MONITORING OF RUSSIA’S ECONOMIC OUTLOOK:
TRENDS AND CHALLENGES OF SOCIO-ECONOMIC DEVELOPMENT
No. 20(143) December 2021

1. FEDERAL BUDGET EXECUTION FOR THREE QUARTERS OF 2021
Belev S., Tischenko T. ................................................................. 3

2. THE REGIONS OVER THE PERIOD OF JANUARY-SEPTEMBER 2021:
THE TWO LARGEST AGGLOMERATIONS ARE EMERGING FASTER
FROM THE PANDEMIC RECESSION
Zubarevich N. .................................................................................. 6

3. ADAPTIVE CAPACITY OF RUSSIAN INDUSTRIES
DURING THE PANDEMIC
Tsukhlo S. ....................................................................................... 10

4. MORTGAGE LENDING OVER THREE QUARTERS OF 2021
Zubov S. ......................................................................................... 14
Revenue receipts to the federal budget are above planned volumes both for the oil and gas and the non-oil and gas components. According to results for three quarters of 2021, federal budget revenues amounted to Rb 17.9 trillion, which is equivalent of 95.5% of the projected annual volume and 35.6% higher than revenues for the same period last year. Federal budget expenditures for the three quarters of 2021 increased by Rb 1.4 trillion compared to the same period in 2020 with cash execution of 76.6% of the annual approved volumes.

Federal budget revenues for January-September 2021 are higher than indicators for the same period of the previous year by Rb 4.7 trillion, or 1.6 p.p. of GDP (Table 1). In particular, oil and gas revenues went up by Rb 2.7 trillion, or 1.9% of GDP, and non-oil and gas revenues increased by Rb 2 trillion, which corresponds to a drop of 0.3 p.p. of GDP.

According to results of January-September of this year, the volume of additional oil and gas revenues amounted to Rb 1.8 trillion against a fall of Rb 0.2 trillion in the corresponding period of 2020, with an average price for Urals crude oil for 9 months of 2021 and 2020 of 66 and 40.8 dollars/bbl respectively.

The sources of growth of non-oil and gas revenues of the federal budget for 9 months of 2021 compared to January-September 2020 were an increase in receipts for domestic and import VAT by Rb 1,029.3 bn and Rb 678.7 bn, or by 0.4 and 0.1 p.p. of GDP, respectively. The dynamic of income tax receipts for the three quarters of this year is also positive relative to the three quarters of 2020 – the growth amounted to Rb 256.7 bn.

Federal budget expenditures for 9 months of 2021 soared by Rb 1,425.4 bn compared to the same period of the previous year, although in terms of GDP they have declined by 2.3% (Table 2). Cash execution for January-September 2021 amounted to 69.6% of the approved annual volume, which is 6.9 p.p. higher than in the previous year. The increase in the rhythmicity of the federal budget execution this year is observed in almost all functional sections. The highest level of performance is noted in the section “Social policy” (79.8% of annual values), the lowest – in the section “Physical culture and sports” (56.1%).

According to the results of 9 months of 2021, compared with the corresponding period of 2020, the largest reduction in budget allocations as a share of GDP is noted in the sections “Social policy” – by 0.9 p.p. of GDP, “National Defense” – by 0.6 p. of GDP, “Inter-budget transfers” – by 0.5 p.p. of GDP. A slight increase in GDP shares is noted in the sections “National economy” – by 0.2 p.p. of GDP, “Environmental protection” and “Public debt service” – by 0.1 p.p. of GDP.
The increase in expenditures under the “National Economy” section is associated with a growth in budget subsidies provided to legal entities, the volume of which, according to open items, amounted to Rb 805.9 bn in the first three quarters of 2021 against Rb 415.0 bn for the same period in 2020.

The main recipients of support are credit institutions, which in January-September of this year were allocated Rb 421.2 bn to compensate for the lost income or costs incurred on loans issued to enterprises, as well as another Rb 56.3 bn for similar purposes on loans issued to agricultural producers at a preferential rate.

Budget support for enterprises was carried out by reducing the cost of borrowing: according to the Bank of Russia, the volume of loans granted to SMEs increased from Rb 441.5 bn in January 2020 to Rb 941.6 bn as of September 2021, and the number of SMEs that received loans increased from 96.4 to 154.8 thousand units.1

Federal budget expenditures on the implementation of national projects for 9 months of 2021 amounted to Rb 1.6 trillion compared to Rb 1.2 trillion for the same period in 2020, the cash execution of these expenses has also significantly improved (66.9% vs. 56.8%, respectively).

