MONITORING OF RUSSIA'S ECONOMIC OUTLOOK:

TRENDS AND CHALLENGES OF SOCIO-ECONOMIC DEVELOPMENT

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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. MONITORING OF THE SITUATION WITH THE CORONAVIRUS PANDEMIC AND THE MEASURES TO CONTAIN IT OVER DECEMBER 2020 TO JANUARY 14, 2020

Yury Ponomarev, Candidate of Economic Sciences, Head of the Center for Infrastructural and Spatial Research (CISR), IAES, RANEPA; senior researcher, Center for Real Sector, Gaidar Institute;

Andrey Makarov, Researcher, CISR, IAES, RANEPA;

Ksenia Borzykh, Junior Researcher, CISR, IAES, RANEPA;

Darya Radchenko, Junior Researcher, CISR, IAES, RANEPA

With due regard for the ongoing dire situation with the spread of the coronavirus in December 2020 and early 2021, many countries took advantage of the Christmas and New Year holidays to intensify their efforts aimed at slowing down the pandemic. In Russia, alongside continuing flexible containment measures (remote work, online learning, ban on mass gatherings), the number of recorded daily new cases has shrunk since early January; however, this could be the upshot of the decreased number of tests during the holidays.

The current situation with COVID-19 around the world

Morbidity

Over the period of December 2020 through the first half of January 2021, the morbidity level in many countries remained alarmingly high. The number of daily new cases around the world fluctuated significantly, e.g. from 439,600 on December 27 to 862,100 on January 7 (vs about 300,000 in September-October). The values for R_t (the measure of how fast the virus is growing)[1] in many major countries of the world did not exceed 1–1.5 (*Fig. 1*).

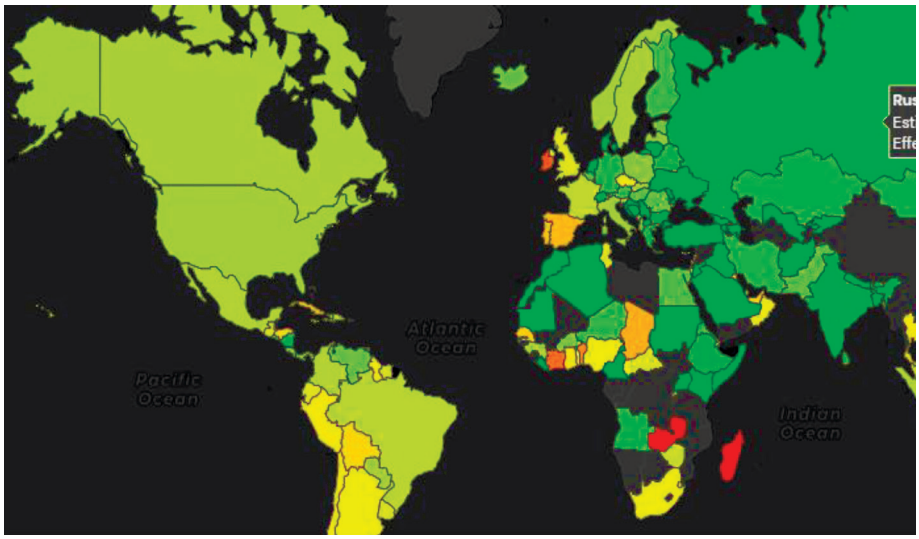


Fig. 1. The R_t estimates

Source: Future of Humanity Institute, University of Oxford (11.01).

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

By January 14, 2021, the total number of COVID-19 cases in the world was about 92.75 mn (vs 63.57 mn as of December 1, 2020), and the number of deaths exceeded 1.985 mn (vs more than 1.47 mn as of December 1, 2020). Overall, there were more than 24.48 mn current coronavirus cases around the world, and more than 68.26 mn had recovered.

The highest rising rates of new cases have been observed in the USA, Brazil, some of the EU member states (the UK, Spain, France, Germany), Russia, the Republic of South Africa, and India; as of January 14, these 9 countries accounted for 66% of all new cases. Russia remains 4th by the total number of cases (around 3.471 mn people as of January 14).

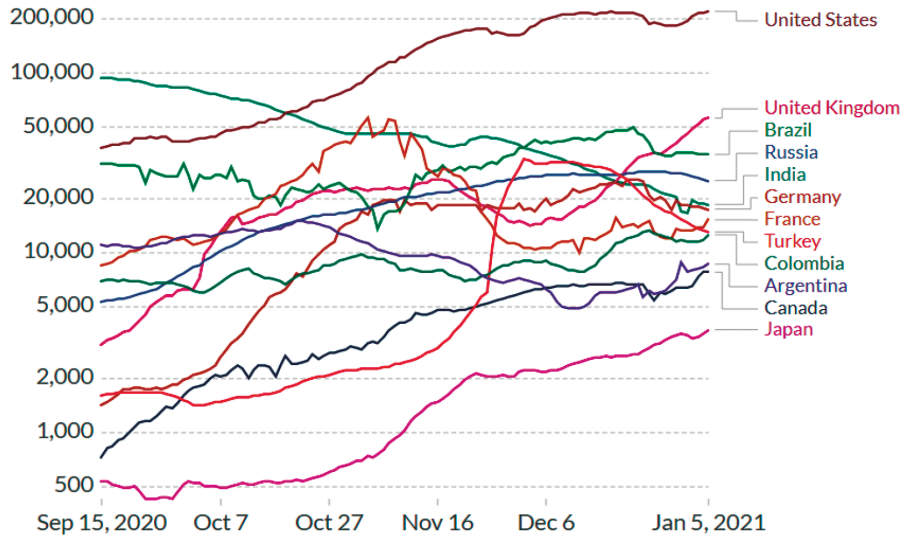


Fig. 2. The new case trajectories, by country (logarithmic scale), moving average per week

Source: ECDC.

Mortality trends

Over the period under consideration, there was a significant increase in the number of coronavirus deaths. While by the end of October the number of deaths had exceeded 7,000, and in November it had been as high as 12,000, by the end of December it rose above 15,000, and stood at 17.300 as of January 12.

The highest daily mortality rates were observed in the USA (4,085 daily deaths by January 14), the UK (1,564), and Mexico (1,314) (*Fig. 3*). In Russia, according to the Operational Headquarters, mortality remains at a relatively low level (having climbed from 1.7% in November to 1.8% in early January).[1]

The measures being introduced

The severity of containment measures varies widely and depends on the specific situation in each country or territorial zone (*Fig. 4*).

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

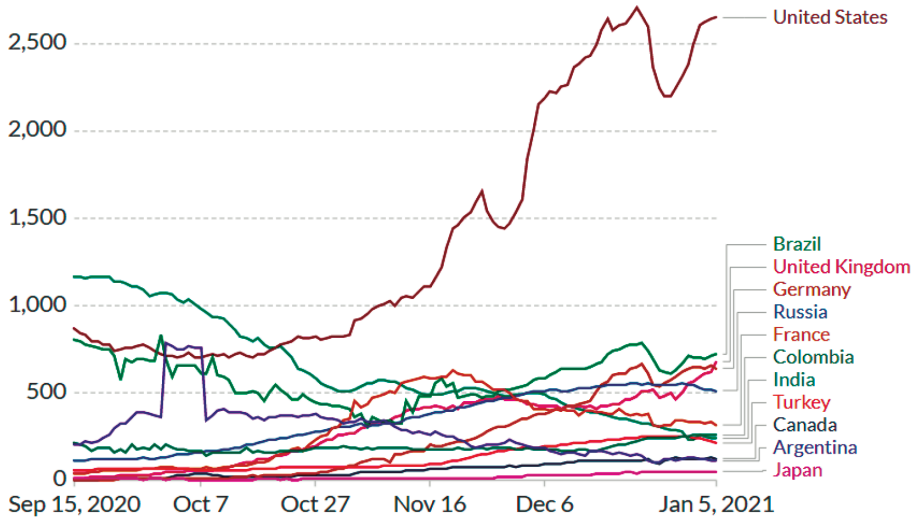


Fig. 3. The rate of 7-day smoothed daily deaths around the world, by country (as of January 14)

Source: OurWorldInData.

