MONITORING OF RUSSIA'S ECONOMIC OUTLOOK:

TRENDS AND CHALLENGES OF SOCIO-ECONOMIC DEVELOPMENT

No. 4(127) March 2021

Monitoring has been written by experts of Gaidar Institute for Economic Policy (Gaidar Institute), Russian Presidential Academy of National Economy and Public Administration (RANEPA).

Monitoring of Russia's Economic Outlook: trends and challenges of socio-economic development. 2021. No. 4(127). March. Edited by: V. Gurevich, S. Drobyshevsky, V. Mau and S. Sinelnikov-Murylev; Gaidar Institute for Economic Policy, Russian Presidential Academy of National Economy and Public Administration. 22 p. URL: http://www.iep.ru/files/text/crisis_monitoring/2021_4-127_Mar_eng.pdf

1. MONITORING OF THE SITUATION WITH THE CORONAVIRUS PANDEMIC AND THE MEASURES TO CONTAIN IT OVER FEBRUARY 2021

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The situation with the coronavirus around the world remains rather complicated during February. This being said, many countries (especially in the EU) are on the cusp of the third wave of the pandemic in the second half of February due to new strains. Many governments extended or even tightened the lockdown measures.

In February, Russia observed a consistent reduction in the number of reported new cases (morbidity stabilized at a rather low level in Moscow). Having said that, soft containment measures and their gradual relaxing happen on the back of mass vaccination campaign and progressive formation of herd immunity. Nevertheless, widespread vaccination remains an urgent task of the Government of the Russian Federation and competent public authorities.

Analysis of information on specifics of new mutations demonstrates that one of the paramount tasks of vaccine creators is to introduce changes in vaccine components adapting them to new strains.

The current situation with COVID-19 around the word

Morbidity

In February 2021, the morbidity level in many countries still remained alarmingly high. However, one can speak about positive trends. For example, from 765,100 of new cases reported on January 15, the number of new cases did not exceed 450,000 in February, whereby on certain days this index fell below 300,000 to the level seen in September-October of last year. The values for R_t[1] in many major countries of the world did not exceed 1 as of February-end (*Fig. 1*).

By late February 28, 2021, the total number of COVID-19 cases in the world was around 114.7 mn (vs 103.5 mn as of February 1, 2021), and the number of deaths exceeded 2.54 mn (vs 2.24 mn as of February 1, 2021). Overall, there were more than 21.9 mn current coronavirus cases around the world, and more than 90.2 mn had recovered.

The USA, Brazil, three EU countries (France, Italy, and Poland), India, and Russia accounted for 51.4% of all new COVID-19 cases as of February 28 (*Fig. 2*). Russia is fourth on the list of total number of cases (around 4,246,000). Despite a positive downward trend in the new cases in the world as a whole, the authorities and experts of a number of countries (Poland, Hungary, Slovakia, Czech Republic, Great Britain, and Germany) consider their countries to be on the cusp of the third wave of the pandemic. This is their vision which is also due to a

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

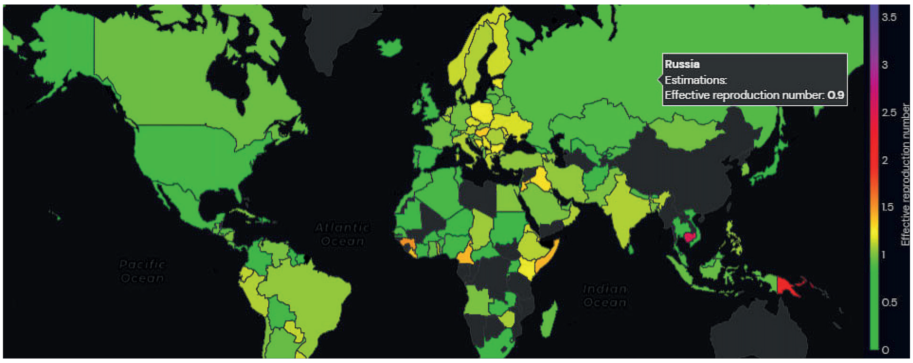


Fig. 1. The R_t estimates

Sources: Future of Humanity Institute, University of Oxford (25.02).