According to the results of 9 months of 2021, the federal budget was executed with a surplus of Rb 1.6 trillion. Last year, there was a negative balance of budget execution for 9 months of 2020 – -Rb 1.6 trillion. The volume of funds raised in domestic and foreign markets in January-September of this year

---

1 Statistical Bulletin of the Bank of Russia. Lending to small and medium-sized businesses. Moscow. September 2021
amounted to Rb 2287.9 and Rb 134.2 bn, respectively, or 61.8 and 62.4% of the approved annual volumes. The volume of funds of the National Welfare Fund in January-September increased by Rb 352.8 bn to Rb 13.9 trillion.

Thus, the overall revenue growth for the first three quarters was mainly due to oil and gas revenues and VAT. In the first case, the source of the increase was the rise in oil prices, and in the second – pent-up consumption, primarily of durable goods. At the same time, the Government of the Russian Federation did not increase spending in real terms, except for the inevitable increase in public debt servicing costs due to large borrowings last year. Nevertheless, by the end of the year, the Finance Ministry of Russia can be expected to achieve the planned excess of total expenditures over the upper limit dictated by the temporarily suspended fiscal rule in the amount of Rb 875 bn.¹

In itself, the deviation from the fiscal rule in the context of the 2020 pandemic was caused by objective circumstances. The fall in non-oil and gas revenues, while following the fiscal rule, required a reduction in budget expenditures in 2020. According to the adopted amendments to the Budget Code of the Russian Federation, the size of the primary structural deficit is set not in a fixed amount, but in the amount of 0.5% of GDP. This amendment should hardly be considered a universal way to prevent the procyclical nature of spending, since when GDP falls, the nominal structural deficit will decrease, following GDP.

Thus, the urgency of the task of improving the fiscal rule increases, which in the current version is aimed exclusively at smoothing fluctuations in oil and gas revenues of the federal budget, while reducing the dependence of budget policy on the external environment. The internal business cycle poses a broader problem.  

---

¹ URL: https://m.minfin.gov.ru/ru/press-center/?id_4=37453-v.v._kolychev_o_byudzhetnom_ pravile_fnb_dokhodakh_i_raskhudakh_byudzheta_v_intervyu_reuters
The regions are emerging from the pandemic crisis quite rapidly but unevenly. In terms of their socioeconomic indicators, Moscow and St. Petersburg are in the lead. The rapid revenue growth across regional budgets was accompanied by a reduction in interbudgetary transfers in about half of them. The expenditure policies implemented in regional budgets were likewise different. Moscow pursued a countercyclical policy by means of increasing its spending on the economy at a faster pace. In the budgets of the other regions, social expenditures prevailed.

Available data for the first three quarters of 2021 indicate that the process of exiting from the 2020 recession caused by the pandemic crisis is sufficiently rapid, but its pace has been uneven across the regions. Industrial production gained 4.7%, the decline in the extractive industries was reversed (+3%). Among the regions with more developed industry, the highest growth indices were achieved by Primorsky Krai, the Republic of Yakutia, and the Ulyanovsk region (22–40%), the same regions that had experienced the deepest decline over the same period of 2020. The rapid growth observed in the city of Moscow (+23%) has nothing to do with the low base effect, because industrial production in the capital was also on the rise in 2020. In 12 regions (the Komi Republic, Arkhangelsk, Astrakhan, Volgograd, Sverdlovsk, and Sakhalin regions, Khanty-Mansi Autonomous District, Krasnoyarsk Krai, and some others), the decline in industry continued, but it was significant only in the Sakhalin region (-12%).

A record-high growth rate in the housing construction sector (+30%) has been associated with an increasing demand caused by preferential mortgage plans. The leaders were the two largest agglomerations (an increase of 62–67% in the city of Moscow, and in the Moscow and Leningrad regions; a twofold increase in St. Petersburg). The launch of a preferential mortgage program intensified the territorial concentration of the volume of new housing put in operation: over January-September 2021, the city of Moscow and the Moscow region accounted for almost 20% of all new housing put in operation in this country (the city of Moscow’s share has almost doubled over the past 3 years), while St. Petersburg and the Leningrad region accounted for another 8% (Fig. 1). In the summer of 2021, the federal authorities reformed their program and reduced the volume of preferential mortgage loans issued to borrowers in the two largest agglomerations.