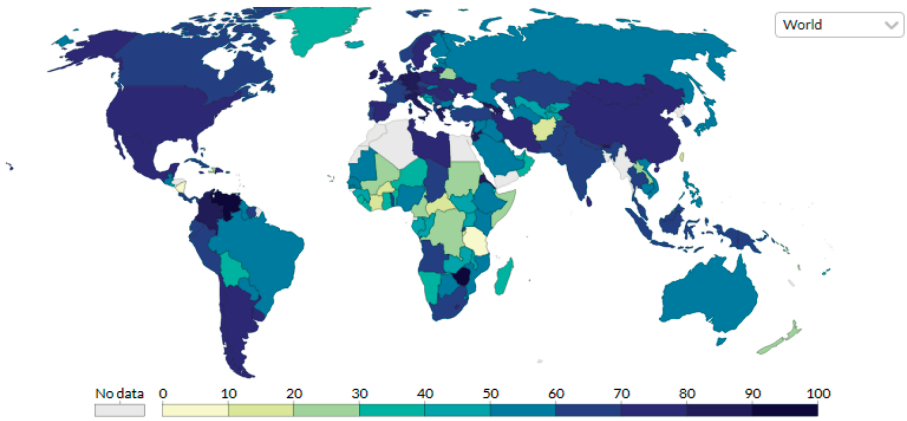


Fig. 4. The Government Stringency Index (100 = strictest), a composite measure (based on nine response indicators including school closures, workplace closures, travel bans, and other measures) as of January 13, 2021

Source: OurWorldInData, January 14, 2021.

In view of the high risks of social contacts during the Christmas and New Year holidays, some national governments significantly tightened their containment measures. The countries that faced the most severe epidemiological situations introduced curfews (and in some cases, a strict lockdown), shutdown of entertainment and catering establishments, and international and interregional travel bans. In the countries with moderate epidemiological situations there was no significant tightening of containment measures, but the bans and restrictions on public events and gatherings were maintained or reintroduced, and the opening hours of shopping centers, restaurants and other leisure establishments were restricted.

- In Italy, the lockdown imposed over the New Year's days was extended until January 15 (the curfew and restrictions on travel between different regions were to be maintained).

- In the UK, due to the detection of infection cases caused by a new variant with a higher contagiousness, the containment measures were further tightened: from January 4, a third national lockdown was introduced, with quarantine measures for the tourists arriving from the countries with a high risk of infection.
- In France, restaurants and schools will open not earlier than January 20, and nightclubs are closed.
- In Germany, restaurants were closed until January 10, and entertainment establishments were subject to shutdown.

In a number of countries, mass vaccinations were launched (*Fig. 5*). Thus, for example, in Italy, almost 900,000 people received their first dose of the vaccine. Mass vaccination is underway in Israel (by January 8, the first dose had been received by 20% of the population). In absolute numbers, more than 10 mn doses had been distributed by January 13 in the USA and China, and more than 3 mn in the UK.

In Russia as of January 5, more than 1 mn people were vaccinated.[1] The list of categories of citizens approved for vaccination is expanding: in addition to the major risk groups (physicians, school teachers, social workers), vaccination appointments became available in Moscow for those employed in retail, housing and communal services, public catering, and the IT sector. In spite of these efforts, Russia is lagging behind the world's major economies in terms of vaccination coverage and rates.

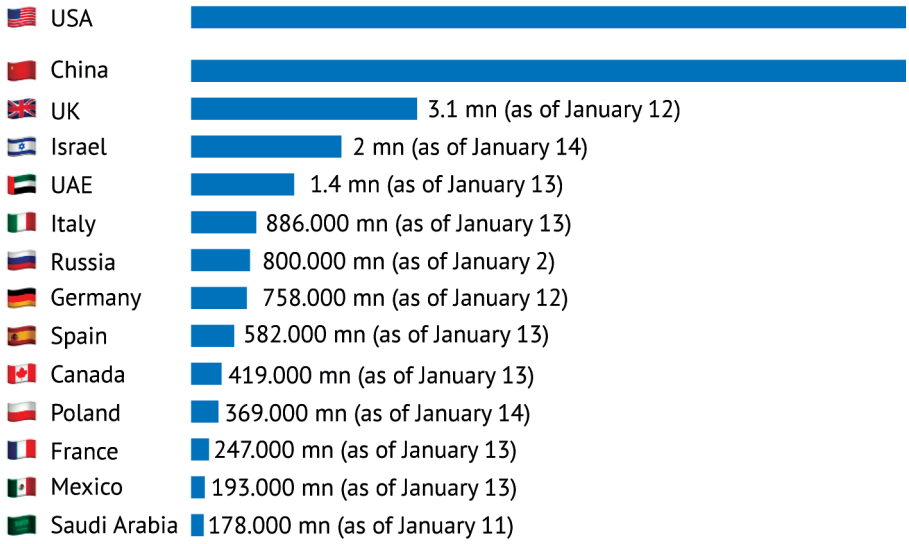


Fig. 5. Vaccination coverage, by country

Source: Yandex, based on data released by OurWorldInData.

The current situation with COVID-19 in Russia

As of January 14, 2021, 3,495,816 coronavirus cases were registered in Russia (an increase of 50.5% on December 1) (*Fig. 7*). Record high daily increases in morbidity and mortality were recorded on December 24, 2020 (+29 935 and +635, respectively). In January relative to December, the average daily increase

1 URL: https://ria.ru/20210105/vaktsinatsiya-1592036609.html.

in the number of new cases shrank by 13.7%. The R_t level stabilized at 1 (for the period of December 1, 2020 to January 5, 2021; and 0.99 on average for the entire period).

In December, following the growth of social activity (including in the period shortly before New Year's Eve), the number of daily new cases continued to climb. Nevertheless, the expected morbidity increase over the first ten days of January did not happen. On the contrary, the number of active cases displayed a downward trend (549,800, or 15.7% of the total number of cases), similarly to that of hospitalizations. This could be partly due to the lower number of tests performed during the holidays,[1] as well as the general reduction in citizens' spatial activity.[2] A similar downward trend was observed in the Czech Republic and the UK; meanwhile, it is the trend sustainability that matters.

According to the head of Rospotrebnadzor, as of January 12, 2020, 61 RF subjects had entered the phase of stabilization in the situation with the coronavirus; and in 22 RF subjects, the intensity of the epidemic was receding.[3]

The number of infections per 100,000 population remains high in the cities of Moscow and St. Petersburg, and in Arkhangelsk and Nizhny Novgorod regions (*Fig. 6*).

As of January 12, the hospital bed occupancy rates in Russia averaged 77% (vs 79% in December). In mid-December, this index rose to critical levels (96%) in 4 RF subjects: Smolensk and Oryol regions, and the cities of St. Petersburg and Sevastopol.

Region	New daily cases	Rt	Total cases	Infections per 100.000 population	Total deaths	Deaths per 100.000 population
Moscow		1,04	877 428	7015,8	12 241	97,9
St. Petersburg		0,98	287 814	5377,8	8 649	161,6
Moscow region		0,98	173 259	2309,1	3 188	42,5
Nizhny Novgorod region		1,04	76 287	2358,4	1 865	57,7
Sverdlovsk region		0,97	64 018	1480,1	1 753	40,5
Rostov region		1,00	57 130	1353,6	2 293	54,3
Voronezh region		1,00	51 669	2214,0	1 316	56,4
Krasnoyarsk Krai		1,01	50 983	1772,4	1 925	66,9
Arkhangelsk region		1,01	46 915	4222,7	455	41,0
Irkutsk region		0,99	44 220	1839,3	1 391	57,9