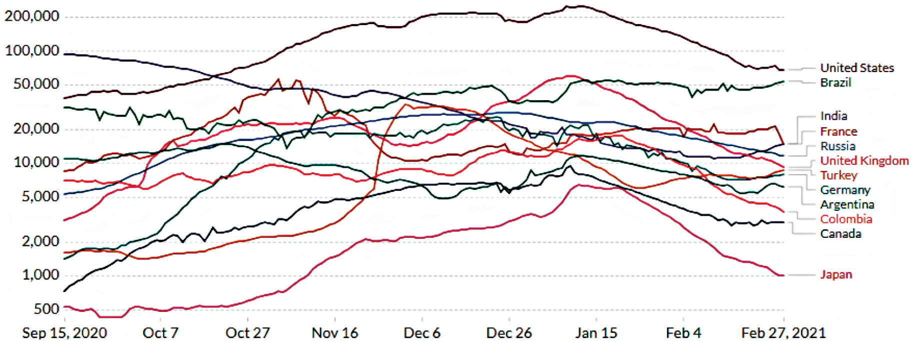


Fig. 2. **The new case** *trajectory (logarithmic scale), moving average per week*

Source: ECDC.

widespread proliferation of "British" and some other strains of coronavirus that differ by high transmissibility vs previous versions.

Mortality trends

On the one hand, mortality fluctuated rather high from 5,900 to 12,000 deaths (February 240; on the other hand, it stood at the level markedly lower peak values seen in November (up to 12,000 per day) and in December (sometimes exceeding 17,000 deaths per day) 2020. The highest daily mortality rates were observed in the USA (1,135 daily deaths by February 28), Mexico (783), Brazil (679) (*Fig. 3*). In Russia, according to operational data, mortality climbed from

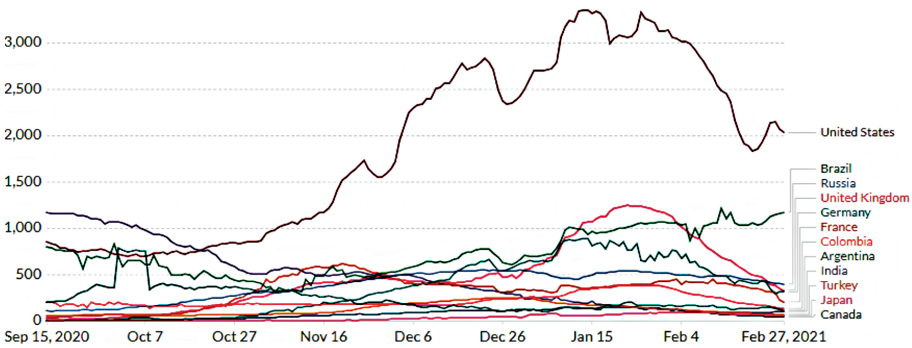


Fig. 3. The rate of 7-day smoothed daily deaths around the world, by country

Source: OurWorldInData.