The share of the entire Far East area in the volume of new housing put in operation is less than 3%, and its growth rate is below 22%. The growth rate in the volume of new housing put in operation was even slower in the Southern and Volga Federal Districts (14–15%). In 9 regions, the volume of new housing
The regions over the period of January-September 2021

put in operation declined, most significantly in Yakutia and in the Ulyanovsk and Saratov regions (by 8–24%), as well as in a number of regions with a minimum volume of new housing construction projects.

The market services sector has been emerging from the crisis-triggered recession sufficiently rapidly, with some regional variations. Growth in retail turnover (by 8.4% in January-September 2021) almost doubled the decline observed over the same period of 2020 (-4.8%). The reliability of regional statistics is relative, but still there has been a noticeable accelerated growth of retail trade in Russia’s two largest agglomerations (by 11–17%), although this happened in part due to their recovery after the more stringent containment measures introduced there in 2020 by comparison with other regions. The retail turnover movement indicators have also been better in Krasnodar Krai (+16%) due to the increased tourist inflow.

The catering services sector has also been demonstrating an accelerated growth in January-September (by 27%, vs a decline by a quarter over the same period of 2020). The movement of that index has been better in biggest federal cities (an increase of 43–45%, which outstripped the crisis-triggered decline of 2020) and in the “recreational” regions where the tourist inflow increased significantly (Crimea, by 58%; the Republic of Altai, by 81%; the Kaliningrad region, by 49%).

Over the same period of 2021, the volume of paid services provided to the population increased by 19%, after a decline by the same 19% in January-September 2020. Meanwhile, its growth in St. Petersburg and Moscow was lower (by 7–11%), which could be explained by a reduction in the use of public transport and some other services. A third of Russia’s regions, including the Moscow, Leningrad, Nizhny Novgorod and Tyumen regions, have demonstrated low recovery growth rates (10% or less).

Regional labor markets have also been recovering rapidly. According to Rosstat data, the number of people employed in small and medium-sized enterprises (SMEs) remained stable throughout the entire pandemic period. At the same time,
Monitoring of Russia’s Economic Outlook

Over H1 2021 employment in St. Petersburg and the Leningrad region increased by 5–6% compared to (pre-crisis) Q1 2020, and in the city of Moscow and the Moscow region it gained 23%. This country’s two largest agglomerations account for more than 20% of all the people employed in the SME sector, and so their dynamics affects the nationwide indicator. In 35 regions, the number of people employed in the SME sector decreased, most notably in Buryatia and Ingushetia (by 14–16%).

The unemployment rate calculated according to the ILO methodology, after a slight increase during the first wave of the pandemic (6.3% in the summer of 2020), dropped to 4.4% in July-September 2021, which is below the pre-crisis level of July-September 2019 (4.5%). Regional disparities are stable, and highest unemployment rates persist in the republics with a low level of development. The unemployment rates in the city of Moscow, St. Petersburg and the Moscow region (2–3%) are minimal: although they have not yet returned to their pre-crisis level, the remaining gap is insignificant.

The registered unemployment rate has also approached its pre-crisis level (1.2% as of the end of September 2021; 1% in March 2020). In nearly half of all the regions, registered unemployment rates are similar to their pre-crisis level of March 2020, or have even plunged below it. This indicator is decreasing much more slowly in Ingushetia, where it is still twice as high as its pre-crisis value (15% and 8.7% respectively), and in Tuva (10% and 5% respectively). In another three North Caucasus republics, the corresponding rates are much lower (3–4%), but they are also almost twice as high as their pre-crisis values.

The nationwide movement pattern of real personal income also points to a recovery after the crisis-triggered recession. Over the first 9 months of 2021, this index gained 4.1% relative to the same period in 2020. Rosstat has not yet released its regional statistics for Q3.

