

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. MONITORING OF THE SITUATION WITH THE CORONAVIRUS PANDEMIC AND THE MEASURES TO CONTAIN IT OVER MAY 11 TO JULY 1, 2021

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The situation with the spread of the coronavirus has been recently developing in different directions. In a number of countries (the EU including), the epidemiological situation improved due to mass vaccination of the population, and so the containment measures were eased. Other countries, including Russia, faced the rise of the third wave of the pandemic caused by the spread of new more dangerous strains, which forced the authorities to tighten their containment measures.

The current situation with COVID-19 around the world

Morbidity

Towards the end of June, the morbidity level had dropped to 300,000–400,000 daily new cases, i.e. by more than twice compared to the period from April through the first half of May, when that index was as high as 800,000–900,000 daily new cases. The values for R_t (the measure of how fast the virus is growing) in many countries of the world (the EU, North America, India) fell below 1 (Fig. 1).

By July 1, 2021, the total number of COVID-19 cases in the world amounted to about 183.07 mn (vs 159.5 mn as of May 10, 2021), and the number of deaths exceeded 3.96 mn (vs about 3.3 mn as of May 10, 2021). Overall, there were more than 11.475 mn current coronavirus cases around the world (a decline

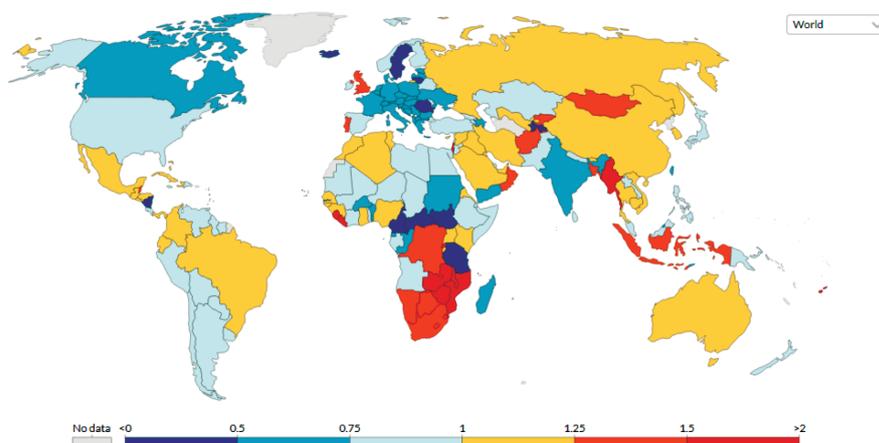


Fig. 1. The R_t estimates around the world, by country

Source: Ourworldindata (as of June, 22).

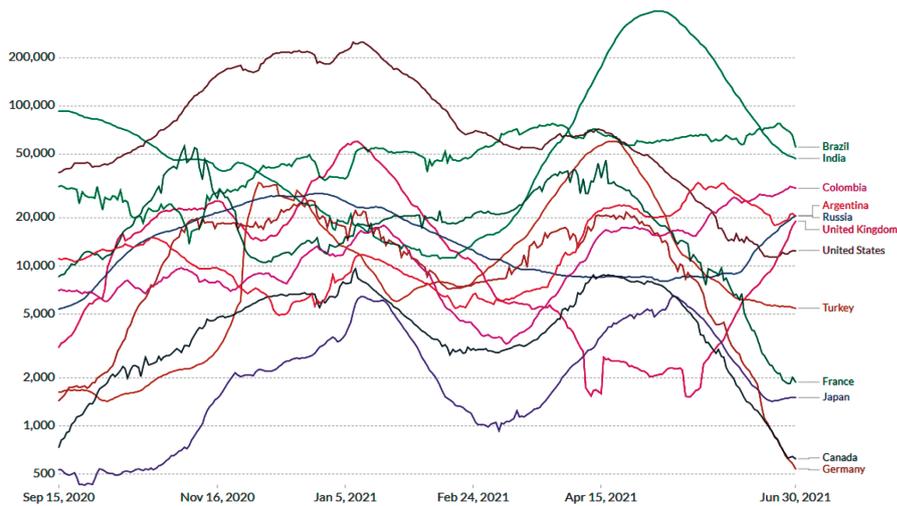


Fig. 2. The new case trajectories, by country (logarithmic scale), moving average per week
Source: ECDC.

on May 10, 2021, when there were 19.04 mn current coronavirus cases), and more than 167.6 mn had recovered. The situation remains difficult in India (even after the morbidity peak was passed in May) and Brazil: as of June 30, these two countries accounted for 12.5% and 11.7% of daily new cases, respectively. Russia is in 5th place by the total number of cases. The multivector dynamics in different countries (Fig. 2) can be explained, on the one hand, by the success of vaccination campaigns (several countries, e.g. Israel and some EU member states, have lifted most of their containment measures), while on the other, by the emergence of new coronavirus strains, which often results in a worsening situation within certain territories.

Mortality trends

Mortality from the coronavirus over the period under consideration somewhat declined: while in December the peak values sometimes exceeded 17,000 daily deaths, after June 15 that index fluctuated between 6,000 and

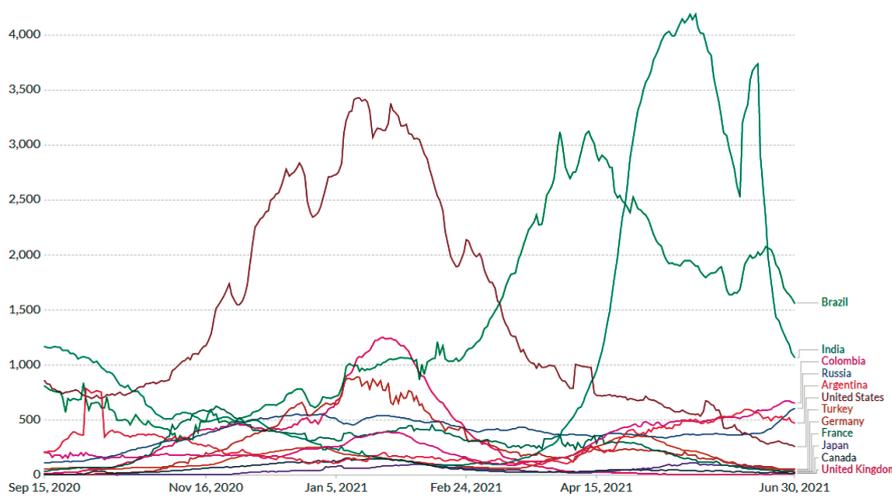


Fig. 3. The rate of 7-day smoothed daily deaths around the world, by country
Source: OurWorldInData.