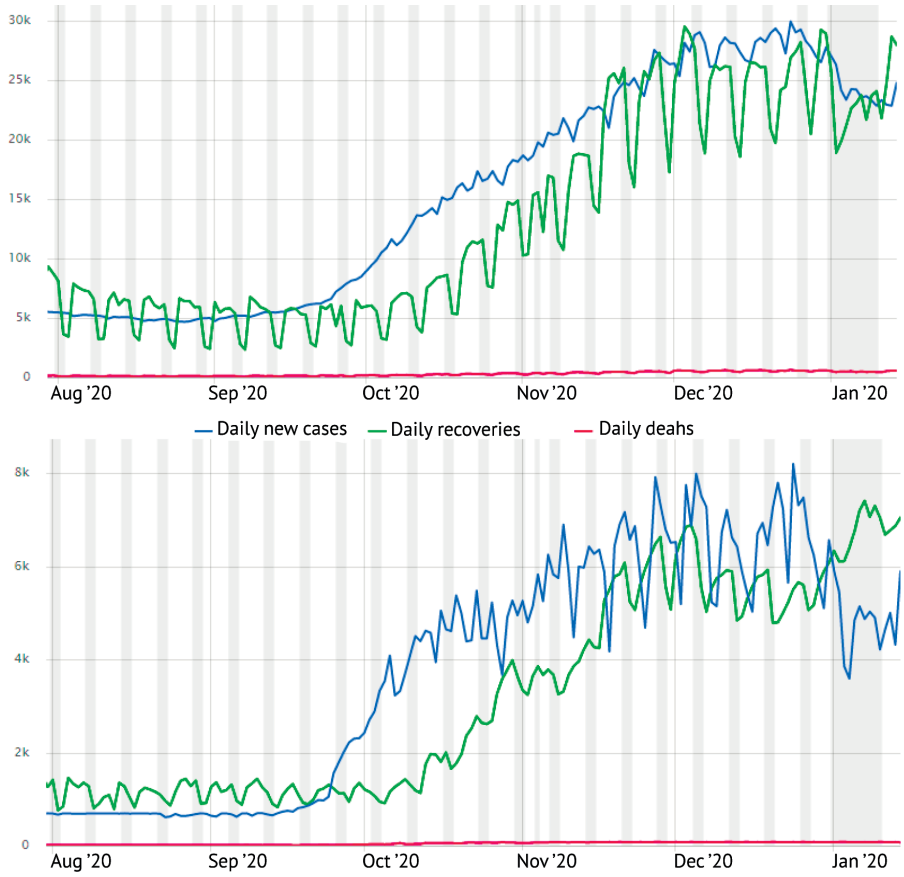
Fig. 6. Top 10 regions, by number of cases

Source: Yandex, data as of January 14, 2021.

1 URL: https://www.rbc.ru/rbcfreenews/5ff1973a9a7947c2b7a89e12.

2 As demonstrated by an analysis of data on the spatial activity of citizens released by Yandex (URL:https://yandex.ru/company/researches/2020/podomam) and some other sources, e.g. Apple (URL: https://covid19.apple.com/mobility), and Otonomo, which aggregates by-country automotive data, the activity during the New Year holidays was on average at the same level as on Sundays in Q4 2020. According to the Mayor of Moscow, the public passenger traffic in the city on weekends shrank by half. Besides, according to the opinion polls conducted by VCIOM and data from Yandex.Travel, 82–85% of Russians preferred to spend their holidays at home.

3 URL: https://ria.ru/20210112/covidstable-1592741278.html.



Note. Holidays and weekends are highlighted in grey.

Fig. 7. The number of new cases, recoveries and deaths during the second wave **in Russia** *(top chart) and* **in Moscow** *(bottom chart)*

Source: Yandex, data as of January 14.

Measures to prevent the spread of the coronavirus in Russia

Over the period under review, the strict lockdown measures were not reintroduced across the regions of Russia. The existing restrictions and recommendations were maintained, including the general face mask wearing regime and social distancing, which had to do, among other things, with the identification in Russia of a new, more contagious variant of the coronavirus at the end of December.

During the New Year holidays, new restrictive measures were introduced in the regions. In particular, festive events were canceled, the restrictions on the opening hours of catering establishments were maintained, or they were altogether closed for the holidays (St. Petersburg); the participants in corporate events hosted by cafes and restaurants were required to provide their PCR test results (Moscow region). The opening hours of hairdressing salons, fitness centers, cinemas (in Kaliningrad region) and the leisure activities at museums and theaters (in the city of Sevastopol and Krasnodar region) were subject to restrictions. In Moscow, the winter holidays for schoolchildren were extended until January 17, and the other containment measures, until January 21.

The forecasts for the situation development

Overall, the forecasts indicate that Russia passed its "second wave" morbidity peak in late December 2020 (Johns Hopkins University, Sberbank). A drop in mortality is expected by February 2021 (IHME[1], *Fig. 8*).

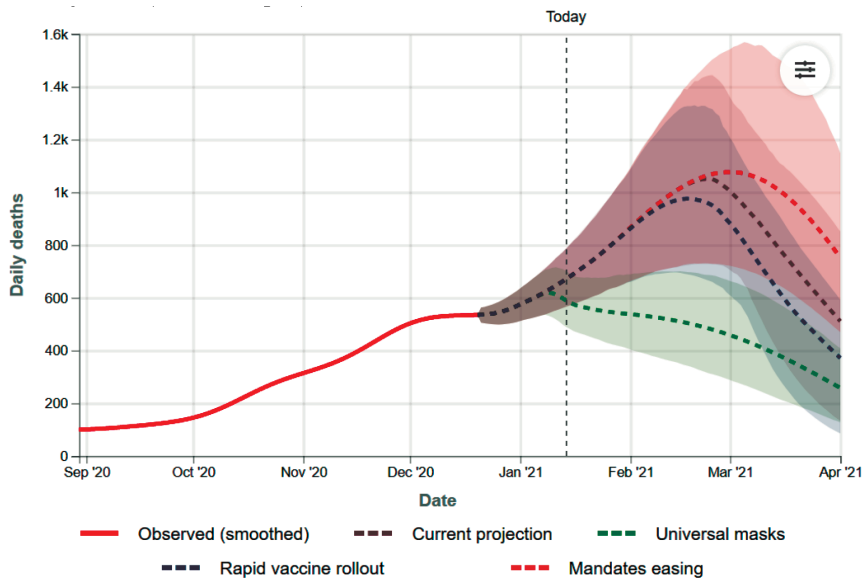


Fig. 8. Mortality growth forecast

Source: IHME, 23.12.2020.

The prospects of further modifications of the coronavirus are difficult to predict due to its mutations into variants with a higher contagiousness, and also because, as recent studies have shown, a reinfection is possible in 3-8 months.[2]

Some additional concerns have arisen in connection with the results of a recent Chinese study,[3] where 76% of the patients still displayed at least one symptom 6 months after their recovery (fatigue, muscle weakness, sleep disturbances, depression).

The President of Russia instructed authorities to move from large-scale to mass vaccination starting from January 18, 2021. There still remain some risks and potential problems, and so it is extremely important to work out the possible scenarios for the development of the situation during the vaccination campaign, with due regard for the following factors:

1. the potential and prospects for increasing the vaccine production and its distribution across the regions;
2. the population response to vaccination (e.g., when additional side effects are detected) and the incentives for it;
3. the effectiveness of vaccination in terms of the formation of post-vaccinal immune response and the length of immunity in the population (with due regard for the registration of new vaccines[4] and virus mutations).

1 URL: https://tinyurl.com/y47sbc5y.
2 URL: https://tinyurl.com/y5xfkn5x и https://tinyurl.com/y2z9ywqw.
3 URL: https://tinyurl.com/y4gw5cjc.
4 Adenoviral vector vaccines are not suitable for repeated immunization.

2. THE MONETARY POLICY AND INFLATION RATE: THE OUTCOMES OF 2020

Alexandra Bozhechkova, Candidate of Economic Sciences, Head of the Monetary Policy Department, Gaidar Institute; Senior Researcher of the Center for Central Bank Issues, IAES, RANEPA;

Pavel Trunin, Doctor of Economic Sciences, Head of the Center for Macroeconomics and Finance, Gaidar Institute; Director of the Research Center for Central Bank Issues, IAES, RANEPA

Based on the results of 2020, amid crisis conditions the inflation rate sped up to 4.9%, an increase of 0.9 p.p. over the Russian Central Bank's inflation target. In H1 2020, on the back of a large-scale reduction in consumer demand the inflation rate was below the target. In H2, proinflationary factors picked up. After gradual reduction in the key interest rate from 6.25% in January 2020 to 4.25% per annum in July 2020, the Central Bank of Russia suspended the easing of the monetary policy. In H1 2021, the inflation rate will keep speeding up, however, by our estimates, it will be close to the Bank of Russia inflation target by the year-end.