Over January-September 2021, consolidated regional budget revenue gained 20% on the same period of 2020 (Table 1). Revenue growth also accelerated relative to H1 2021, the main input thereto having been accounted for by an accelerated growth of profit tax receipts, which increased by nearly 1.5 times. The corresponding growth rates were even higher in the metallurgical regions (2.6–3.5 times), in the regions with ore and coal mining and those with mineral fertilizer production (2–2.6 times), and also, although not so impressively, in the majority of oil and gas producing regions, with the exception of the Khanty-Mansi Autonomous District and the Sakhalin region.

Table 1
The movement of consolidated regional budget revenue and expenditure in January-September 2021, as % relative to the corresponding period of 2020

<table>
<thead>
<tr>
<th></th>
<th>All regions</th>
<th>City of Moscow</th>
<th>Regions, less city of Moscow</th>
<th>All regions</th>
<th>City of Moscow</th>
<th>Regions, less city of Moscow</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue, total</td>
<td>120</td>
<td>126</td>
<td>118</td>
<td>107</td>
<td>109</td>
<td>106</td>
</tr>
<tr>
<td>including</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>profit tax</td>
<td>147</td>
<td>133</td>
<td>152</td>
<td>111</td>
<td>121</td>
<td>107</td>
</tr>
<tr>
<td>personal income tax</td>
<td>115</td>
<td>122</td>
<td>112</td>
<td>122</td>
<td>130</td>
<td>117</td>
</tr>
<tr>
<td>Property Tax</td>
<td>109</td>
<td>117</td>
<td>108</td>
<td>111</td>
<td>118</td>
<td>110</td>
</tr>
<tr>
<td>Excise taxes</td>
<td>117</td>
<td>115</td>
<td>117</td>
<td>87</td>
<td>80</td>
<td>93</td>
</tr>
<tr>
<td>Total income tax</td>
<td>143</td>
<td>149</td>
<td>142</td>
<td>97</td>
<td>87</td>
<td>99</td>
</tr>
<tr>
<td>Interbudgetary transfers</td>
<td>98</td>
<td>121</td>
<td>97</td>
<td>105</td>
<td>98</td>
<td>106</td>
</tr>
</tbody>
</table>

* TCMIFs – territorial compulsory medical insurance funds.

Source: own calculations based on data released by the RF Federal Treasury.
Personal income tax receipts likewise increased (by 15%). This index grew fastest in the city of Moscow (by 22%), in St. Petersburg, and in the Chelyabinsk region (by 19–20%). In the federal cities, this happened due to the outstripping growth of officially paid wages in budget-funded organizations and big companies. Total income tax receipts jumped nearly 1.5 times; the input of small businesses in that index is significant, but this is the result of the low baseline values of 2020.

After a significant increase in interbudgetary transfers over January-September 2020 by more than ¾, which happened due to the pandemic, the federal authorities began to cautiously reduce their amount in 2021. The volume of interbudgetary transfers shrank in half of all the regions, and especially notably in the Republic of Khakassia, in the Kemerovo, Lipetsk, Belgorod, and Yaroslavl regions, in the Komi Republics and the Republic of Tatarstan (by 19–27%), because these subjects of the Russian Federation were increasing budget revenues from their own sources at an accelerated rate. The share of transfers in the budget of the city of Moscow is minimal, but their actual volume increased in 2021.

Regional budget expenditures increased less (by 7%), although their actual movement varied across subjects of the Russian Federation. The city of Moscow implemented a countercyclical policy, and so was rapidly increasing its expenditures allocated to the national economy, especially the road sector (an increase of 44%, compared to an average of 10% in all the other regions). The city’s housing and amenities expenditures were growing at an even faster rate, due, among other things, to the renovation program allocations. Over January-September 2021, the city of Moscow also stood out in terms of its allocations to the social sphere, demonstrating a faster increase in education expenditures, and a more significant reduction in health care and social policy (social protection) expenditures, although these particular budget expenditure items continued to grow in all the other regions, with the exception of the Tyumen, Smolensk, and Irkutsk regions (which was the upshot of the high baseline values of 2020). Most likely, the reduction in allocations to social protection in the city of Moscow has had to do with a sharp shrinkage in the volume of additional unemployment benefits paid from the Moscow city budget.

According to the results of January-September 2021, only 11 regions had a budget deficit, and it was significant only in the Republic of Kalmykia (9%), and in the Ulyanovsk and Tomsk regions (6–7%). The budget deficit of the city of Sevastopol amounted to 4%, despite the fact that the volume of federal transfers to the city budget was increased by 27%.