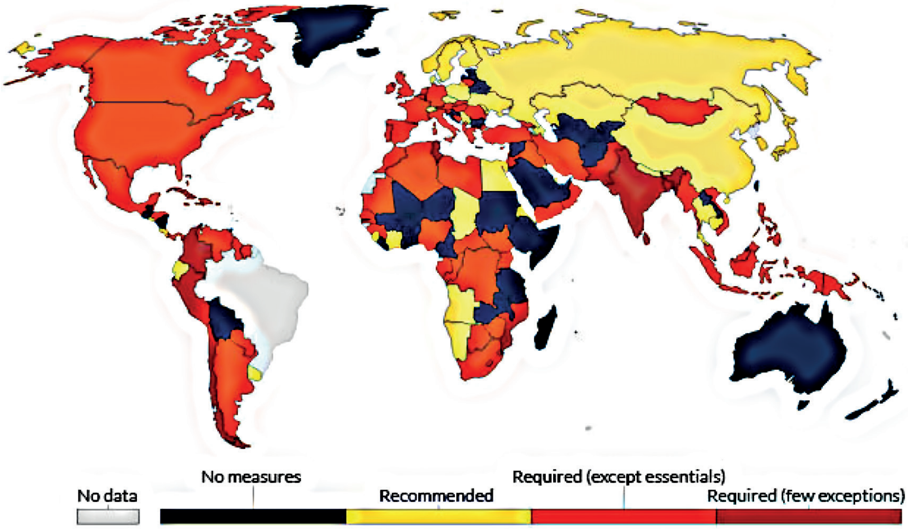


Fig. 4. The stringency of containment measures – requirement to observe self-isolation

Source: OurWorldInData, 28.2.2021.

1.7% seen in November to 2% in February.[1] Population structure is the key factor of mortality.[2]

Measures being introduced

Containment measures vary widely, their severity depends on the specific situation in each country (*Fig. 4*).

In view of a spike in morbidity in a number of countries (presumably, within the third wave of the pandemic) and increased burden on public health system in European countries, some national governments markedly tightened their restrictive measures. For example, the Czech Republic imposed stricter requirements to PPE: from February 25, it is mandatory to wear face masks of FFP2 type or two surgical masks in transport and public places.

Germany retains stringent restrictions including remote learning for schoolchildren, shutdown of catering facilities and of many non-food shops. Finland is imposing national lockdown from March 8 until 28. Quarantine is also imposed in certain regions of the south of France for the weekends.

At the same time, a number of countries including Russia and Israel (one of the leaders in vaccination campaign) further ease restrictions.

In many countries, mass vaccination is getting momentum (*Fig 5*). To date, vaccination campaign has been launched in 108 countries, however 80% of doses were rolled out in 10 of them. According to WHO, less than 10% of the world population have Covid immunity which is not enough for sustainable herd immunity.

Mass vaccination is getting momentum in Russia. According to Minzdrav, 4 mn people were vaccinated in Russia.[3] Total number of vaccination sites hit

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.
2 URL: https://tinyurl.com/y4h3bj8q.
3 URL: https://стопкоронавирус.рф/news/20210226-1121.html.

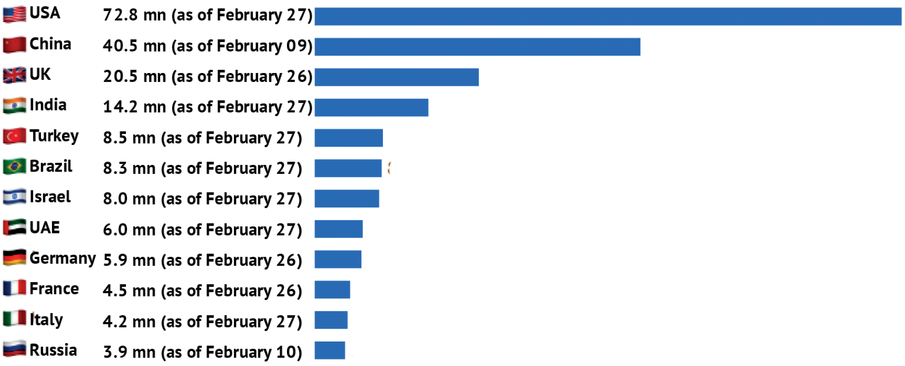


Fig. 5. Vaccination coverage, by country

Source: Yandex, based on data released by OurWorldInData.

4,100. Russia is lagging behind the world's major economies in terms of vaccination and coverage (12th regarding the number of jabs, but outside of top-50 in terms of vaccination per population number).

