.The Agricultural Sector During the Pandemic

In January-November 2020, the agricultural sector exported \$26 bn worth of products, a 16% increase on the relevant indicator seen in 2019. This exceeds by \$1 bn the 2020 target indicator of the “Agricultural Sector’s Exports” federal project. It became feasible owing to the upturn in exports of grain and other agricultural products (mainly unprocessed oil-bearing crops) amid insufficient growth (relative to the project) in exports of meat and dairy products (Fig. 2) though an increase in exports of these products can be estimated as high.

Advanced growth in exports of products of fat-and-oil industry (+18.6%) and meat and dairy products (+41.9%) changed the exports pattern for the better as regards the ratio between products of various process stages. So, in January-September 2020 the share of midstream process stage products increased by 3.2 p.p. to 26.7% on the back of a 2.2 p.p. reduction in the share of upstream process stage products to 57.6%. The downside of these changes is delayed growth in exports of downstream process stage products, that is, prepared food: their share decreased by 1.0 p.p. to 15.6%. If a pickup in exports of midstream process stage products, such as meat and dairy products, is equal to 59%, in case of downstream process stage products it amounts to the mere 13.7%. A similar situation can be found in food and processing industry: with overall growth of +15.7%, an increase in output of downstream process stage products is equal to +2.8%.

In January-September 2020, imports of food and agricultural primary products decreased by 0.9%, but this reduction was even. The decrease in imports was mainly driven by the reduction in imports of meat (27.7%), spirits and alcohol-free beverages (8.3%) and condensed milk (21.5%). At the same time, imports of apples and palm oil increased by 30.6% and 19.9%, respectively (Fig. 3). The decision taken by the RF Government in H1 2020 to give up the duty on imports of apples had a favorable effect on their growth.

The “second wave” of the coronavirus infection was accompanied by changes both in customer behavior and the policies of different countries. Russia saw no new speculative demand for food products (as during the “first wave” the food supply system managed effectively to make up for a sudden goods shortfall), while other countries started to speed up the formation of supplies to meet the needs of their population by underpinning

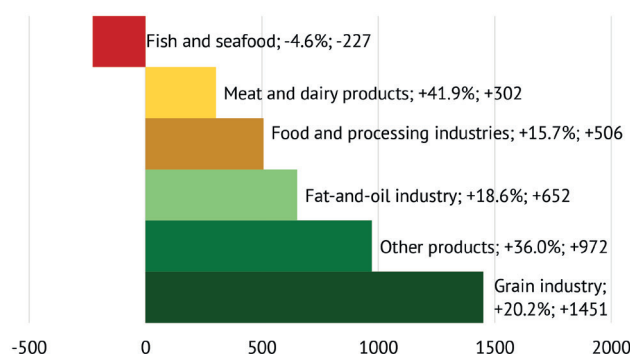


Fig. 2. Absolute and relative growth in exports of agricultural products over 11 months of 2020, million US Dollars, %

Source: The RF Ministry of Agriculture’s Federal Center for Promotion of Agricultural Exports.

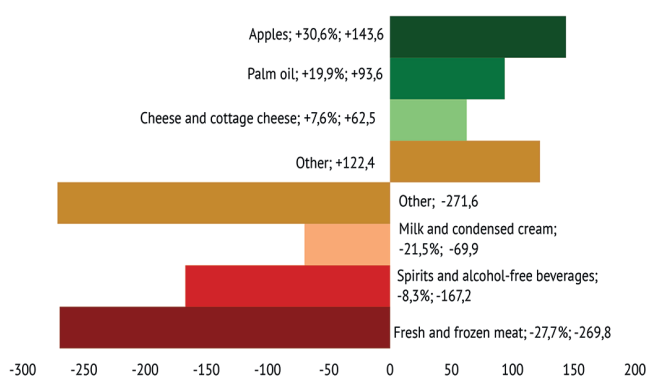


Fig. 3. Absolute and relative growth in imports of agricultural products over 9 months of 2020, million US Dollars, %

Source: The RF Federal Customs Service.

appreciation of international market prices; no such situation was observed during the first stage of the pandemic.

According to the IMF's estimate, global food prices appreciated by 8.5% (6.5% as per the estimate of the UN Food and Agriculture Organization) last year (November 2020 on November 2019). It is noteworthy that this ratio is comparable with a rise in prices of Russian agricultural producers (+8.8%) and food manufacturers (+10.2%). At the same time, Russian retail food prices saw smoother dynamics, an increase of 5.7% (Table 1).