Over the period from January 1 to October 1, 2021, as a result of revenue growth, the aggregate regional and municipal budget debt shrank by 1%. Budget debt was actually reduced in 3/4 of all the regions. The almost 5-fold debt increase in the city of Moscow’s budget as a result of a bond issue does not carry any risks; the rapid growth of the corresponding indices in the budgets of the republics of Ingushetia (by 46%), Bashkortostan (39%), Tyva (30%), and Kalmykia (17%), and those of the Tomsk and Yaroslavl regions (27–32%), is much more alarming. By the autumn of 2021, the group of regions with a high debt burden (amounting to more than 70% of their consolidated budget revenues generated by their own sources) had been joined by the Yaroslavl, Ulyanovsk, and Tomsk regions, and by the Republic of Kalmykia.
3. ADAPTIVE CAPACITY OF RUSSIAN INDUSTRIES DURING THE PANDEMIC

Sergey Tsukhlo, Candidate of economic sciences, Head of Business Surveys Department, Gaidar Institute

Estimates of the Industry Adaptability Index using the example of three industries demonstrate the greatest adaptability to crisis situations in the food industry. Its adaptability decreased in 2021 compared to 2020. The adaptability indicators in mechanical engineering improved in 2021, and slightly worsened in light industry.

The estimates of the Adaptability (Normality) Index for the whole Russian industry1 and for the size of enterprises2 was presented in the previous articles. According to our estimates, during the 2020 pandemic crisis the Russian industry demonstrated high capacity to adapt to new economic conditions. However, the estimation of this Index depending on the size of enterprises showed different trajectories of adaptation of manufacturers to the conditions of the pandemic.

A similar situation is relevant to the adaptation of certain Russian industries to the crisis (Fig. 1). Since we have already obtained data for 11 months of 2021 (including all estimates of capacities, personnel, stocks of raw materials and the financial and economic condition of enterprises) and lack only estimates of demand and stocks of finished products for December 2021 (monthly estimates of these indicators January-November are available and used), we have calculated the Indices of adaptation (normality) by years. These results make it possible to assess the adaptive capabilities of the Russian industry in dynamics.

As our estimates of the Index for the three main industries show, the food industry demonstrated the best adaptation in all periods of economic history 1996–2021. The lowest Index in the food industry was recorded in 1998 at 52%, while the other industries under consideration were able to adapt at 28% and 30% this year. During the crisis of 2008–2009, adaptation of the food industry dropped to a completely non-crisis 71%.

The year 2020 did not pose a crisis reduction in the Adaptability (normality) Index in the sectors under consideration. Moreover, the Index for the food industry reached 83%, which was the industry’s all-time high for 1996–2021.

The estimates of stocks of raw materials and supplies provided the greatest contribution to the growth of “normality” in the food industry. They were rated as “normal” by 91% of enterprises in the industry (77% in 2019). The result of this crisis year turned out to be a historical maximum, while the historical minimum was recorded in 1999 and evidenced 43%. The second place in terms of contribution to the growth of “normality” in the crisis year of 2020 in the

---

3. Adaptive capacity of Russian industries during THE pandemic

food industry was made by estimates of stocks of finished products. In 2020, the share of "normal" responses increased from 75.7% to 86.5%, which was the annual maximum of this indicator for the entire survey period in 1992–2021. The minimum indicator was obtained in 1999 and demonstrated 45.3%. At the same time, an extremely low value of the balance of assessments was obtained ("above the norm" – "below the norm"), which collapsed to -15 p.p. After the default of 1998, the food industry did not risk bringing its stocks to the required level of redundancy in such cases even in the context of the incipient growth of demand for its products. In 2021, the share of other assessments accounted for 13.5%, which were distributed almost equally between the answers "above normal" and "elow normal", providing a near-zero balance. A significant positive contribution to the industry's adaptation to the 2020 pandemic crisis was made by increased satisfaction with demand amid falling sales in other industries. The share of normal estimates of demand reached 62.5%, but could not surpass the record in 2007, when such responses were 70%. Relatively good food sales and layoffs in other industries allowed food enterprises to solve their staffing problems and bring the normal provision of workers to 94%, which also became a historical maximum for this industry. However, the 2020 crisis came through capacity estimates. The share of "normal" capacity estimates decreased from 84 to 73% due to an increase in the share of "more than enough" responses from 11 to 23%. As a result, the food industry established an overcapacity overhang that has not been seen since 2006.