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10,000 daily deaths. The highest daily mortality rates were observed in Brazil (2,127 daily deaths on June 30), India (991), Russia, Argentina, and Colombia (Fig. 3). In Russia, the mortality rate based on operational data increased to 2.44% (vs 2.31% in May).

The measures being introduced

In June, in contrast to the situation in early May, containment measures were eased in a number of countries (the EU, North America) due to an improvement in the situation (Fig. 4).

In Spain and Italy, the outdoor face mask wearing regime was canceled. Iceland was the first EU member state to lift all the containment measures introduced to fight the pandemic (in that country, 60% of citizens had been vaccinated (87% had received their first dose)), and many of the imposed containment measures were lifted in Switzerland. In Turkey, the overnight curfew was lifted.

However, at the same time, against the backdrop of the spread of new more contagious coronavirus strains, and especially the Delta variant, more than 70 countries have been tightening their containment measures.

In particular, Israel, after having lifted all its restrictions for a short while in response to a plunge to a minimum level of the number of daily new cases following a successful vaccination campaign, reintroduced the indoor face mask wearing regime; in Sydney (Australia), a full lockdown was reintroduced; in Malaysia, the quarantine was extended indefinitely; Thailand is tightening its sanitary requirements for catering establishments.

The current situation with COVID-19 in Russia

As of July 1, 2021, 5,538,142 coronavirus cases were registered in Russia (an increase of 13% on May 11). In June, the average daily increase in the number of new cases amounted to 75% relative to May. The R_t level stood at 1.05 (the average value for the period under consideration is 1.08; the peak value of 1.35 was reached in mid-June); overall, this points to a current significant acceleration in the morbidity rate.

A steady decline in the relative share of active cases, which lasted from May 11 through the first ten days of June, gave way to growth (7% of the total

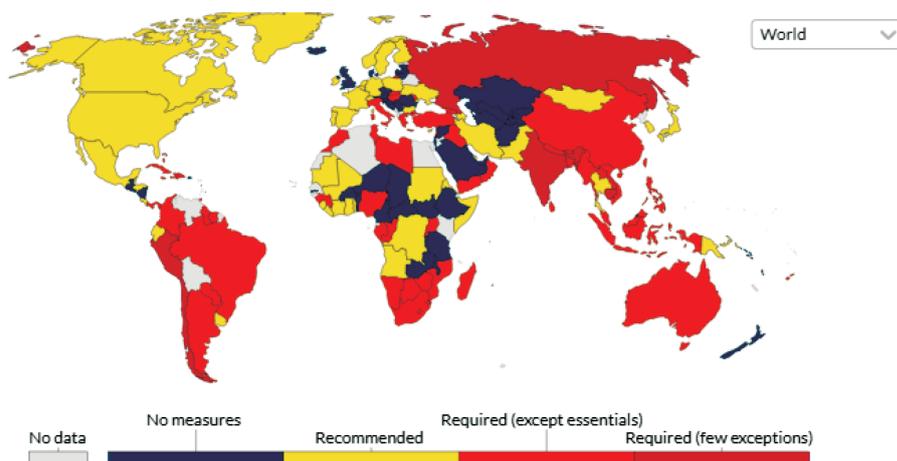
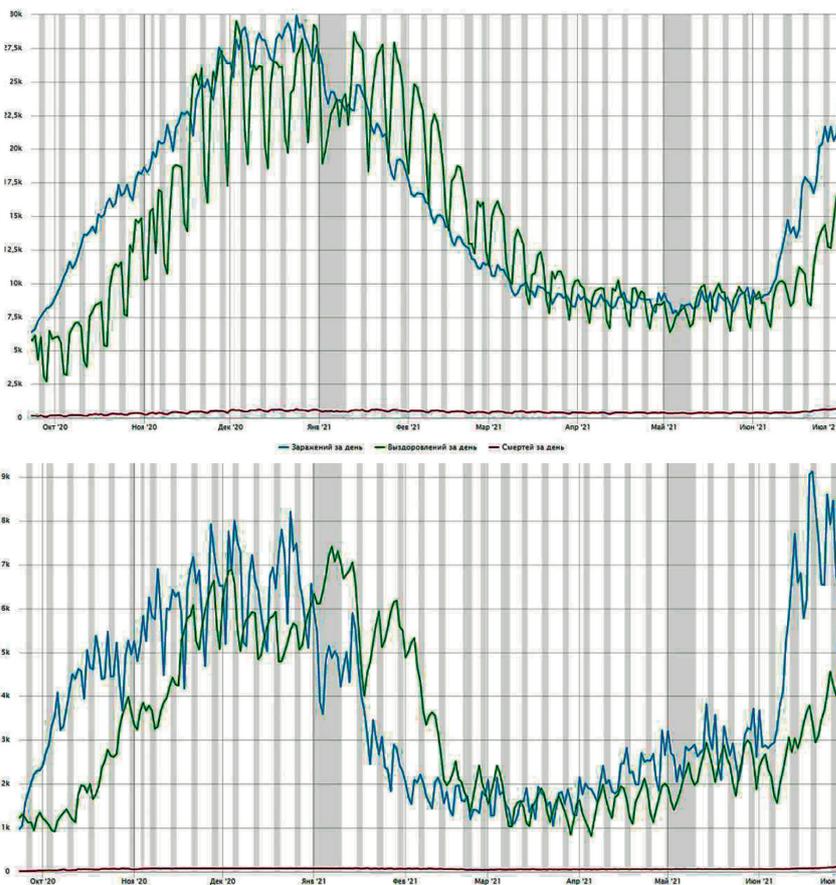