The current situation with COVID-19 in Russia

As of March 1, 2021, 4,257,650 coronavirus cases were reported in Russia (an increase of 10% on February 1) (*Fig. 6*). Over past month, the average daily increase in the number of new cases shrank by 33%. The R_t level dropped to 0.96 (0.93 on average for the entire period), which demonstrates a notable slowdown of disease proliferation.

In February 2021, the number of active cases displayed a consistent downward trend (348,100 or 8.2% of the total number of cases) similarly to that of hospitalizations, the number of recovered exceeded the number of new cases.

According to Rospotrebnadzor, in February, 90% of regions report a downward trend in new cases which is due to weathering the phase of growth and entering a downward trend in the epidemiological process,[1] achievement of high natural immunity level[2] and vaccination of the population. In certain regions, e.g. in St. Petersburg, achieving plateau is coupled with high morbidity rate[3] (*Fig. 7*).

In February 2021, the hospital bed occupancy rate demonstrated a downward trend against the backdrop of stabilization in the epidemiological situation. According to Minzdrav of Russia, as of February 25, 120,000 beds were occupied out of 156,000 available for treatment of COVID-19 patients. In Moscow, the hospital bed vacancy comes to 70%, and in St. Petersburg – to 43%.

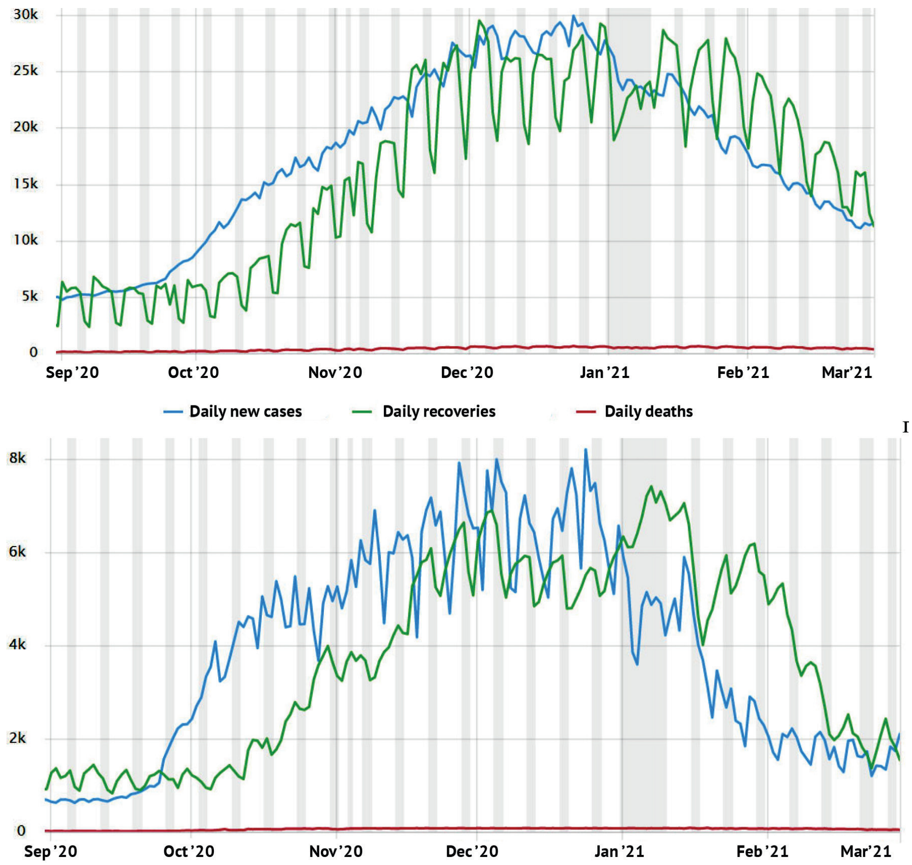
Measures to prevent the spread of the coronavirus in Russia

Russia continued relaxing the restrictions imposed to face COVID-19. The general mask wearing regime and social distancing remain mandatory despite easing. People of 65 and above and groups of risk must observe self-isolation regime.