At year-end 2020, the inflation rate was equal to 4.9% (3.0% in 2019), an increase of 0.9 p.p. over the Russian Central Bank's inflation target. In 2020, a complex of various factors affected consumer price inflation. Despite a somewhat pickup in price rises in March-April 2020, the year-on-year inflation rate (over the past 12 months) amounted to 2.5% and 3.1% in March and April 2020, respectively, that is, much below the inflation target (*Fig. 1*). This made it feasible for the RF Central Bank to ease considerably its monetary policy. So, the key interest rate cuts by 0.5 p.p. to 5.5% per annum, 1 p.p. to 4.5% per annum and 0.25 p.p. to all-time low of 4.25% per annum took place on April 27, June 22 and July 27, respectively.

In September-December 2020, in response to prevailing proinflationary factors, including a new depreciation of the ruble, consumer demand revival and higher inflation expectations, the RF Central Bank halted the easing of the monetary policy, having retained the key interest rate at the unvarying level amid the inflation rate speed-up from 3.6% in August to 4.9% in December 2020.

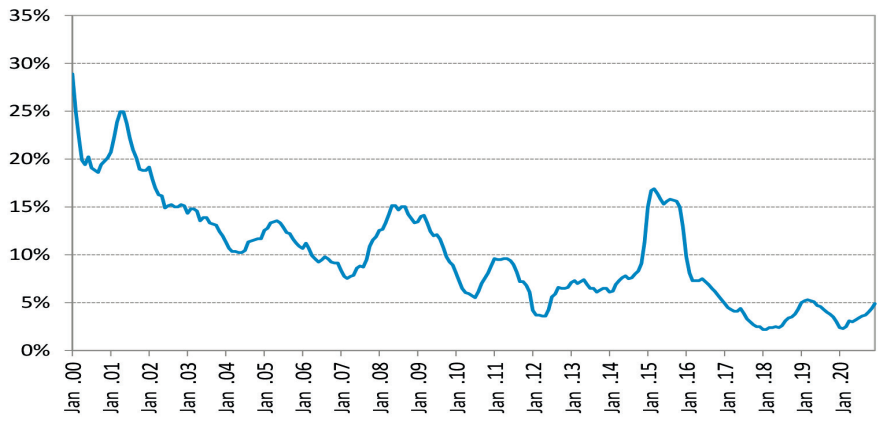


Fig. 1. The inflation rate over the past 2 months, %

Source: The Rosstat.

After an uptick to 1.0% and 1.7% per month in March and April 2020, respectively, on the back of higher demand for basic-needs products, food inflation slowed down to 0.2% in May and June. In July-September 2020, the food sector saw seasonal deflation. In autumn, Russian food products appreciated owing to global food price rises. The leaders in this respect on the global and Russian markets were sugar (in Russia +64.5% in December 2020 on December 2019) and sunflower oil (+25.9% in December 2020 on December 2019). At year-end, year-on-year food inflation was equal to 6.7% (against 2.6% in December 2019 on December 2018).

With such a substantial appreciation of a number of socially important food products, the RF Government took a decision in December 2020 to freeze prices of sugar and sunflower oil at the level of Rb45 per kg and Rb100 per kg, respectively, from January till March 2021. By our estimates, this move is unlikely to produce an effect on price dynamics as it was taken after substantial appreciation of these commodities.

Year-on-year non-food inflation picked up from 2.4% in February 2020 to 4.8% in December 2020 (3.0% in December 2019 on December 2018) mainly on the back of depreciation of the ruble and revival of consumer demand after lifting of lockdown restrictions.

At year-end 2020, paid services to households appreciated by a mere 2.7% (3.8% at year-end 2019) as this sector faced the most dramatic drop in demand because of the lockdown. At the same time, prices appreciated quite quickly on medical services (+4.3%) and sanitation and recreation services (3.8%) as a result of higher demand for these services amid the pandemic, while the foreign tourism sector saw deflation (-0.4% at year-end 2020).

So, the core inflation (without counting in prices related with seasonal and administrative factors) was increasing constantly and amounted to 4.2%.

In 2020 a key downward pressure factor in respect of consumer prices was reduced demand because of households' real income decrease which was equal on average to -3.5% in January-September 2020 as compared with the relevant period of the previous year (+0.4% in January-September 2019 on January-September 2018). Consequently, retail turnover shrank considerably on average by 4.5% in January-November 2020 on the relevant period of the previous year (+1.9% in January-November 2019 on January-November 2018).

The speed-up of the inflation rate was driven by depreciation of the ruble. In 2020, the Ruble/US Dollar exchange rate depreciated by 19.3% to Rb73.9 for $1. The first dramatic ruble depreciation (16%) took place in March 2020 mainly owing to a sudden drop in oil prices. The second one (6.8%) registered in September 2020 was caused by growing geopolitical risks, as well as Russian federal loan bonds' (OFZ) becoming less attractive to nonresidents amid cuts in the key interest rate and investors' diminishing interest in developing countries' assets amid global uncertainties. In November-December 2020, the ruble appreciated by 6.9% relative to October 2020. By the end of 2020, the fundamentally substantiated Ruble/US Dollar exchange rate was equal to Rb68–69 per $1, that is, an undervaluation of 7–9% of the Russian ruble.[1]

1 For more details, see A.V. Bozhechkova, S.G. Sinelnikov-Murylev, P.V. Trunin. The Ruble Exchange Rate Dynamics Factors in 2000s and 2010s // The Voprosy Ekonomiki, 2020. Issue No.8. P. 1–18. It is noteworthy that on January 12, 2021, the Economist magazine published its latest Big-Mac Index under which the ruble was undervalued considerably as usual; this factor, apart from relative low prices of services and nontradable goods, represents as well a geopolitical premium in the ruble exchange rate.

By our estimates, in 2021 the Russian ruble may appreciate to this level, but only provided that there are no new economic and geopolitical shocks.

Also, the inflation rate sped up owing to appreciation of global food prices on the back of shrinking demand. The food price index increased from 91% in May 2020 to 107.5% in December 2020. In June-December 2020, global prices of dairy products appreciated by 10.7%, while those of grain, vegetable oil and sugar by 19.6%, 47.3% and 16.2%, respectively.[1]

A quick appreciation of food products and nonfood goods led to households' and businesses' higher inflation expectations. The first wave was seen in March-April 2020; as per the InFOM's data in May-July the balance of businesses' and households' responses started to point to reduction in price dynamics. However, starting from August households' inflation expectations started to grow again and amounted to 11.5% in December 2020 compared with 9% in December 2019. Businesses' balance of responses shifted largely towards expected price dynamics growth from 8.3 p.p. in January 2020 to 19 p.p. in December 2020 following the depreciation of the Russian ruble and cost escalation. A pickup in inflation expectations will underpin a higher inflation rate early in 2021. In the first 11 days of 2021, the inflation rate amounted to 0.4%, which is quite close to the 2020 level when in the first nine days of January 2020 the index was equal to 0.3% (0.4% in January 2020 on December 2019).

So, overall, the RF Central Bank's policy has turned out to be effective. By our estimates, at year-end 2021 the inflation rate is highly likely to be close to the target level. If this forecast happens to be true, the RF Central Bank will be able to switch over from the soft monetary policy to the neutral one which the real key interest rate of 1–2% annually is appropriate to.

1 The data of the UN Food and Agriculture Organization.

3. FINANCIAL MARKETS IN 2020: PRELIMINARY OUTCOMES

Alexander Abramov, Candidate of Economic Sciences, Head of the Financial Institution and Market Research Department, IAES, RANEPA;

Andrei Kosyrev, Junior Researcher, the Financial Institution and Market Research Department, IAES, RANEPA;

Alexander Radygin, Doctor of Economic Sciences, Professor, Head of the Center for Institutional Development, Ownership and Corporate Governance, Gaidar Institute; Director of IAES, RANEPA;

Maria Chernova, Researcher of the Financial Institution and Market Research Department, IAES, RANEPA

Despite the pandemic and economic fallout, the year 2020 can be regarded as quite successful for a host of financial markets in terms of appreciation of various currencies against the US Dollar and equity indices' positive yield. The Russian ruble was among the weakest currencies and the RTS index yield was negative. With the Russian ruble and Russian companies' equities being undervalued in 2020, one can expect the strengthening of the Russian national currency and equities' positive rate of return in 2021.