Fig. 4. The stringency of containment measures – stay-at-home requirements

Source: OurWorldInData, as of June 30, 2021.

number of cases, or 384,900). A significant increase in the nationwide number of daily new cases, and that in Moscow in particular (*Fig. 5*), has been associated with the spread of new coronavirus strains – the so-called Indian (Delta) variant and British (Alpha) variant, an insufficient herd immunity level, a surge in the transport mobility of citizens inside this country, and their laxer compliance with the government epidemiological measures and the face mask wearing regime alongside the containment measures being eased in the regions. According to the relevant government departments, as of the end of June, an increase in morbidity was observed in almost every region (*Fig. 6*). The negative trend in the epidemiological situation was manifest in an explosive growth in the number of hospitalizations (in Moscow, by up to 70% during the peak days of June; the nationwide average is up to 32%) and record high mortality rates (672 daily deaths on June 30). Over the period under consideration, Russia’s regions were increasing their hospital bed capacities: as of June 25, 173,000 hospital beds were reserved for patients with COVID-19, the newly created hospital bed capacity amounted to 40%. As of June 23, 15% of the total number of hospital beds were kept in reserve, while in some regions the hospital bed occupancy rates exceeds the national average (only 12% of beds are kept in reserve in Sevastopol; 11% each, in St. Petersburg and the Moscow region; and 7.3%, in Buryatia).



Note. Holidays and weekends are highlighted in grey.

Fig. 5. 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 July 1.

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Region	New daily cases	Rt	Total cases	Infections per 100,000 population	Total death	Deaths per 100,000 population
Moscow		0,85	1 365 812	10920,8	22 556	180,4
St. Petersburg		1,19	471 264	8805,5	16 461	307,6
Moscow region		1,06	316 824	4222,4	6 531	87,0
Nizhny Novgorod region		1,10	125 221	3871,1	4 242	131,1
Rostov region		1,15	99 540	2358,5	4 674	110,7
Sverdlovsk region		1,21	94 261	2179,3	3 860	89,2
Voronezh region		1,15	90 838	3892,3	3 209	137,5
Krasnoyarsk Krai		1,27	77 900	2708,2	3 960	137,7
Irkutsk region		1,09	74 309	3090,8	2 768	115,1
Samara region		1,01	67 787	2122,6	2 292	71,8

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

Source: Yandex, data as of July 1.

Measures to prevent the spread of the coronavirus in Russia

During the period under review, the containment measures introduced in connection with COVID-19 were tightened across Russia's regions. The face mask wearing regime and social distancing remained in effect. In 65 regions, including Moscow, the stay-at-home regime was introduced for individuals aged 65+ years and the risk groups; in 68 regions, mass entertainment events were temporarily banned.¹ In a number of regions, the operation of food courts, cinemas and other similar establishments was suspended, or restrictions on filling their venue capacity were introduced; from June 27, a two-week lockdown was imposed in Buryatia.

In some regions, due to a rise in morbidity, additional restrictive measures were taken. In Moscow, a non-working week was announced from June 15 to June 19,² as well as a switchover to a remote work format of 30% of those employees who had not been vaccinated; the citywide graduation party for schoolchildren was canceled; it was recommended that universities should conduct their exams in an online mode; and some restrictions were imposed on the operation of catering establishments.

From August 1, the resorts and hotels in the territory of Krasnodar Krai are required to accommodate only those tourists who can produce their vaccination certificates. Restrictions on the entry of tourists were also introduced in Kamchatka Krai and the Ivanovo region.

To accelerate the pace of the vaccination campaign, several regions have launched special programs to promote vaccination with rewards, and the heads of some regions issued orders that vaccination should be mandatory for those employed in certain sectors of the economy (services, transport, health care, education, etc.).

In spite of the deteriorating situation after the onset of the summer tourist season, the opening of borders and resumption of air traffic with a number of countries was continued.

1 URL: <https://tass.ru/obschestvo/11779555>

2 Moscow Mayor's Decree No 29-UM dated June 12, 2021.

The forecasts for the situation development

According to a number of forecasts, an exponential increase in the number of infections will continue at least until mid-July, while the morbidity rate during the current wave may reach the level of 40,000 daily new cases by July 19, thus breaking the record of the previous December wave (Fig. 7).

According to the IHME forecast,¹ the mortality rate at the peak of the current wave may become comparable to that at the previous peak (520–630 daily deaths). Overall, by the end of summer, mortality is expected to decline to the level of October 2020.

In June, the vaccination rate in Russia accelerated significantly: as of June 30, 23 mn² had received their first vaccine dose (a 1.7 times increase on May 11), and of these, 77% had had a complete course of vaccination. However, in terms of vaccination coverage, Russia's indicators still remained below the world average (Fig. 8). Measures are being taken to accelerate the pace of vaccination: as of July 1, mandatory vaccination for certain categories of citizens was introduced in 26 subjects of the Russian Federation;³ the city of Moscow launched a vaccination program for labor migrants⁴ and a revaccination program for the general population.⁵

Although over the last two weeks the vaccination rate increased for those who had received their first vaccine dose (Fig. 9), this trend could be just local in nature, being caused by the orders issued by the heads of some regions concerning mandatory vaccination of certain population categories. At the same time, as some regions are experiencing a shortage of vaccines, the vaccination program has been suspended there (Khabarovsk Krai, Udmurtia).