In 2021, the Adaptability Index (normality) decreased in the food industry from 83.4 to 74%. Such a significant decrease in the indicator has not been previously recorded. The fall in the average share of normal estimates was due to 5 indicators out of 6 used to construct the Index. The maximum reduction was observed in the normal staffing of food enterprises. It decreased by 22 p.p. and evidenced 71.8% in 2021 with a positive balance of other estimates; on the year average, the industry had a surplus of employees. No industry demonstrated such a staffing situation (excess employment) in 2021. The estimates of the normal financial and economic condition of enterprises lost 8.3 p.p. due to a sharp decline in the share of "good" ratings, which only partly moved to the
"satisfactory" category. Normal estimates of raw materials reserves fell to 83.5% along with a significant decrease in the balance of other estimates, while the shortage of raw materials increased. Thus, only normal estimates of demand have symbolically increased by 1 p.p., up to 63%.

In the crisis year of 2020, Russian machine engineering industry retained its adaptive capacity at the level of pre-crisis 2019 due to an increase in the share of normal estimates of stocks of finished products and stocks of raw materials with a decrease in the normal staffing and capacities. Average annual estimates of demand and the financial and economic situation of enterprises remained at the level of the previous year. The most significant changes were evidenced in the share of raw materials and materials estimates. The share of "normal" answers increased from 73.1 to 78.6% due to the decline in the share of replies "above the norm" to 5.4%. The industry began to experience challenges related to raw materials and supplies, i.e. excess stocks moved to the "normal" category. Stocks of finished goods increased the normality by 1 p.p. with an increase in the proportion of answers "below the norm". The latter resulted in an increase in the deficit of this type of savings in warehouses.

Adequate provision of machine engineering enterprises with capacities and employees in 2020 decreased by 3 p.p. in each case, however, with a different result (balance) according to other estimates. If the crisis year quite logically caused an increase in the overhang of overcapacity in mechanical engineering (albeit a small one), in terms of staffing, enterprises managed to solve the shortage of workers and reduce 2020 to a zero balance of the assessments "more than enough" and "less than enough."

During the post-crisis 2021, machine engineering enterprises demonstrated the maximum value of the sectoral level of adaptation, i.e. 76%. The main contribution to this result was made by the estimates of the current volumes of demand, which were assessed as "normal" by 70% of enterprises, which was the historical maximum for the industry. It was also recorded during the assessment of finished goods stocks: 72.8% of enterprises considered them "normal." Positive dynamics and also the maximum result was recorded when assessing the financial and economic condition of enterprises: 91.6% assessed their condition in 2021 as "good" or "satisfactory."

The light industry was the most difficult to adapt to the realities of the Russian market economy. If it demonstrated the same level of adaptation as mechanical engineering before 2005, then the situation in this industry evidenced the worst dynamics with the exception of the crisis years of 2008–2009. The most comfortable year for the light industry was 2018, when 65.6% of enterprises were able to describe the state of their indicators as "normal."

In the crisis year of 2020, estimates of the main indicators of enterprises' performance improved after the disastrous 2019 for the industry due to all indicators except staffing. The share of enterprises with a sufficient number of employees in 2020 decreased to 47.4%, and to 42% in 2021. 35% of light industry enterprises reported on the shortage of workers in 2020–2021. None of the Russian industries had such massive staffing problems during this period.

The maximum contribution to the light industry adaptation to the crisis of 2020 was made by "normal" estimates of finished goods and raw materials stocks, which increased by 12.5 and 14.4 p.p. respectively. However, in 2021, the share of "normal" estimates of all reserves decreased. Demand estimates also demonstrated positive dynamics in the crisis year of 2020 showing the increase in the share of "normal" responses by 7.4 p.p., however, reaching modest 35%. In
3. Adaptive capacity of Russian industries during THE pandemic

2021, only 32.7% of light industry enterprises recognized the demand for their products as “normal.”