Stimulus measures implemented by a host of countries have been instrumental in mitigating the pandemic's implications and hold out a hope of growth revival in 2021. However, after the pandemic most major economies will face the challenge of raising their global competitive edge and carrying out structural reforms. As seen from China's experience, in dealing with the specified challenges they give preference explicitly to the idea of the state's greater interference into the economy. It remains to be seen to what extent such a policy is effective and needed in other countries.

In 2020, China consolidated its positions in the global economy and was virtually the only country which saw growth. As per the estimates of the Moody's Analytics, in 2020 the share of China in global GDP will be equal to 16.8% compared with 14.2% in 2016.[1] Unlike other countries, China was the least hit by the pandemic. China relied on the supply-driven stimulation of the economy, including support of SME, rather than domestic demand promotion.

However, in the long-term China's economy will encounter serious problems related to the aging of its population, higher labor costs, weakening of conventional industries' export capacity, increased global competition and companies' and regional budgets' high debt burden. The economic efficiency is declining in terms of slowdown of economic growth from on average 6.8% in 2013–2019 to 5.7% in 2022 (the IMF outlook). This, in its turn, can be substantiated by a drop in demand. Furthermore, as per the data of the China Dashboard, the volume of capital investments required for facilitating a 1% economic growth nearly doubled last year as compared with 2012. This is partially related to lower efficiency of state-run companies as compared with that of private ones.[2]

China's economic risks manifest themselves in the government's change of approach to the public and private sectors. In 2020, the economic policy

1 Yifan Xie Stella, Jeong Eun-Young, Cherney Mike (2021). China's Economy Powers Ahead While the Rest of the World Reels. The Wall Street Journal online. Jan. 13.

2 Wei Lingling (2020). China's Xi Ramps Up Control of Private Sector. "We Have No Choice but to Follow the Party". The Wall Street Journal online, Dec.10.

emphasis started to shift towards consolidation of the role of the state. In September 2020, the Communist party of China made public the new guidelines for private companies.[1] At present, private companies' governing bodies are allowed to take strategic business decisions only after approval thereof by the Communist party unit in each company.

The blocking of reforms of state-run companies is referred to in the IMF report (2021) which specifies that the real sector reforms are proceeding rather slowly, particularly as regards state-run enterprises and competition. State-run companies still have a privileged access to lending facilities and other resources despite their lower efficiency compared with private enterprises.[2]

Early in November 2020, on the initiative of Xi Jinping the Ant Group's, a private company, IPO worth $34bn was cancelled over the concerns that it was focused too much on gaining profit, rather than implementation of the government's aim to control finances.[3] Other private companies (the Tencent Holdings Ltd., the NetsUnion and other) faced the risks of state control being introduced, too. According to the Economist magazine, the outcome of the conflict with the Alibaba will show the world the chances for the establishment of private ecosystems in e-commerce.[4]

The growing global competition and concerns over nonmarket forms of the government's interference to support Chinese companies provoke other countries' counter reaction. For example, in November 2020 the US administration forbad American investors from buying equities of 35 Chinese companies as the Pentagon classified it as aid to China's defense, intelligence and security. This triggered capital flight from Chinese equities, made index managers exclude these companies from indices and prompted global investors to reassess risks related to investments in China.

Despite gradual recovery of economies in 2020, in the mid-term new risks associated with the escalating global competition, significant structural reforms and modification of corporate governance methods even in such dynamic economies as in China may arise. A large number of major economies will face the challenge of finding new economic growth sources. *All this will affect financial market volatility growth.*

Overall, the year 2020 can be characterized by the following outcomes. In 2020, according to the Bloomberg index the US Dollar exchange rate against the currency composite fell by 5.5%, while gold appreciated in US Dollar terms by 25.1% (*Fig. 1*). National currencies' strengthening against the US Dollar is the evidence of the market's positive and prudent response to economic challenges as well as withdrawal from dollar assets as a "safe haven". As seen from the sample of 27 currencies, 13 currencies – most of them are developing countries' currencies – appreciated. At the same time, advanced growth in prices of gold as a hedging asset is the indicator of investors' prevailing concerns.

At year-end 2020, the Russian ruble depreciated against the US Dollar by 16.2%. It is mainly related to the fact that they stopped the temporary support

1 Buckley Chris, Bradsher Keith (2020). China's Communists to Private Business: You Heed Us, We'll Help You. The New York Times, Sept. 17; the Xinhua Agency (2020). The Head Department of the Central Committee of the Communist Party of China released the guidelines for promotion of the work of the United Front of Work of the Private Economy in the new era. URL: http://cpc.people.com.cn/n1/2020/0916/c64036-31862864.html.

2 IMF (2021) Country Report No. 21/6/ People's Republic of China, 2020 Article IV consultation, January.

3 Wei Lingling (2020). China's Xi Ramps Up Control of Private Sector. «We Have No Choice but to Follow the Party». The Wall Street Journal online, Dec.10.

4 The great mall of China. The Economist, January 2, 2021.

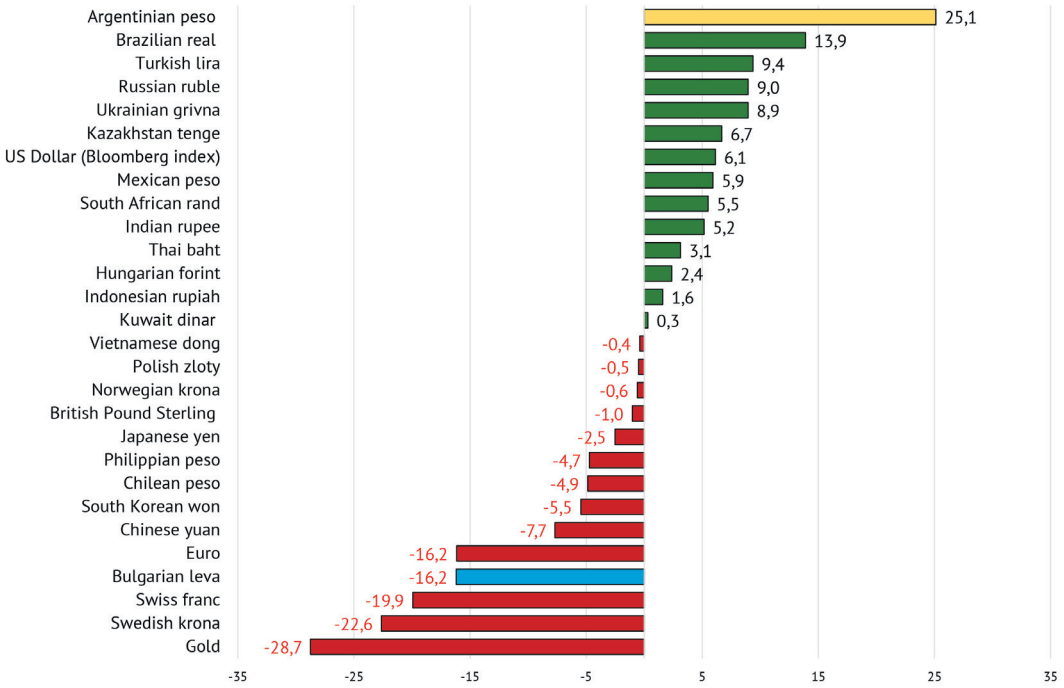


Fig. 1. Dynamics of national currencies' exchange rates against the US dollar in 2020, %