According to data available at Gogov.ru, there were 2.5 mn official recoveries from the coronavirus in Russia over the past 6 months; and a total of 17.43 mn

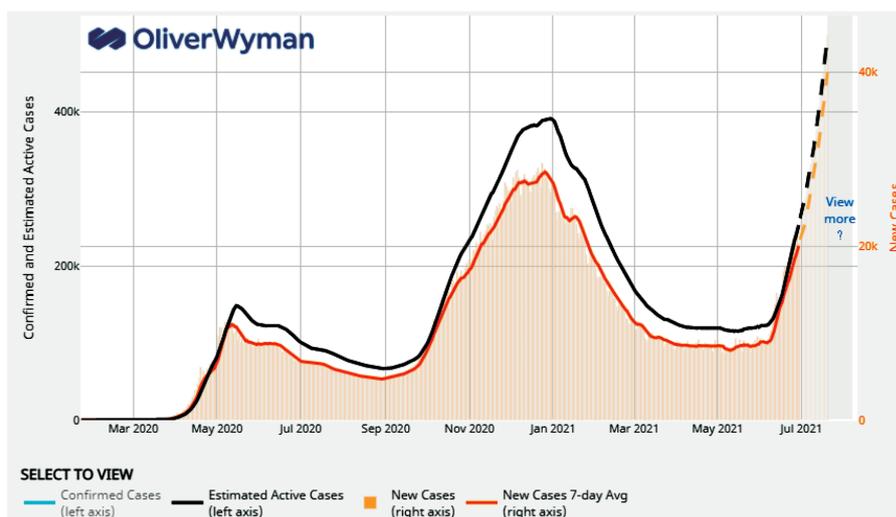


Fig. 7. The growth forecast for the number of confirmed new cases and active cases

Source: Johns Hopkins University [URL: <https://tinyurl.com/yxvf5zla>], June 29, 2021.

- 1 URL: <https://tinyurl.com/y47sbc5y>
- 2 URL: <https://стопкоронавирус.рф/news/20210629-1709.html>
- 3 URL: <https://ria.ru/20210621/vaktsinatsiya-1737885023.html>
- 4 URL: <https://www.mos.ru/mayor/themes/18299/7456050/>
- 5 URL: <https://www.mos.ru/city/projects/covid-19/covidvaccine>

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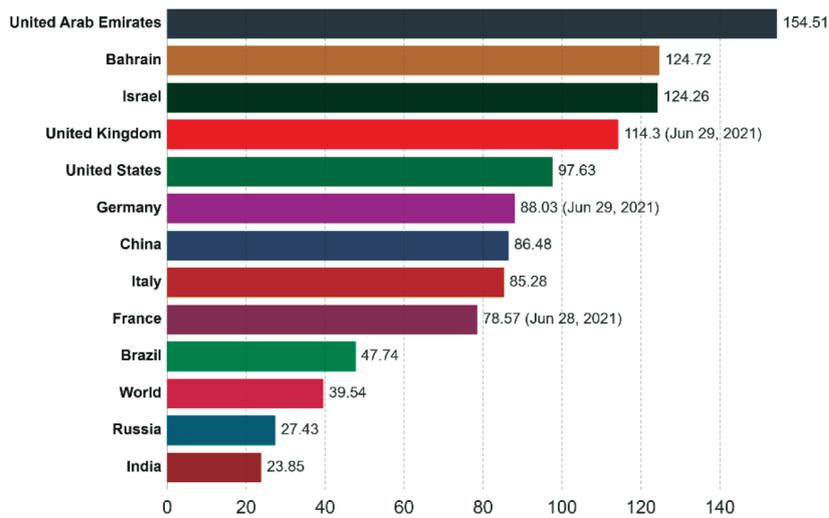


Fig. 8. The vaccination rates in some countries, total number of vaccine doses administered (including several doses for multicomponent vaccines) per 100 people

Source: OurWorldInData.

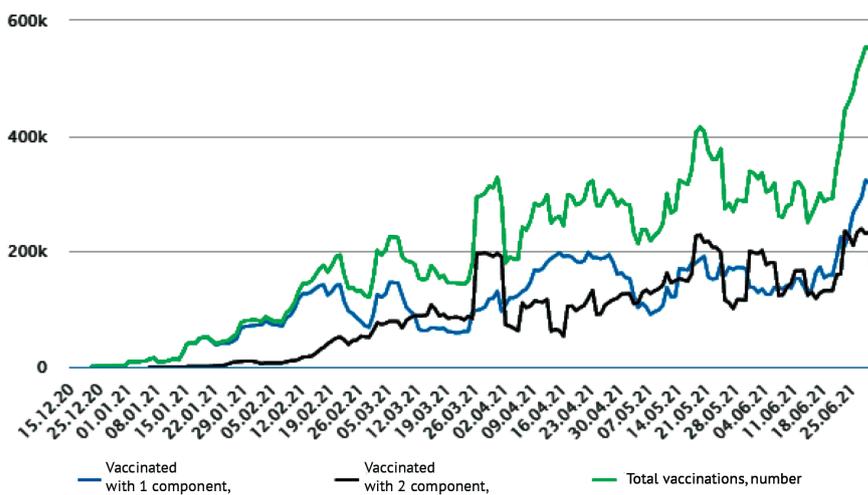


Fig. 9. The vaccination rate, people per day, 7-day moving average

Source: Gogov.ru [URL: <https://gogov.ru/articles/covid-v-stats>], June 30, 2021.

received two vaccine components, of which about 90% have developed the antibodies. Thus, as of the end of June, at least 18.19 mn were immune to COVID-19, which amounts to 12.4% of the total population. ▀

2. THE EXIT OF RUSSIA'S REGIONS FROM THE CRISIS OVER JANUARY-APRIL 2021

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The effects on the pace of economic development of the 2020 crisis caused by the pandemic significantly differed across Russia's regions. The trajectory of exit from the crisis in January-April 2021 displayed some dramatic territorial differences, which must be taken into account when implementing regional policies and the measures of financial support for the regions.