Adequate provision of the industry with capacities during the 2020 crisis increased to 65% and also positively contributed to the growth of the Adaptability Index. However, among other assessments (from the first year of monitoring this indicator in 1993), the assessments “more than enough” still prevailed, i.e. light industry had a surplus of capacity, reaching its peak in 1997. However, at the stage of the viral crisis recovery, polls for the first time registered a lack of capacity in the light industry in the post-crisis 2021 according to average annual data: 21% of enterprises showing excess capacity compared to 26% lacking this capacity. The “normal” (sufficient) capacity provision of the light industry dropped by 12 p.p. contributing to a maximum to the reduction of the Adaptability Index in 2021.

However, other initial indicators also showed a decrease in the share of “normal” assessments, with the exception of the financial and economic situation. At first glance, the last evaluative indicator showed a symbolic growth of 2 p.p., however, with an extreme redistribution of ratings in favor of “good” answers, which share reached 37% after 9.2% in 2020.

The 2020 crisis allowed enterprises in the sectors under consideration to normalize their stocks. Based on the results of the entire crisis year, the light and food industries demonstrated an increase in satisfaction with demand, while the machine engineering industry kept its estimates of demand at the level of the previous year. The normal (“sufficient”) provision of industries with capacities in 2020 decreased in mechanical engineering and food industry and increased in the light industry.

Staffing problems during the crisis have minimally affected the food industry, which even managed to achieve a record sufficient provision of workers due to layoffs. But as it emerged from the crisis, this industry was forced to revise its estimates, sharply increasing the share of “more than enough” answers in 2021 due to a decrease in the share of “enough” answers and faced with excess employment, while other sectors experienced a shortage of personnel.
In Q3 2021, there was a decline in the volume of mortgage lending for the first time since the outbreak of the pandemic, due to an increase in interest rates, as well as changes in the terms of preferential state-supported mortgage programs. In the near future, in the absence of significant change from current trends in the economy and continued extension of state support for preferential programs, we should expect the restoration of sustainable growth in the mortgage market.

The total portfolio of housing mortgage loans (HML) as of October 1, 2021 came to Rb 11.2 trillion. The growth of the total portfolio for the three quarters of this year amounted to Rb 1,918.7 bn or 20.7%, which corresponds to the growth of the loan portfolio in other retail segments (e.g. consumer lending, car loans) and significantly exceeds the growth rate of total banking assets (10.3%). A year earlier, the mortgage loan portfolio for the same period went up by 1,208.5 bn rubles, or 15.9% (with a rise in total assets by 14.0).

The amount of funds in the escrow accounts of citizens under contracts of shared-equity construction for 9 months soared by 124% and amounted to Rb 2,628.1 bn. At the beginning of December 2021, over 75% of all shared-equity construction is accounted for by schemes using escrow accounts (at the beginning of 2021 – 54%). Five percent of developers are building housing without attracting citizens’ funds (using their own funds or using other schemes), and 20% have received permission to complete housing according to the previous financing model.

Over just 9 months, 609.5 thousand loans were issued; the corresponding value of last year for the same period came to 429.7 thousand loans; thus, the increase stood at 19.9%. The share of mortgage loans in total retail accounts payable as of October 1 of this year amounted to 47.7%. As of the corresponding date last year, this indicator was 44.8%. In developed countries, it comes to 80–90%.

In Q3, the activity of borrowers decreased markedly, the number of mortgage transactions fell by 11.3% and the total volume of loans granted went down by 11.8% compared to Q2. The main reason for change in the market trend is the entry into force in July of the new provisions of the state program “Preferential mortgage”. According to these provisions, the interest rate is increased from 6.5 to 7.0%, and the maximum loan amount for all regions is reduced to Rb 3 mn, which practically negates the possibility of implementing this program in Moscow and St. Petersburg with their more expensive real estate, although, of course, it does not prevent mortgage lending at usual market rates.

At the same time, the increase in inflation and, as a consequence, the increase in the key rate of the Bank of Russia also have a certain impact on the banks behavior and consumer activity: market rates, having reached a historic
4. Mortgage lending over three quarters of 2021

![Graph showing dynamics of monthly lending volumes and interest rates in the housing mortgage lending market in 2020–2021.](https://cbr.ru/Collection/Collection/File/39303/Bbs2110r.pdf)

**Fig. 1. Dynamics of monthly lending volumes and interest rates in the housing mortgage lending market in 2020–2021**


...low of 7.07% in June, began to rise. While the growth of market rates is not so significant (Fig. 1), nevertheless, we can talk about a trend change. In the primary market since the beginning of the year, rates have increased moderately (up to 6.3%, +0.7 p.p.) and remain quite low. In the secondary market, rates are generally higher, therefore, in order to maintain demand, banks practically did not raise them (a slight increase to 8.3%, +0.2 p.p.). Despite the increase in rates, banks managed to retain customers and, together with developers, have brought to the market a number of proposals providing for a below market mortgage rate for a certain pool of apartments or a specific period. In general, since the beginning of the year, the average rate has gone up by about 0.5 p.p. in the ruble housing mortgage lending sector.