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

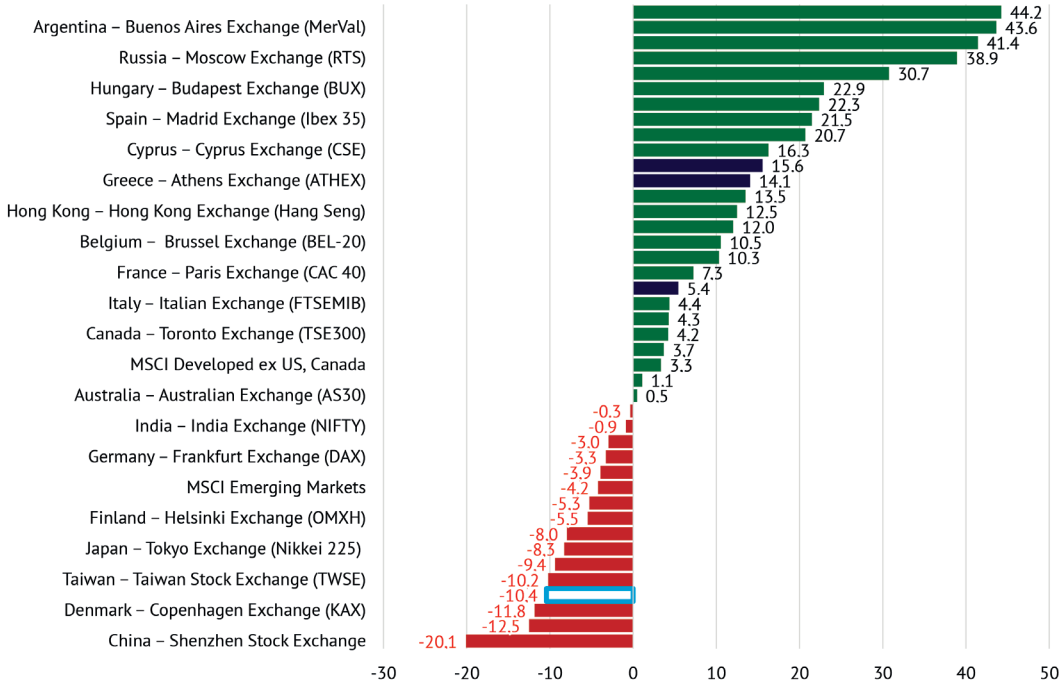


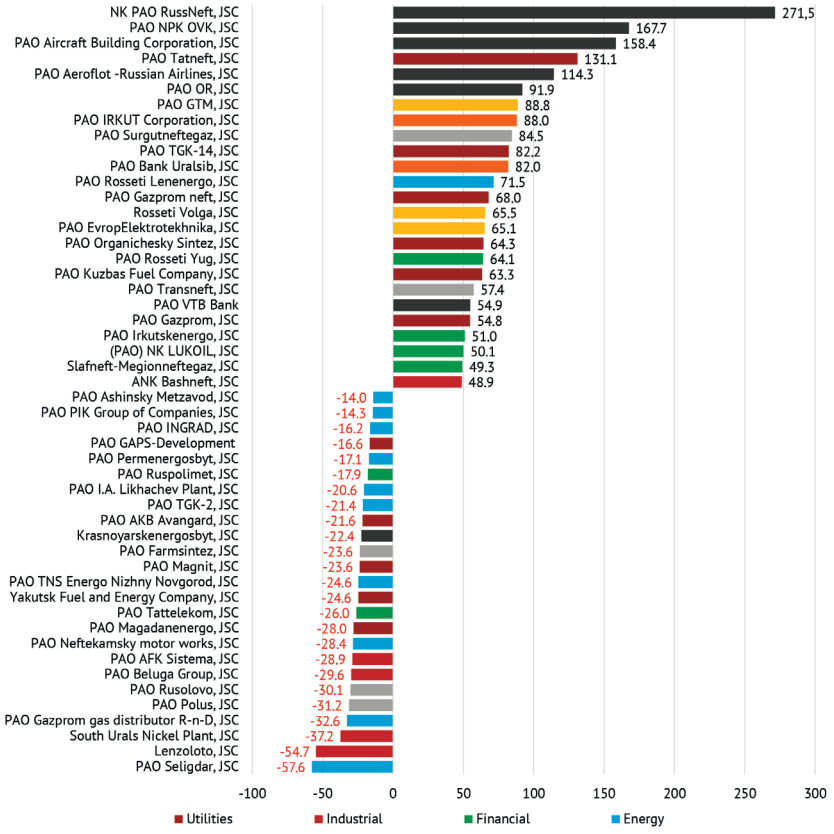
Fig. 2. Dynamics of stock indices of national stock exchanges in 2020, USD, %

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

of the ruble in H2 2020 and suspended the fiscal rule. Also, oil price dynamics and sanction risks could have affected the ruble exchange rate.

The year 2020 saw growth of 24 out of 40 most important stock indices (*Fig. 2*). The gap between stock indices and the economy can be explained by the fact that their dynamics were largely determined by investors' expectations, rather than the current macroeconomic statistics. Stock indices of the Shenzhen Stock Exchange, NASDAQ and the stock exchanges of Denmark, South Korea and Taiwan saw the highest growth, while the stock indices' most dramatic drop was registered in Brazil (-20.1%) and Argentina (-12.5%). The Russian RTS index fell by 10.4% mainly owing to the outflow of foreign portfolio investors' capital and the deteriorating financial performance of domestic companies engaged in mining and in the transport sector.

Fig. 3 provides the best and worst Russian equities in terms of their price change in 2020. The share price growth leaders were goldmining companies (PAO Seligdar, PAO Lenzoloto and PAO Polus) on the back of the abovementioned (*Fig. 1*) appreciation of prices of gold as a hedging asset. Also, consumer sector non-cyclical stocks saw high earning power (the Beluga Group, the AFK Systema, the Tattelekom and Magnit). Equities of smaller capitalization companies were among the leaders in terms of yields and this is the evidence of investors' interest in the medium-sized business which is not related directly to the production of energy resources.



Note. The sample included equities of 147 Russian companies with the capitalization of over Rb1bn traded on the main market of the Moscow Stock Exchange.

Fig. 3. Top 25 equities of Russian companies with the highest price gain and loss, 2020, %

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

The list of outsiders included mainly the equities of oil and gas producing companies, manufacturing industries and the cyclic consumer sector, including transport companies. Notably, the list of 25 stocks with the highest slide in price includes the equities of most Russian public joint-stock companies and this situation highlights the risks of the existing economic pattern.

4. FINANCIAL BANKING PERFORMANCE IN JANUARY-NOVEMBER 2020

Sergey Zubov, Candidate of Economic Sciences, Associate Professor, Senior Researcher, Structural Studies Department, IAES, RANEPA

Due to the epidemiological situation, the structure and dynamics of financial performance in the banking sector have experienced changes. Amid declining margins, instability of financial markets and the unstable position of borrowers, the Russian credit institutions were forced to significantly adjust their market strategies. This resulted in a decrease of profitability of the banking system compared to the previous year.

As of December 1, 2020, there were 371 credit institutions operating in Russia against 402 at the beginning of the year. Two hundred thirty five banks (63.3% of the total number) have shown positive financial performance as of December 1 (according to monthly reports). Despite the continuous decline in the number of operating credit institutions, the share of unprofitable banks is still high (*Fig. 1*). There are reasons to expect a further reduction in the number of banks in the near future.

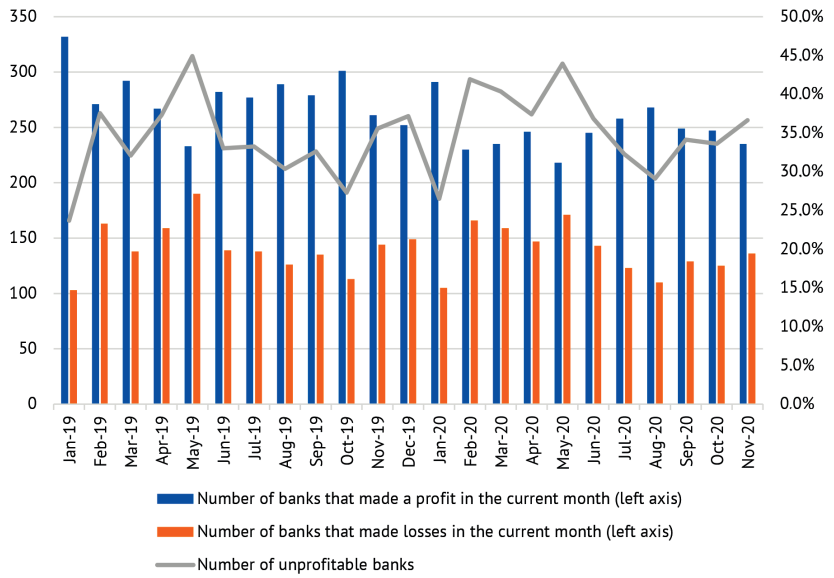


Fig. 1. Number of profitable and unprofitable banks

Source: Information-analysis material of the Bank of Russia "On development of banking sector of the Russian Federation in November 2020".