Over the course of January-April 2021, the majority of indicators demonstrated slight improvements that resulted, among other things, from the low baseline values of the previous year. Industrial production increased by 1%, including manufacturing output by 4.5%, while the extractive industries experienced a decline by nearly 6%. Their by-region dynamics depended on regional specialization: industry displayed a faster growth in the Central Federal District (+13%) where the processing industries and the electric power industry prevail; a decline persisted in the Siberian Federal District (-2%) and the Ural Federal District (less than 1%). Among the industrially developed regions, the best dynamics was demonstrated by the Moscow, Yaroslavl, Kaluga, Kursk, Rostov, Ulyanovsk regions and the city of Moscow (15–18%), as well as in the Republic of Sakha (Yakutia) (19%). A deep decline of 10–12% persisted in the oil-producing regions: the Nenets Autonomous Okrug and the Khanty-Mansi Autonomous Okrug, the Komi Republic, the Sakhalin Region, and Krasnoyarsk Krai.

Over Q1 2021, investment increased by 2% overall, while demonstrating strong and opposite trends depending on the geography of each region. In the majority of federal districts, growth was noted, and it was especially impressive in the North Caucasus Federal District (by 35%, although the actual investment volume was very small) and the Central Federal District (by 12%), mainly due to the input of the city of Moscow (+17%). In the Southern Federal District, investment shrank by 11% due to the completion, a year earlier, of two major projects (the bridge to the Crimea and the Tavrida highway); in the Ural Federal District, the decline amounted to 16% as a result of reduced investments in oil production in the Khanty-Mansi Autonomous District and the entry into its final phase of the construction project launched by Tobolsk Petrochemical Plant JSC in the Tyumen region. However, the regional dynamics over the course of Q1 was unstable, and so the data for the H1 are more useful in this respect.

The highest growth was demonstrated by the volume of new housing put in operation (it gained 28% over January-April 2021); the reason behind that growth was the launch of the preferential housing mortgage program coupled with the low baseline values of April 2020, which was the time of the lockdown. Among the regions with large volumes of new housing put in operation, the

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following ones stand out: St. Petersburg and the Leningrad region (an increase by 2.1–2.3 times), the Samara region (by 87%), the Sverdlovsk region (by 69%), and the Moscow region (by 35%). The latter accounts for more than 10% of the total volume of new housing put in operation nationwide. The ongoing decline has not been reversed in the city of Moscow, Krasnodar Krai, the Tyumen region, and the Rostov region (it varied from -4 to -6%). Among the federal districts, the slowest growth rates were observed in the Southern Federal District (8%), in the Far Eastern Federal District, and in the Central Federal District (17%) – the latter resulted from the negative dynamics in the capital. Growth in the Far East was mainly accounted for by the input of Primorsky Krai, where the volume of new housing put in operation jumped 2.6 times due to the arrival of major building construction companies into that region.

The low baseline values of April 2020 also explain the significant growth in retail turnover, which gained nearly 6% in January-April 2021. The leaders in growth were the city of Moscow, the Moscow region, and the city of St. Petersburg (12%), where the lockdown introduced in April 2020 had been the most stringent, while the recovery of household income in late 2020 and early 2021 had been faster. Retail trade in the south of European Russia increased significantly (by 12–13% in Krasnodar Krai and the Rostov region). In the central and northwestern regions situated outside of the federal-level urban agglomerations, the growth rates were much lower, because there had been no strict lockdown. In one-third of the regions with million-plus cities, decline continued (by 2–7% in Perm Krai and the Nizhny Novgorod, Samara, Sverdlovsk, and Omsk regions). The dependence of the movement patterns of economic indicators on the rate of decline in April 2020, which was shaped by the varying degrees of stringency of containment measures across the regions, will still be manifest over the next few months, and so it will still be difficult to make a meaningful analysis.

The volume of paid services provided to the population in January-April 2021 increased by 6%, and the majority of regions displayed a positive trend. That index, however, has not yet recovered in the Moscow, Voronezh, Kurgan, and Kemerovo regions; in Primorsky Krai, Udmurtia, and the Chukotka Autonomous District. In the city of Moscow, this happened due to the shrinkage of passenger traffic in the public transport sector, because some restrictions on the provision of certain types of services persisted through Q1. The improvement in public catering turnover was even more impressive (an increase of 10%), while decline still persisted in 25 regions. The significant growth was triggered in the main by the input of the city of Moscow (28%), which accounts for one fifth of the total nationwide public catering turnover, and that of Krasnodar Krai (27%); these two regions had introduced the most stringent containment measures in April 2020.

Regional labor markets have also been recovering. It is still not possible to assess the recovery from the crisis of the most strongly affected segment of the national economy - small and medium-sized businesses, since data for Q1 2021 on the number of people employed in the SME sector is not yet available. Unemployment rates continued to improve. The unemployment rate calculated according to the ILO methodology fell to 5.4%; the same regions that had been problem-ridden before the COVID-19 crisis has remained so – these are the underdeveloped republics and depressed regions. The registered unemployment rate at the end of April 2021 fell to 2.1% (at its peak in September 2020 it had reached 4.9%). This was the upshot of the recovery of labor markets, as well

as of the partial reduction in the amount of unemployment benefits and the introduction of tougher registration requirements for the unemployed. The slowest decline in the registered unemployment rate was observed not only in the underdeveloped republics, but also in some more developed regions, mainly in the east of this country, which may partly have to do with the allocation of subventions from the federal budget for the payment of unemployment benefits (Table 1). In the city of Moscow and in Sakhalin, registered unemployment fell to almost its pre-crisis level (0.7% in April 2021), while in St. Petersburg its level is still higher (1.5%).