Table 1

Dynamics of Russian and global food prices, growth rates, %, November 2020 on November 2019

Products/Indices	Russian retail prices (Rosstat)	Global prices (IMF, US Dollars)	Global prices (IMF, rubles at the RF Central Bank's prevailing exchange rate)
Chicken	-0.8%	-1.1%	19.0%
Sunflower oil	24.7%	47.7%	77.7%
Sugar	59.3%	17.7%	41.6%
Wheat flour/wheat	13.1%	33.8%	61.0%
Milk	0.8%	14.1%	37.3%
Tomatoes	5.7%	12.9%	35.9%
Pork	0.0%	18.8%	43.0%
Apples	17.2%	15.5%	39.0%
Food price Index IMF	5.7%	8.5%	30.5%
Agricultural producer price index	8.8%	x	x
Food producer price index	10.2%	x	x

Source: The Rosstat, the IMF and the RF Central Bank.

Russian retail food prices were changing unevenly. Those products whose exports (grain, sunflower oil) and imports (vegetables and fruits) make Russia integrated in the global market appreciated the most. A rise in prices of these products was explicit, but did not exceed the level of global prices. As regards those products where domestic consumption is close to output volumes (poultry meat, pork, milk), appreciation of prices fluctuated within 1% and was several-fold lower than on the global market. A dramatic appreciation of domestic prices of sugar (+59.3%) in advance of changes in global prices even with depreciation of the Russian ruble taken into account can be substantiated largely by a low base effect, that is, depreciation of domestic prices of sugar in autumn-winter 2019 owing to the record-high yield of sugar-beet and overstocks. From January 2019, domestic prices of sugar appreciated by 11.5%, while global nominal prices, by 17.8% and with depreciation of the Ruble/US Dollar exchange rate taken into account, by 34.4%.


Growth in retail food prices amid households' falling incomes gave rise to debates on price control mechanisms. Specifically, the existing mechanism – established in the Federal Law “On the Principles of Government Regulation of Sales Activities in the Russian Federation” where price regulation can be introduced for the period of 90 days provided that prices on socially important goods have appreciated by 30% or more during 30 calendar days – is left beyond the framework of the debates. Following the RF President's instruction to ensure control over prices, relevant government resolutions were issued in mid-December 2020 to introduce new regulatory practices in the entire territory of the Russian Federation:

1. Agreement between federal executive authorities and economic agents on reduction and maintenance of prices of sugar and sunflower oil

### 3.The Agricultural Sector During the Pandemic

(Resolution No.2094 of December 14, 2020 of the RF Government). Producers are motivated to comply with such an agreement, otherwise they face the risk of export duties being introduced on sunflower oil and import duties on sugar abolished. As regards sunflower oil, there is a high risk of market participants' opportunistic behavior: producers may refuse to supply sunflower oil to the domestic market at a ceiling price and shortages arise. This disadvantage can be mitigated by a domestic market delivery quota being introduced in respect of large producers (20 companies produce 70% of unrefined oil) which are the main exporters of vegetable oil if the export duty is abolished. The risk of export duties being introduced serves as motivation to comply with the agreement. As regards sugar, the agreement can be reached and implemented effectively because the sugar market is highly concentrated: the largest holding produces 22% of sugar and five other companies account for 61% of the overall sugar production in Russia. The risk of a failure to comply with the agreement is quite low: producers' opportunistic behavior can be punished by means of import duties being abolished. At the same time, there is no risk related to sugar exports.

2. Compensation of a portion of costs related to purchasing of food-grade wheat to flour producers (Resolution No.2095 of December 14, 2020 of the RF Government). The inter-budget transfers rules suggest that half of grain price appreciation is compensated out of the federal budget on the basis of flour producers' grain consumption for 3 months. Regional budgets will be co-financing the compensation to the extent specified for each constituent entity in the inter-budget transfers agreement. Flour producers are obligated not to raise prices during the compensation payment period. The complex of these requirements limits regions' utilization of such a scheme.
3. Setting of the rate of export customs duties on wheat at euro 25 per ton within the limits of the tariff quota and 50%, but minimum euro 100 per ton, beyond the quota in the period from February 15 till June 30, 2021. The tariff quota volume is expected to amount to 17.5 mn tons and is generally consistent with the grain balance. With the prevailing current global prices and limited effective period of the export duty, the latter will not affect substantially exports and output volumes. At the same time, any export restrictions may produce negative implications for the sector. This effect can be eliminated by means of accounting grain export duties and transferring them to support grain producers (all grain producers regardless of their engagement in exports) pro rata to the previous cultivated area size.