Many Russian regions lift restrictions on the opening hours of catering establishments coupled with increasing occupancy number of theater and cinemagoers and sports spectators. The Leningrad region introduces additional easing for the red zone regions: mass events with up to 300 participants in the open are allowed from March 1, 2021. The Kaliningrad region allows business events, the Republic of Crimea allows company parties and banquets.

1 URL: https://стопкоронавирус.рф/news/20210227-1727.html.
2 URL: https://стопкоронавирус.рф/news/20210224-1047.html.
3 URL: https://tass.ru/obschestvo/10800415.

1. Monitoring of the Situation with the Coronavirus Pandemic



Note. Holidays and weekends are highlighted in grey.

Fig.6. 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 March 1, 2021.

Region	New daily cases	Rt	Total cases	Infections per 100,000 population	Total deaths	Deaths per 100,000 population
Moscow		1.06	978 476	7823.8	15 055	120.4
St. Petersburg		1.02	368 120	6878.3	11 112	207.6
Moscow region		0.87	214 590	2859.9	4 681	62.4
Nizhny Novgorod region		0.97	96 955	2997.3	2 473	76.5
Sverdlovsk region		0.90	77 869	1800.3	2 387	55.2
Rostov region		0.93	73 315	1737.1	3 115	73.8
Voronezh region		0.97	68 160	2920.6	1 906	81.7
Krasnoyarsk Krai		0.92	62 723	2180.5	2 808	97.6
Arkhangelsk region		0.81	56 781	5110.7	645	58.1
Irkutsk region		0.97	55 891	2324.7	1 790	74.5

Fig. 7. Top-10 Russian regions, by number of cases

Source: Yandex, data as of March 1, 2021.

Opening of the border went on: from February 8, 2021, Russia resumed flight connections with Greece and Singapore, from February 15, – with Armenia and Azerbaijan. From March 1, Russians can enter Georgia given a negative coronavirus test.

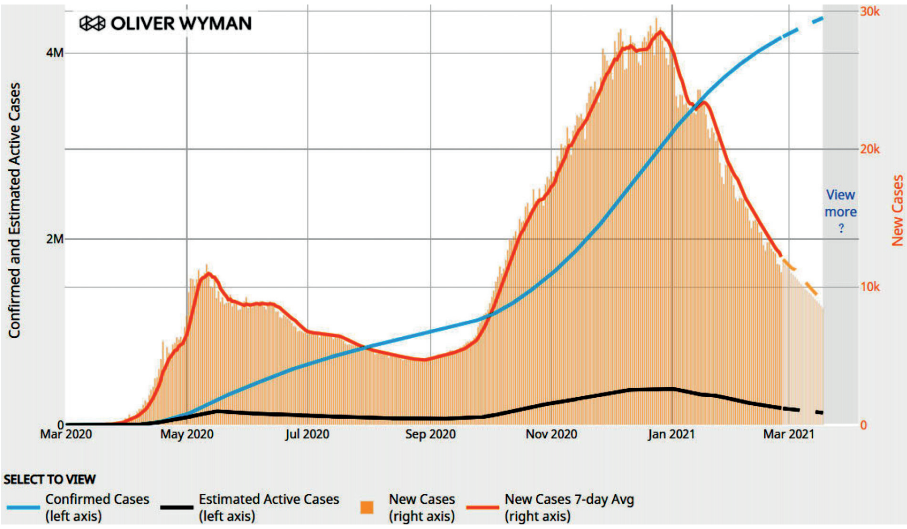


Fig. 8. Forecasts of new confirmed and active cases

Source: Johns Hopkins University, February 25, 2021.