Despite the rapid growth in the banking sector's assets (by 16.8% in 11 months of 2020), the total net profit has significantly decreased relative to

2019. As of December 1, 2020, it amounted to Rb 1.45 trillion, which is 22.5% lower than a year ago (as of December 1, 2019, the profit of the banking sector amounted to Rb 1.87 trillion) (*Fig. 2*).

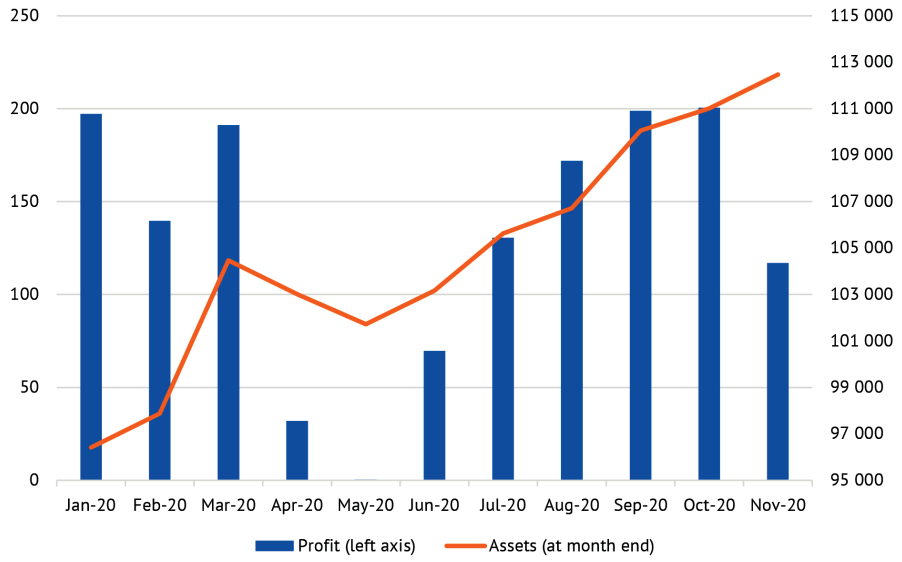


Fig. 2. Dynamics of profit and assets of the banking sector, billions of rubles

Source: statistical bulletin of the Bank of Russia No. 12, 2020.

The profitability of the banking business has significantly decreased compared to the previous year with the decline in the rate of profit growth and synchronized acceleration of the growth of assets and capital.

The ROA[1] for the estimated date constituted 1.4% (1.9% a year ago), the ROE[2] was 14.0% (19.1% a year ago).

Interest rate decline is the principal reason for the relative decrease in profit margins and profitability. This fact was especially noticeable in Q2, 2020, when the policy of the RF Central Bank contributed to a reduction in interest rates in the retail and corporate lending market, while relatively expensive funding for medium and long-term contributions and deposits remained in bank portfolios.

At the same time, many banks offered increased rates on savings accounts to replenish their resource base and retain customers.

Another factor related to the reduction in bank profits was the growth of provisions for possible losses on loans and other active operations in the context of market instability and the expected decline in creditors' solvency. Despite the regulatory easing by the RF Central Bank, banks continued to increase spending on creation of provisions along with the growth of lending volumes.

Thus, for instance, according to IFRS for 9 months of 2020, the Sberbank net interest income declined by 13.5% compared to the previous year taking into account the created reserve[3]; the respective indicator of Alfa Bank decreased by 16.2%[4]; Reduction of VTB constituted 23.8%[5].

1 Return on assets – return on assets, ratio of net profit to total assets of a credit institution.
2 Return on equity – return on equity, ratio of net profit to equity of a credit institution.
3 URL: https://www.sberbank.com/common/img/uploaded/files/info/ifrs2020/20/20209 mruifrs9m_presentation.pdf.
4 URL: https://alfabank.ru/f/3/about/annual_report/msfo/MSFO_20_3.pdf.
5 URL: https://www.vtb.ru/-/media/Files/aktsioneram-i-investoram/finansovaya-informatsiya/msfo/ezhekvartalnye/2020/rus/3q/3q2020-ifrs-results-rus.pdf.

High volatility of the foreign currency market and depreciation of ruble contributed to maintenance of a positive financial performance of the banking sector. One of the main factors behind the growth of bank income during the pandemic was the net income from operations with foreign currency and precious metals and their revaluation. For 3 quarters, this indicator increased by 413.6% (its decrease by 31.3% was recorded as on the corresponding date of 2019).

As previous publications show[1], banks continue to master technologies to optimize business processes in order to reduce administrative and management costs. As of October 1, 2020, significant changes have been recorded in the dynamics of costs associated with supporting the activities of credit institutions. This indicator includes staff costs; operations with fixed assets; organizational and administrative expenses; as well as other types of non-operational expenses (legal costs, write-off of shortages, charity, etc.).

At 3 quarters end, this type of expenses decreased by 2.4% compared to the corresponding indicator of the previous year (according to the reporting as of October 1, 2019, it showed an increase by 6.3%). To the greatest extent, the reduction affected organizational and management costs (by 15.7%) and other expenses (by 11.6%).

Thus, cost management aimed at improving operational efficiency is becoming one of the ways to maintain a high level of bank profitability amid low interest rates.

The indicator of administrative and management costs vs operating income (cost-to-income ratio, CIR) continues to decline, and as a whole, it should be less than 40% in the banking sector at the year -end (the CIR of Sberbank decreased to 27.2% in the mid of 2020).[2] This factor proves a rather high operational efficiency of Russian banks compared to European banks: in France, the CIR is above 60%, in Germany it is above 70%.

As it was mentioned in our previous review[2], banks are forced to shift their focus towards increasing operations that generate fee income in the context of aggravated credit risks, as well as measures by the Central Bank aimed at lowering market interest rates (lowering the key rate). The trend reversed in Q3, and income growth resumed after a drop in fee income in H1 of 2020: thus, the most significant growth was recorded in income obtained from the following operations:

- trust administration of property (by 102.2% compared to the corresponding indicator for 3 quarters of 2019);
- provision of intermediary services under brokerage and similar agreements (an increase by 42.4%);
- issue of bank guarantees and sureties (an increase by 24.3%).

The total increase in fee income amounted to 10.2% for 3 quarters compared to 12.4% for the same period in the previous year.

The reorientation of banks to commission transactions led to a situation that the net fee income of banks specializing in settlement and intermediary operations exceeded the level of net interest income based on results of 3 quarters of 2020, taking into account the created reserve (Post Bank, MTS Bank).

Several factors determine the maintenance of a stable growth in fee income:

1 URL: https://www.iep.ru/files/text/crisis_monitoring/2019_17-100_November.pdf.
2 URL: https://www.sberbank.ru/en/press_center/all/article?newsID=f88d5580-c1dd-4fa7-9067-935f189abd09&blockID=1539&regionID=77&lang=en&type=NEWS.

- increasing the share of non-cash payments in settlements while maintaining sufficiently high acquiring rates[1];
- spreading the remote banking system (mobile wallet, telephone SMS-banking, electronic document flow systems, etc.);
- growing demand for brokerage services (transactions with financial assets on exchange and over-the-counter Russian and international markets).

In the near future, one should not expect a significant increase in the marginality of the banking sector. Interest rates on both loans and deposits will remain at a consistently low level in the absence of macroeconomic and political shocks. The quality of the loan portfolio will have a decisive influence on the financial results, i.e. the level of overdue debt, as well as the need for additional provisioning after the revocation of the Central Bank easing measures. Banks are likely to seek compensation for the decline in interest income by increasing operations that generate fee income. This process can accelerate with the intensive penetration of banks into non-banking services, further development of the remote service system, promotion of marketplace services for individuals and legal entities.

1 This type of services includes connection, installation and maintenance of payment terminals, internet and mobile acquiring, connection of ApplePay and GooglePay, etc.