To limit the risk of the price fixing negative effect on agricultural output volumes, it is advisable in future to utilize food market support instruments on the demand side, specifically, the introduction of food aid, that is, a transfer of funds to social cards in the volume ensuring at least 85% of the rational consumption norm; this will require minimum Rb370 bn in prices of 2020. 

## 4. MIGRATION TO RUSSIA: THE LOWEST RATE IN A DECADE

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*In 2020, the migration growth of the population of Russia has sharply decreased, amounting to 81.7 thousand people in January-September. By early winter, the number of labor migrants in Russia decreased by 25%, while the share of those legalized in the labor market has not changed. As the epidemiological situation normalizes, the scale and vector of migration should return to their previous values.*

### Long-term migration

In 2020, the COVID-19 pandemic and related constraints had a direct impact on migration processes in Russia. At the same time, migration growth of the population in Q1 was at an average level relevant for recent years, but 38% lower than in 2019. The drop in arrivals of international migrants to Russia fell on April-May (Table 1, Fig. 1), when the indicator predictably sharply declined, but did not plummeted to zero, which, apparently, can be explained by the delayed registration of previously arrived migrants or other statistics patterns.

On the other hand, departures from Russia have increased, since the overwhelming majority of international migrants arriving in Russia receive registration at a place of stay and are automatically considered to have left back home as the term of registration expired. In 2019, there was an increase in arrivals in Russia, and respectively, in 2020, the number of departures increased in a predictable manner.

Table 1

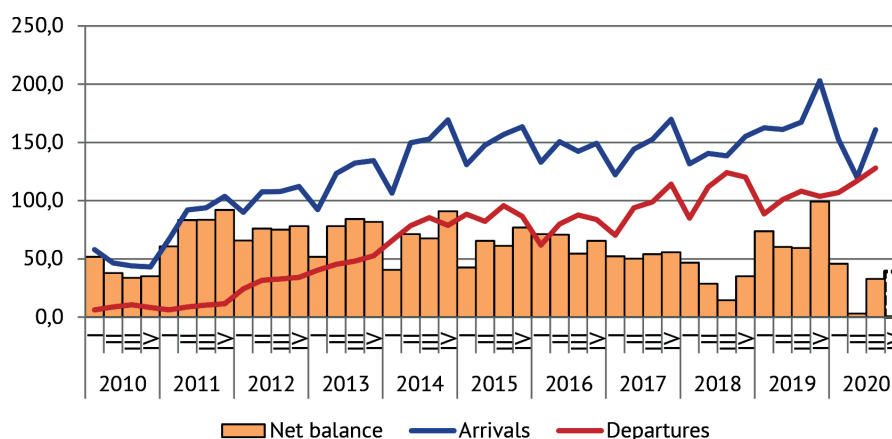
### International migration in Russia in January-September 2020

	January-March	April	May	June	July	August	September
Arrivals	152.6	30.8	38.9	50.3	55.0	52.5	53.4
% to previous year indicator	93.9	54.8	73.9	96.0	101.7	99.6	88.3
Departures	106.8	37.2	39.8	39.9	38.6	48.6	40.8
% to previous year indicator	120.4	116.5	113.4	117.9	112.7	121.7	120.3
Migration growth (loss)	45.8	-6.4	-0.9	10.4	16.4	3.8	12.5

Source: Rosstat.

Consequently, according to results of 3 quarters of 2020, the migration growth of the population of Russia was record low and amounted to 81.7 thousand people. This allowed the compensation for the natural population decline only by 21.1%. At the end of the year, the percentage of replacement losses from depopulation will be even lower. An assessment based on quarterly dynamics of international migration indicators in Russia shows in recent years that migration growth in Q4 2020 will comprise from 31.6 thousand (based on average data for 2016–2019 for its calculation) to 39.1 thousand people (built upon the values of 2019 only) (Fig. 1). The migration growth in 2020 will be lower than in the “disastrous” 2018 (when the data transfer from the Ministry of Internal Affairs of

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**Note.** Data for Q4 2020 – authors' estimates

*Fig. 1. International migration in Russia in 2010–2020, quarterly data*

Source: Rosstat.