Table 1

The level of registered unemployment in the regions where its decline rate is slowest, %

	September 2020	April 2021		September 2020	April 2021
Ingushetia	25.0	17.9	Sakha (Yakutia)	6.3	4.9
Chechnya	25.9	14.6	Bashkortostan	6.8	3.6
Tyva	23.6	10.8	Transbaikal region	6.8	3.4
Kabardino-Balkaria	16.1	7.1	Karelia	5.5	3.2
Altai	13.3	6.6	Novosibirsk region	5.5	3.2
Dagestan	10.2	5.6	Omsk region	5.6	2.9
North Ossetia	8.8	5.5	Sverdlovsk region	5.7	2.7
Crimea	5.2	2.9	Tomsk region	5.6	2.7

Source: Rosstat.

The movement pattern of real personal income was negative; in Q1 2021, it declined by 2.8%. Real personal income increased only in the city of Moscow (1.7%) due an accelerated growth of wages, and in the Chukotka Autonomous District (5.8%), where the economy remained stable during the crisis. In 24 regions, the decline was less severe than the national average (from -0.1 to -2.7%), including in St. Petersburg (-1.6%). In another 37 regions, the real personal income decline never reached 5%. In 22 regions, decline amounted to 5% to 10%; in this connection, it is very difficult to explain why the worst movement patterns of real personal income were displayed by the Sverdlovsk and Samara regions.

Over January-April 2021, consolidated regional budget revenue gained 18%, and nearly the same growth rate was demonstrated by receipts of main taxes: profit tax, personal income tax, and property tax (Table 2). The increase by more than 1.5 times in total income tax, which is paid in the main by small businesses, can be attributed to the postponement to 2021 of the deferred tax payments due in 2020.

The movement of budget revenue early in the year is not very meaningful, but it still displayed two major trends that should be noted. First, there was a sharp increase in the regional budget revenues generated by profit tax in those regions that house big metallurgical enterprises, whose profits increased significantly in H2 2020. In the Belgorod and Lipetsk regions, profit tax generated revenues increased 3 times; those in the Vologda region, 2.4 times; and those in Krasnoyarsk Krai, the Tula region, and the Republic of Karelia, 1.7–2 times. Secondly, a decline in profit tax generated revenues continued in the leading oil-producing regions (in the Khanty-Mansi Autonomous District, by 62%; in the Sakhalin region and the Republic of Sakha (Yakutia), by 39–42%; in the Tyumen region, by 26%; and in the Yamalo-Nenets Autonomous District, by

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16%), translating into a shrinkage of their budget revenue. Personal income tax receipts increased in almost all the regions, with the exception of the Sakhalin, Pskov, and Belgorod regions, and the Nenets Autonomous District. The growth of transfers to the regions by 20% (including interbudgetary transfers, by 18%) can be explained in the main by the effects of the low baseline values of the previous year (the rapid growth of transfers in 2020 began only in April). Nevertheless, the volume of transfers decreased in 15 regions.

Table 2

The movement of consolidated regional budget revenue and expenditure in January-April 2021, as % relative to the corresponding period of the previous year

	Revenue growth rate		Expenditure growth rate
Revenue, total:	18	Expenditure, total:	14
profit tax	16	National economy, less city of Moscow	35
personal income tax	15	education	14
total income tax	54	health care	12
property tax	13	social policy	-1
transfers	20		17

Source: Rosstat.

In January-April 2021, consolidated regional budget expenditure increased by 14% (Table 2). The fastest growth rate was demonstrated by expenditures on the national economy, in compliance with the President's Executive Orders on road construction, etc. When taken less the input of the city of Moscow, which increased these particular expenditures almost twice, the aggregate growth rate in all the other regions did not differ from that of total expenditure. A significant increase in allocations to social policy (social protection) had to do with the additional obligations to finance the monthly payments for children aged 3 to 7 years in low-income families, as well as the unemployment benefit payments. However, in a number of regions, social policy expenditures decreased (in the Tyumen region, by 12%; in the city of Moscow, by 3%; in Altai Krai and the Irkutsk region, by 1–2%). The negative movement pattern of regional budget expenditures on health care can be attributed to the effect of the high baseline values of 2020, and it was noted in half of the regions. At the same time, the total budget expenditures of the regions and the territorial compulsory medical insurance funds (TCMIF) increased by 3%. The growth in education expenditures in January-April 2021 was twice as high as that observed over the same period of the previous year; a slight decline was noted in only four regions.

According to the results of January-April, the majority of regions had a budget surplus, while several regions with a significant deficit were in the risk zone: the Komi Republic (13% of total budget revenue), the Ulyanovsk region (10%), the Leningrad region (7%), the city of Sevastopol and the Republic of Bashkortostan (4–5% each). 

3. RUSSIAN INDUSTRY IN JUNE 2021

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According to results of enterprises' surveys, June 2021 was marked in the Russian industry by an increase in output and demand for its products, as well as by improvement in the sales forecast. The inflationary expectations have dropped. The lack of qualified personnel topped the list of the resources' constraints.

According to enterprises' estimates, the demand for industrial production continued to grow in June. The balance of actual changes in sales remained at +4 p.p., demonstrating stability throughout the entire Q2. The obtained value is worse than the result of February and March 2021, but significantly exceeds the sales growth rates registered in 2018–2019. The positive dynamics of demand (growth in sales against the previous month) has been observed by enterprises since November 2020 with the sole and logical exception in January 2021, however, the recovery of the indicator to pre-crisis values took place already in July 2020.