In the pre-crisis period in Russia, as in other countries, the trend in mortgage lending rates correlated with that of long-term government bond yields. Taking into account the level of risk, loan rates are usually 2–5 p.p. higher than government bond yields. However, currently average mortgage rates are about 1 p.p.\(^1\) lower than government bond yields for two main reasons.

Firstly, since last year, a procedure has been put in place for compensating banks for lost income on retail mortgage loans. According to the government decree,\(^2\) the banks’ lost income from mortgage issuance represents the difference between the key rate of the Central Bank of the Russian Federation, increased by 3 p.p., and a preferential mortgage (according to the 2021 version for individual residential buildings on land plots – 5 p.p.). Thus, the growth of the key rate in this case is beneficial to banks, since the deviation of the preferential rate from the market value is compensated by the state. Despite the fact that the share of subsidized loans is steadily falling this year (from 37% in the third quarter of last year to 18% in the third quarter of this year), this factor still affects the cost of mortgage loans.

Secondly, in recent years, banks have increasingly compensated for low interest income by increasing fee-based income,\(^3\) so they are interested...

---

1. The yield on long-term (20–30 years) government bonds is 8–8.5%.
3. In mortgage lending: commissions for consideration of loan applications, for reducing rates, for making changes to terms of credit and security agreements, and for issuing certificates and consents by the bank and other types of services.
in significant volumes of lending and an increase in the number of loan transactions. According to the reporting data, the quality of total portfolio of housing mortgage loans is improving. Overdue debt on housing mortgage loans as of November 1 amounted to Rb 67.7 bn, or 0.6% of the total debt (for comparison: the level of overdue debt on consumer loans is 4.4%, and on loans to legal entities, 7%).

The volume of non-performing loans NPL 90+ remains at a fairly low level, Rb 73 bn (0.9% of the total volume), and for 9 months of the year it dropped by Rb 14 bn, primarily due to write-offs of bad debts.

At the beginning of the year, the share of refinancing was at a relatively high level, over 16% of the total number of mortgage loans extended, and in the middle of the third quarter this value fell to 9.4%. In the near future, the demand for loans for refinancing purposes will be further supported by extending the “Family Mortgage” to households with one child. The terms of the program allow refinancing a mortgage loan issued for purchase in newly built housing at a preferential rate of up to 6.0%.²

In the mid-term, prices in markets of newly built and secondary housing may continue to rise. This may occur as a consequence of a decline in the ruble exchange rate, a further rise in the key rate of the Bank of Russia, an acceleration of inflationary processes and a growing cost of construction. In this context, banks in partnership with developers will try to stimulate demand by expanding the range of discounts and mortgage offers on special terms. At the same time, high inflation in the range of 7.5–8.0% can devalue savings and maintain the interest of private investors in investing in real estate, which also stimulates demand in the mortgage market.

Introduction of a wide range of financial instruments that are currently being actively developed will allow fully unlocking the potential of the Russian mortgage market: mortgage bonds, the provision of loans in digital format, the development of mortgage marketplaces, the scaling of electronic mortgages, and other products and projects. Introduction of such tools will reduce average mortgage rates, make them more accessible to borrowers, and simplify and speed up the execution of mortgage transactions, increasing their availability.

Restoration of real disposable cash incomes of the population and stabilization of macroeconomic processes in the country, as the epidemiological situation normalizes, will gradually increase the share of mortgages in GDP and raise the rate of housing per capita.●

---

1 NPL (non-performing loans) is the volume of loans in the bank’s loan portfolio for which the terms of the loan agreement are not fulfilled. As a rule, loans fall into the NPL category after overdue payments exceed a certain period, usually 90 days.

2 URL: https://xn--d1aqf.xn--p1ai/upload/iblock/063/063a1e46bc8c6bd983ae41064c06ed.pdf (ДОМ.РФ).