The forecasts for the situation development

The forecasts exhibit further gradual decline in the number of cases[1] (*Fig. 8*). According to updated IHME forecast[2] which considers proliferation of new mutations, Russia will have (with small fluctuations) the current mortality rate until the end of March. This being said, a number of experts note that clinical progression of the disease has notably changed over recent months in certain countries. In particular,

- The number of severe cases of 30 years-old and over increased;
- There are more aggravated cases during the severe period;
- Informative value of some simple laboratory indexes decreased due to lack of correlation between their values and disease severity period;
- Around 30% of hospitalized patients feel worse on the 14-16 day when previously they were getting better during that period;
- Resistance gradually develops to traditional methods of treatment.

On this evidence, we can expect growth in the mortality rate comprising young people.

In the context of above mentioned, the importance of the general mass vaccination campaign is mounting. By obtaining and analyzing information of new virus mutations, it is paramount for vaccine rollout to urgently introduce changes in their components adapting them to new strains. In the near future, there can arise technologies' race where success will depend on ensuring rapid change of vaccine.

1 Johns Hopkins University. URL: https://tinyurl.com/yxvf5zla.
2 URL: https://tinyurl.com/y47sbc5y.

2. THE FOREIGN TRADE IN 2020: OVERCOMING THE DOWNTURN

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Though global prices of energy resources did not return completely to the pre-crisis levels, the Russian foreign trade turnover recovered more or less from the pandemic-driven downturn. The recovery of trade in services is slower because of travelling restrictions which are still in force.

In 2020, exports of energy and primary commodities fell by 35.2% on the back of a decrease in global prices of energy resources. Non-oil and gas exports increased by 4.1% owing to three-fold growth in sales of gold. Without taking into account exports of gold, non-oil and gas exports decreased by 4.3% with a depreciation of export prices (-4.1%), particularly, of metals, chemical products and wood. Exports of high-tech goods decreased by 14% due to the contraction of export volumes. In 2020, the importation of goods declined by 5.1%. The pandemic brought about a four-fold drop in the travelling services sector's turnover leading to a dramatic decrease in exports (-28%) and imports (-36%) of services.

Trade Dynamics

In 2020, exports decreased by 28.8% to $334 bn primarily on the back of a dramatic depreciation of global prices of fuel during the pandemic's peak in April-August *(Fig. 1)*. In 2020, the value of exports of primary and energy commodities shrank by 35.2% to $173.7 bn, while, on the contrary, non-oil and gas exports[1] increased by 4.1% to $160.3 bn. The worst outturns were observed in Q1 and Q3 when the value of exports of fuel and primary commodities decreased by nearly two-fold (to 55% of the level of the respective months of 2019), while non-oil and gas exports remained sustainable (103%). Q4, 2020 saw a sustained upturn trend in Russian non-oil and gas exports (109.4% on the level of Q4 2019) and recovery of export volumes of fuel and primary commodities (up to 67%) owing to a pickup in global prices of energy resources.[2]

In 2020, imports contracted by 5.1% to $231.2 bn owing to a decrease in supplies in mid-year (*Fig. 2*). In Q4 2020, the importation of goods returned to the pre-crisis level (99.4% on the level of Q4 2019).

Judging by Russia's dynamics of imports and main components of exports, the pandemic-driven crisis of trade turnover was overcome as far back as late

1 The classification of primary, energy and non-oil and gas commodities is presented at the Russian Export Center's website. URL: https://www.exportcenter.ru/international_markets/classification/.

2 For more details, see Kaukin A.S., Miller E.A. The Global Oil Market Late in 2020 // Russian Economic Developments. 2021. Vol. 28. Issue No.1. P. 7–10.