This value is inferior to the absolute record of all 349 polls in 1992–2021 by only 2 p.p. In August 2007, 72% of enterprises assessed demand for their products as “normal.” In March 1996, only 4% provided such estimates.

Sales forecasts continue to gain optimism after a logical failure in December 2020, hitting the November 2020 record in June 2021 and reaching a 13-year high. Such optimistic expectations of the demand growth have not been recorded in surveys since June 2008.

In June, the warehouses of the Russian industry have faced again a growing shortage of stocks of finished products. The balance of estimates (“above the norm” – “below the norm”) dropped to -9 p.p. Thus, enterprises are in no hurry to replenish their stocks even amid positive dynamics of actual sales and growth of optimism in demand forecasts. The balance of estimates of finished goods stocks turned negative in August 202 and reached a local minimum in December 2020, and for 11 months in a row indicated the uncertainty of enterprises in the end of the virus crisis. However, the abovementioned period of uncertainty is still far from the record 30 months shortages of reserves, which were registered by the Gaidar Institute polls after the 1998 default.

In June, the output growth of the Russian industry remained: the balance of actual changes in production remained positive and even increased by symbolic 2 p.p. compared to the May result after the seasonal clearing. This indicator has been in the range of +8 ... + 11 p.p. for 5 months already, i.e. since February 2021. However, it turned a profit in July 2020, when the industry produced more products than in the previous month. January 2021 became the sole as well as

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the logical exception from this positive development in the output which was not expected by many.

The plans to change the output added another 6 p.p. in June, broke the previous record of November 2017 and reached a 10-year maximum. There have not been such optimistic intentions regarding production in the Russia's industry since June 2011. Note that balance of plans to change the output became positive already in May 2020. Thus, already in the second month of the virus crisis 2020, the industry was prepared to increase production volumes relative to the previous month. The enterprises still maintain such an attitude to this day with the only exception in December 2020.

In June, inflation expectations of the Russian industry dropped by 4 p.p. The inflationary wave that erupted in industry in July 2020 is probably starting to fade. In May 2021, only 42% of enterprises announced their intention to raise prices.

In May, the industry was unable to increase the number of employees despite the April record high recruitment plans since the beginning of 2008. In June, enterprises were able to stop the negative trend of declining hiring rates. The balance of actual changes in the number of employees increased by 1 symbolic p.p., while the hiring plans climbed up by 3 p.p.

The persistence of current and expected issues related to personnel in the Russian industry is confirmed by direct assessments of the enterprises. Thus, in Q2 2021, 26% of enterprises indicated the shortage of personnel as a factor holding back the growth of output compared to 16% of references in Q1. As a result, according to manufacturers, the lack of qualified personnel moved up to the 1st place among resource constraints. There was a shortage of machinery and equipment in 13% of enterprises to ensure production in Q2 2021. In Q1 of this year, the lack of capacity held back the growth of output for 16% of producers.

Prospective estimates of staffing and capacity supply of the expected changes in demand, at first glance, are not so pessimistic. Only 13% of enterprises report expected staff shortages. Apparently, the industry still hopes to join the ranks of its workers through hiring. 13% of enterprises also have opposite estimates (excess number of employees). The traditional balance of estimates is zero. Nevertheless, the staffing situation has been registered by surveys for the third quarter in a row.

The Russian industry estimates the supply of production capacities to the expected changes in demand in a different way. In Q2 2021, 7% of enterprises experiencing insufficient capacities oppose 20% of enterprises equipped with excess capacities. The balance is becoming positive and indicates the persistence of the excess capacity overhang.

As for the enterprises' perception of the availability of loans, it has decreased, but not by much. 

4. MORTGAGE LENDING IN JANUARY-MAY 2021: THE UPSIDE RISK OF THE REAL ESTATE MARKET

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At the beginning of this year, the growth rate of residential mortgage lending (RML) corresponded to the average level of 2020. The market situation is largely influenced by the reduction in interest rates caused by the implementation of state preferential mortgage programs. The rise in prices in the primary and secondary housing markets amid more expensive bank funding and an increase in construction costs create potential upside risks in the real estate market and results in a mortgage bubble, which forces the government and the Central Bank of the Russian Federation to take measures to cool the market.

The total portfolio of mortgage loans as of May 1, 2021 reached Rb 10.1 trillion. The increase in the total portfolio in the first four months of 2021 amounted to Rb 1.0 trillion, or 10.8%, resulting in growth in the loan portfolio in other retail segments (consumer lending, car loans, etc.) and significantly exceeds the growth rate of total banking assets (6.9%). A year earlier, the mortgage loan portfolio for the same period increased by Rb 445.1 billion, or 5.8% (with an increase in total assets by 5.3%).

The share of mortgage loans in the Russia's GDP is still minor and amounts to 10% of GDP. For comparison: this indicator in the USA is 52%, about 40% in EU Countries, 48% in Japan, about 20% in Eastern European countries. At the same time, the current growth rates of mortgage lending by Russian banks are among the highest in the world: from February to April 2021 they reached 7.56%.¹

In total, 609.500 loans were issued in the first four months, while the corresponding value of the previous year was 429.700 loans. Thus, the increase was 41.9%. The share of mortgage loans in the individuals' total accounts payable as of 01.05.21 reached 46.3%. As of the corresponding date of the previous year, this indicator reached the value of 44.2%.

In the context of the Ruble devaluation and expectations of its further fall, practically no transactions have been concluded in the foreign exchange segment of RML (only 4 transactions in the first five months of 2021). Currently, mortgage debt in foreign currency is only Rb 14.6 billion, or 0.1% of the total mortgage loan portfolio. A year ago, this indicator constituted 0.3% (Rb 22.5 billion).