Russia to Rosstat was disrupted), and even according to the optimistic scenario, it will evidence only 120.8 thousand people. The drop is especially noticeable in comparison with 2019, when migration growth was higher than indicators of a number of previous years, due to an observed “technical” reason.

In the first 3 quarters of 2020, Russia experienced a decline in migration with Armenia and Belarus, as well as with non-CIS countries. The main donors were Ukraine ensuring more than half of the migration increase, and Tajikistan with 36%. Since June 2020, the recovery of migration balance has been uneven; a steady increase with Kazakhstan and Uzbekistan has not yet been achieved.

Resettlement within the country decreased both throughout 2019 and in Q1 of this year. A sharp decrease in movements registered by Rosstat took place in April 2020, i.e. up to 46.6% of April 2019 and up to 63.3% in May. It seems to be impossible to separate the real reduction of internal long-term migration and issues likely associated with the restrictions on the activities of institutions providing registration of citizens, as well as with the unwillingness to visit these institutions during the most severe periods of constraints.

The decline in internal migration has decreased since June 2020, however, this indicator has not exceeded the value of the previous year in any month. The migration activity should be restored as soon as the pandemic ends.

In the first 3 quarters of 2020, migration looks unusual in the regional context. During this period, Moscow and St. Petersburg demonstrated a significant migration decline, and the migration growth of the population of the Moscow Region decreased by more than twofold. It also decreased in other centers attractive for population, except for the Republic of Crimea and the city of Sevastopol. Regions losing population due to migration have reduced their losses, and the regional migration decline in the Far Eastern Federal Okrug has almost stopped.

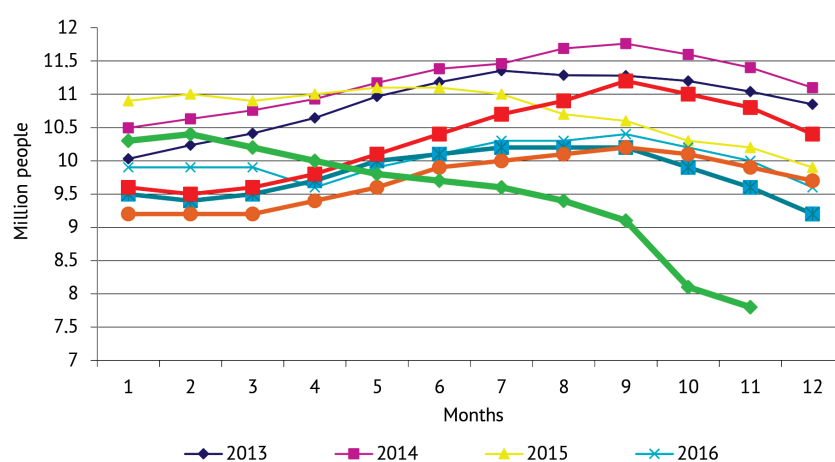
However, this does not indicate a “turn” of migration towards provinces or outlying regions of the country: the current year situation in long-term migration both at the national and regional levels is the outcome of the shock associated with the COVID-19 pandemic. As the epidemiological situation normalizes, the scale and the vector of migration will return to their previous values; even a “rebound” effect is possible, associated with both the accumulated volume of unrealized relocations and the time lag in the dynamics of individual migration indicators.



## Temporary migration

In the past four years (2016–2019), the number of foreigners temporarily staying in Russia during the year ranged from 9.2 to 11.5 million people, with a minimum at the beginning of the year and a maximum in summer and early autumn. The beginning of 2020 was quite consistent with this statistics. At the end of January, 10.3 million foreigners stayed in Russia, and the indicator came close to the data of 2014–2015.

However, closure of Russian borders for arrivals and departures in March 2020 has radically changed the dynamics. The indicator was decreasing every month (primarily due to a radical reduction in entry), and early winter, the number of foreigners staying in Russia was the lowest in all recent years (*Fig. 2*). As of December 1, there were 7.8 million foreign citizens in Russia. The reduction affected all categories, regardless of the purpose of their stay.



*Fig. 2. Presence of foreign citizens in Russia as at month end, million people, 2013–2020*

Sources: FMS RF, General Migration Administration, RF Ministry of Interior, Central Data Bank for Registration of Foreign Citizens.

As of December 1, 6.2 million citizens from the CIS countries stayed in Russia (80% of the total number), which is 27% less than in 2019 on the same date. The leaders are still the countries of Central Asia and Ukraine (*Table 2*).