5. RUSSIAN LABOR MARKET: ADAPTATION TIME

Viktor Lyashok, Candidate of Economic Sciences, Senior Researcher, Department of Pension Systems and Actuarial Forecasting, INSAP, RANEPA

Results of the December wave of monitoring of the social status and behavior of the population (telephone survey) do not demonstrate any deterioration at the Russian labor market. Despite the pandemic challenging situation, respondents note a slight increase in wages and salaries; the share of those working remotely from home is still high for Russia; the number of unemployed explaining job loss due to the pandemic remains relatively low. However, there are no signs of a noticeable recovery compared to the September monitoring wave. Rather, this can refer to adaptation to the prevailing external circumstances.

The data of the fourth stage of monitoring of the social status and behavior of the population in the context of the coronavirus spread carried out early December, make it possible to analyze changes in the labor behavior of the Russian population during the second wave of the pandemic.[1]

Employment. The number of employed respondents in the sample was 759. At the same time, the specifics of the working mode of the survey participants in December has not practically changed compared to the previous September wave of monitoring (*Table 1*). About 2/3 of respondents work at their workplace, at their employer, slightly less than 1/4 are employed partially or completely remotely from home.

Therewith, until March 2020, the number of respondents working remotely was significantly lower, i.e. 8.5%. Apparently, the share of telecommuting workers will remain at a new level at least until the end of the pandemic, and as a whole, one can talk about a change in the attitude of workers and employers to this mode of work.

Table 1

Distribution of employed according to work mode, %

	Wave 2 (May)*	Wave 3 (September)	Wave 4 (December)
Work at their workplace	46.1	68.5	69.9
Work partially remotely from home	28.0	13.3	11.6
Work entirely remotely from home		10.0	12.0
Work shorter working hours	10.7	3.0	1.0
Paid leave	5.9	2.4	2.2
Unpaid leave	4.2	2.1	1.0
Other	8.0	2.1	3.8

* A slightly different question wording was used in the second monitoring wave.

Note. The column totals more than 100% because the question offered multiple choices.

Actually, the share of those employed remotely does not differ by age and gender, although men much more often work remotely on a permanent basis while women work remotely on a temporary basis. Respondents having a higher

1 Monitoring of the population social status and behavior represented formalized telephone interviews; the sample size of the fourth wave was 1620 aged 18 and over.

level of education more often work remotely (*Fig. 1*). Another important factor is the size of the settlement: in cities with a population of over 1 mln the share of telecommuting workers is 34%, in cities with a population from 100.000 to 1 mln it is 22%, in cities with a population of up to 100.000 it is 19%, and in villages it is 18%.

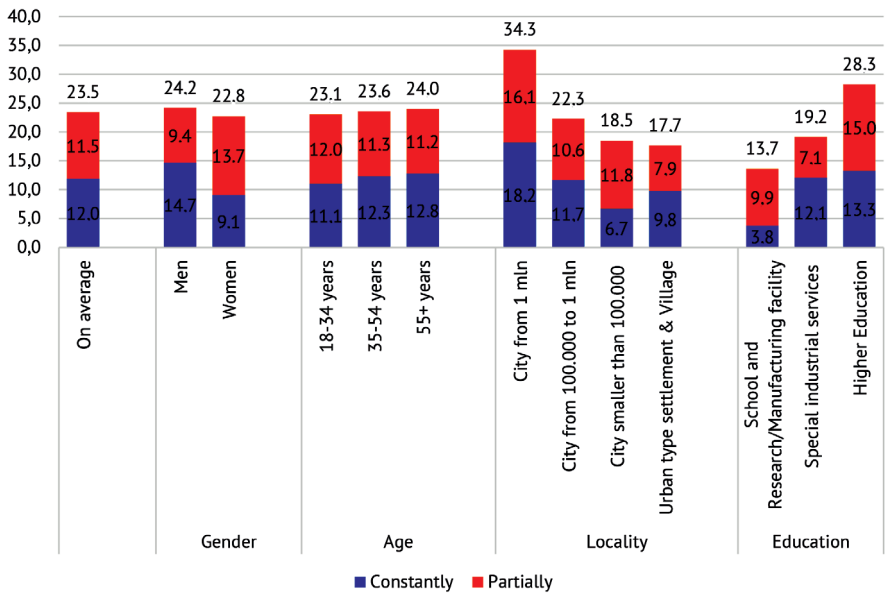


Fig. 1. The extent of telecommuting among different groups employed in December 2020, % of all respondents in this group

The answers to questions related to dynamics of wages and salaries after the start of the epidemic indicate positive changes (*Table 2*). The share of those who noted that their earnings at their main job decreased after the start of the epidemic reduced from 27.7% in May to 14.7% in December. However, the share of those who noted growth in earnings increased from 3.8 to 14.8% compared to the spring of 2020.

Table 2

Changes in wages and salaries after the onset of coronavirus pandemic, % of all employed

	Wave 2 (May)*	Wave 3 (September)	Wave 4 (December)
Receive more	3.8	10.3	14.8
Receive less	27.7	18.7	14.7
Almost the same	66.5	68.7	68.9
Faced difficulties to answer	2.0	2.3	1.6

* A slightly different question wording was used in the second monitoring wave.

In December, respondents employed in agriculture, transport, trade, as well as in the restaurant and hotel business, most often noted the growth in wages and salaries. One can cautiously assume the improvement of the situation in a number of industries. In trade and transport, there have been multidirectional changes, evidencing losses for many workers in the size of labor income, however, many of them have won. Finally, wages and salaries in the public sector of the

economy as well as in the field of mining and information technology were the least affected by external factors.

Workers' expectations. Sentiments about the future remain largely pessimistic. 23% of workers note high risks of losing their jobs in 2021 and another 28% assess them as medium. At the same time, risk assessments are barely associated with age differences, as they are practically the same in 35–54-year-olds and in the category aged 55 and older. Slightly lower estimates of the risk of losing a job are among young people under 35.

Estimating this factor as a challenge in searching for a new job with the same conditions and wages, only 21% of workers indicate that it would be easy, 51% say that it would be difficult, for 20% it is almost impossible and 7% faced difficulties to answer. Young people are more optimistic in this matter, while more than half of older people point to the almost blank impossibility to find a job similar to the previous one. Workers' expectations regarding changes in wages and salaries in the next year are more positive: 15% believe that they will grow, 59% think that they will remain unchanged, 12% assume that they will decline and 14% found it difficult to answer.

Thus, the workers' point of view is that the main risk in the labor market is the threat of losing a job, which they will not be able to find a worthy replacement. At the same time, the decline in wages and salaries worries Russian workers to a much lesser extent.

Unemployment. The number of unemployed in the sample was 154, or 9.5%. In this case, the respondents recognized themselves as unemployed, however, common definition of the term "unemployed" differs significantly from the clear term in the ILO methodology. Therefore, not everyone who recognized themselves as unemployed in this survey belongs to this category from the point of view of official statistics.

The unemployed population has changed significantly since the second wave of the May survey. At that time, more than 1/3 of respondents lost their jobs due to the pandemic. By September, this share decreased to 14.4% and by December, it increased again to 19.9%. This can be explained by the negative consequences of the second wave of coronavirus.

Half of all unemployed in the sample were previously employed in the following four industries: trade (18%), construction (12%), mining and industry (11%), transport (10%).

During the researched period, the attitude of the population to unemployment benefits has also changed significantly. On the one hand, in December 57% of working respondents said that if they lose their jobs, they will apply for unemployment benefits (this result does not differ from the one obtained in the polls in May and September). On the other hand, the share of those who actually tried to apply for benefits is changing significantly: it increased from 18.1% in May to 42.7% in September, while in December it constituted 36.4%. The decrease in the proportion of the unemployed applying for benefits is apparently associated with the interruption of various temporary financial support measures aimed at households introduced in spring-summer of 2020.

The main reason for the reluctance to apply for a benefit is the hope to quickly find a new job. Moreover, the share of respondents choosing this answer rose from 38.7% in May to 47.5% in December.[1] The share of survey participants

1 This contradicts the allegations that if people lose their jobs, it will be difficult or almost impossible for them to find a job. In general, about 12% of those who indicated that they would

who claim that they have other sources of livelihood has slightly decreased. Compared to September, the share of those who argued that the benefit is insignificant has decreased. Nevertheless, 55% of workers note that the amount of the allowance would be significant or rather meaningful financial support for them, which is close to the results of past surveys.

experience great difficulties in searching for a suitable job, noted that they would not apply for unemployment benefits, as they hope to find a job quickly.