High annual growth rates of mortgage lending are explained by the effect of the low base: in early 2020, the demand for mortgages was relatively low due to a short-term increase in rates, restrictive measures introduced at the beginning of the pandemic and uncertainty about the further development of the epidemiological situation. At this moment, despite accelerating inflation and a slight increase in market rates, mortgage rates are close to their historical

¹ URL: https://www.theglobaleconomy.com/rankings/mortgage_credit/

4. Mortgage lending in January-May 2021

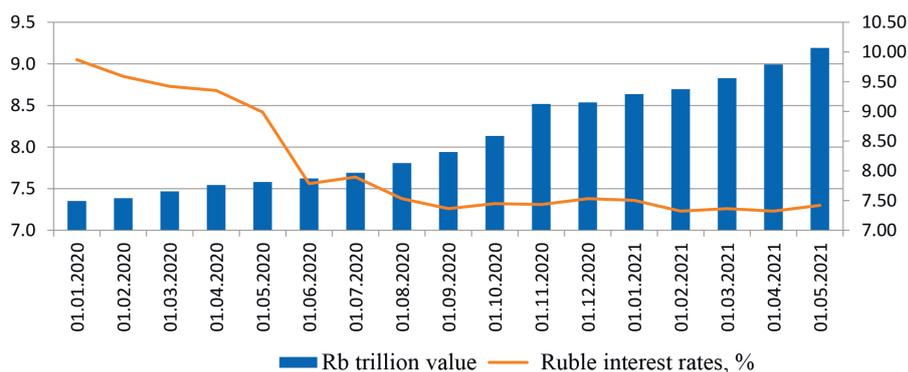


Fig. 1. Dynamics of monthly lending volumes and interest rates in the residential mortgage lending market in 2020

Source: URL: https://cbr.ru/statistics/bank_sector/mortgage/

minimum. The average rate at the beginning of May was 7.30% (as of 01.05.20 the average rate was 8.42%).

Mortgages remain the highest quality segment of lending to individuals. Overdue debt remains at a consistently low level: at the end of April this year, its volume amounted to Rb 75.3 billion, or 0.7% (a year earlier it was Rb 75.0 billion, or 0.9%), while the arrears rate is significantly higher: 7.5% relative to other loans to households.

The share of non-performing loans¹ does not change significantly and is less than 1.4%, including in the primary market, i.e. less than 1.1% (for other loans to households the share of non-performing loans is 8.5%).

The trend to increase the average loan term continues: in May 2021, the weighted average loan maturity exceeded 20 years and amounted to 240.3 months, having increased over the year by 21.4 months, or 12.6%.

Currently, there is a significant reduction in loans with a low (less than 10%) down payment (no more than 3% in the total RML portfolio). Moreover, the share of loans with a high (over 20%) down payment has also significantly decreased. This trend is largely due to the implementation of preferential mortgage programs with an established initial payment of 15%.

In accordance with federal legislation, mortgage holidays as well as internal bank restructuring programs, supported the quality of portfolios. They allowed borrowers to maintain solvency and prevented banks from increasing reserves for possible loan losses. As of May 26, 2021,² 46.600 applications requesting provision of mortgage holidays were received in accordance with the Federal Law No. 76-FZ dated 01.05.2019. During the entire monitoring period, mortgage holidays were actually approved for 17.800 applications amounting to Rb 46.4 billion. The share of actual mortgage holidays constitutes almost 90% of the approved applications. 17.600 claims were refused mainly due to hardship disclaimer of the applicant or excess of the maximum loan. The total number of applications and the volume of restructuring relative to other segments of retail lending is insignificant (about Rb 1 trillion), which positively describes the quality of the total banking RML portfolio.

1 Unlike the amount of overdue debt that has not been paid to the bank, this indicator includes the total volume of loans not been paid for more than 90 days.

2 URL: https://cbr.ru/Collection/Collection/File/35408/drknb_19_2021.pdf

In June, the preferential mortgage program, launched in 2020 as one of the measures to support households and the construction industry, was extended until July 1, 2022 by the Instruction of the President of the Russian Federation.¹

One can take out a mortgage loan at a rate of up to 7% per annum as from July 2 to buy housing in a new construction under the “Preferential Mortgage” program. The maximum loan amount for all regions is Rb 3 million, which challenges the feasibility of this program in Moscow and St. Petersburg. The down payment, as before, must be at least 15% of the housing cost. The state should reimburse credit institutions for shortfall in profits from the provision of loans at a preferential rate.

Moreover, a decision was made to expand the “Family Mortgage” program. Currently, it is extended to families with one child born after January 1, 2018. Under this program, loans at a preferential rate of up to 6% can be obtained for purchasing housing or construction of an individual house. The maximum loan amount for this program depends on the region. Thus, for Moscow, St. Petersburg, Moscow and Leningrad regions, it is Rb 12 million, for other regions it is Rb 6 million.

Elmira Nabiullina, the Head of the Bank of Russia, has repeatedly noted that a reduction in interest rates during the implementation of preferential mortgage programs results in growing housing prices in some Russian regions.² Indeed, the annual growth in prices in the primary real estate market (at the end of Q1 2021) amounted to 16.3%. It means that developers rather than individuals receive the de facto benefits in the context of falling incomes of a major part of households.

However, in the current situation, the abrupt termination of government programs can lead to adverse consequences. Prolongation of a preferential mortgage on new terms is the optimal solution and it will allow to balancing the supply and demand in the market. A reduction in the maximum value of mortgage lending under state programs will help to smooth the demand for mortgages in the largest cities of the country, while an increase in the preferential rate to 7% will bring the rates closer to market levels. At the same time, the Central Bank of the Russian Federation will continue to use protective measures by regulating the premiums to risk-benefit ratios depending on the size of the initial payment and the debt burden of borrowers, which should result in the near future in growing rates and a slowdown in the pace of growth of mortgage provision. 

1 URL: <http://government.ru/news/42648/>

2 URL: <https://tass.ru/nedvizhimost/10199853>