*Table 2*

Presence of foreign citizens from CIS in the Russian Federation, at date, people

	04.12.14	01.12.15	01.12.16	01.12.17	01.12.18	01.12.19	01.12.20
Azerbaijan	598646	531080	542588	601704	667513	758377	548389
Armenia	499084	490156	489005	494848	488614	483250	339985
Belarus	506759	644598	737791	689534	658188	690854	628134
Kazakhstan	581516	671751	599825	531865	539092	547398	365632
Kyrgyzstan	554808	541855	587693	624756	678743	746477	599294
Moldova	586069	512637	495084	425269	357229	310679	205747
Tajikistan	1052822	898849	917908	988771	1105362	1243080	1012186
Uzbekistan	2275290	1884110	1585769	1719492	1888810	2007895	1460120
Ukraine	2476199	2598303	2564356	2129446	1952374	1708652	1037016
CIS, total	9131193	8773339	8520019	8205685	8335925	8496662	6196503

Sources: FMS RF, General Migration Administration, RF Ministry of Interior, Central Data Bank for Registration of Foreign Citizens.

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Compared to 2019 data, presence of Ukraine, Moldova and Kazakhstan citizens decreased the most, i.e. by 39, 34 and 33%, respectively, as of December 1, while the number of Armenia, Azerbaijan and Uzbekistan citizens decreased by 30, 28 and 27%. The number of those arriving from Tajikistan and Kyrgyzstan decreased least of all: by 19 and 20% respectively.

As of December 1, there were 3.1 million labor migrants in Russia, which is 25% less than on the same date a year earlier (4.1 million), and 21% less than on December 1, 2018. Given that many traditional sectors of migrant employment (services, catering and hospitality) have diminished the demand due to economic challenges associated with the spring-summer lockdown, the reduction does not seem excessive.

However, this does not exclude structural issues at the labor market, specifically, in the construction sector, where there is a need for workers of a certain qualification, who were not able to enter Russia due to closed borders.

As before, 97% of labor migrants are still from the CIS countries, while 74% are from the three Central Asian countries. The share of Ukraine and Moldova is constantly decreasing, and at present, it constitutes less than 5%. As of December 1, labor migrants held 83,000 valid work permits and 1.2 million patents; about 900 thousand citizens from the EAEU member countries received authorization to be employed without permits.

Thus, the degree of legalization (the share of labor migrants having a potential right to be formally employed in Russia), despite all restrictions and economic challenges, did not change and amounted to 70% (of all those arriving with a goal to “work for hire”). This was largely facilitated by measures to extend the term of valid documents introduced in Russia in April 2020.<sup>1</sup>

Statistics related to registration of new work permits looks quite different: thus, their number has sharply decreased over 11 months, i.e. by more than a third compared to the previous year (*Table 3*). This is quite understandable, since newly arrived labor migrants obtain new documents, while their entry decreased by 128 times in Q2&3 2020 according to border service data.<sup>2</sup>

Таблица 3

Registration of migrants' work permits in Russia,  
January–November, 2015–2020, people

	2015	2016	2017	2018	2019	2020
Work permits for foreign citizens*	162786	118700	126506	108721	107651	52141
including						
Work permits for qualified workers*	19738	10528	15497	17677	15526	6719
Work permits for highly qualified specialists	36993	23351	19506	23391	29352	16622
Patents**	1667716	1394291	1536997	1524833	1565319	1019456
Total	1830502	1512991	1663503	1633554	1672970	1071597

\* from January 1, 2015 issued only to foreign citizens from visa countries.

\*\* from January 1, 2015 issued to foreign citizens from non –visa countries to work for individuals and legal entities.

Sources: FMS RF and General Migration Administration, RF Ministry of Interior.

1 Decree “On temporary measures to resolve the legal status of foreign citizens and stateless persons in the Russian Federation in connection with the threat of the further spread of the novel coronavirus infection COVID-19”. URL: <http://kremlin.ru/acts/news/63216>.

2 URL: <https://www.fedstat.ru/indicator/38479>.

## Monitoring of Russia's Economic Outlook

For 11 months of 2020, migrant workers transferred Rb 43.5 bn to regional budgets. (advance tax payments for patents), Rb 56.1 bn in 2019 for the same period (a decrease by 22%). Migrant workers from only two Central Asian countries, Uzbekistan and Tajikistan, secure these payments: 92% of all patents were granted to them in the period of 11 months. 