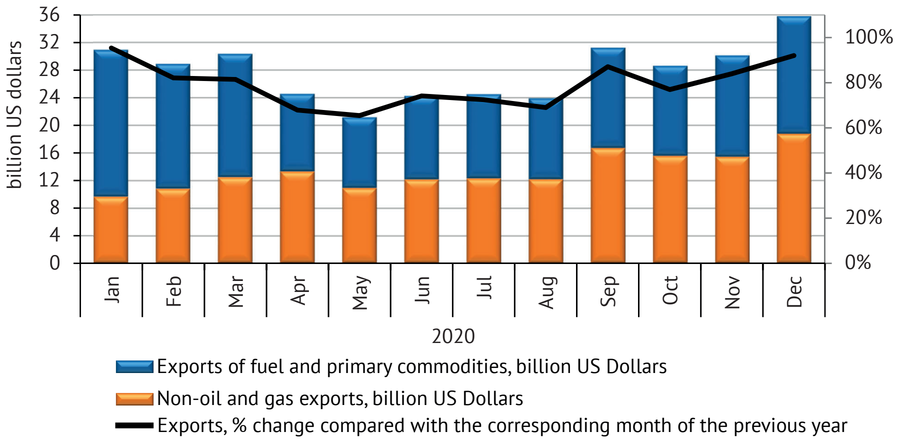

Fig. 1. Dynamics of Russian exports in 2020

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

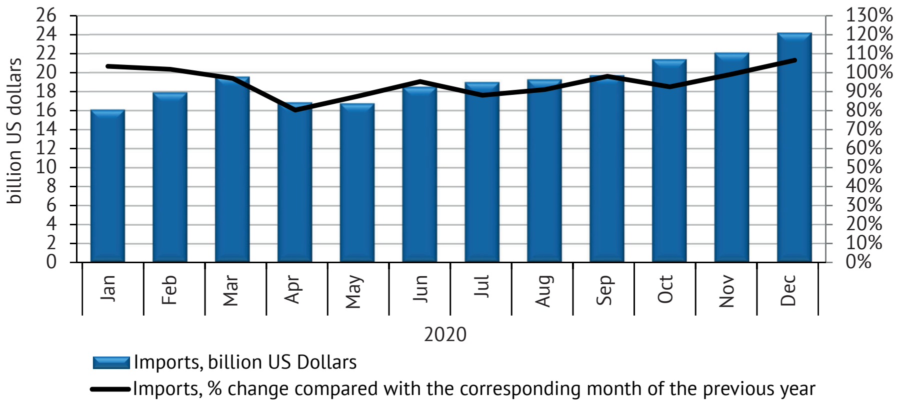

Fig. 2. Dynamics of Russian imports in 2020

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

in 2020, a better-than-expected result,[1] thus correlating generally with the trend in global trade turnover which surpassed the pre-crisis volumes, too, late in 2020. A partial recovery of Russian exports is related to a slower return of global prices of energy resources to their pre-crisis values.

Export Prices

In 2020, prices of most Russian export goods depreciated considerably in H1 2020 and then started to recover. As a result, the annual average price parameters of exports decreased virtually across all main commodity positions singled out by the Federal Customs Service, while the export volumes dynamic lacked an explicit trend.

In 2020, the value of exports of *fuel and energy commodities* decreased by 35.9% owing to the depreciation of prices of oil (-33%), petrochemicals (-32%), piped natural gas (-33%), liquefied natural gas (-18%) and fossil coal (-20%). Oil exports declined to 238.6 mn tons (-11%), while exports of petrochemicals remained at the level of 141.8 mn tons (-0.8%). Piped

1 Trade Turnover Estimates in Q4 2020, see: Knobel A., Firanchuk A. The Russian Foreign Trade in 2020: The Preliminary Outturns // Russian Economic Developments. 2020. Vol. 27. Issue No.12. P. 10–15.

natural gas supplies decreased by 9.7%, while exports of liquefied natural gas increased by 4.5%.

Exports of grain (wheat and meslin), vegetable oil and fresh and frozen fish increased by 21%, 18% and 8.5%, respectively. The exports of the "*food products and agricultural primary products*" commodity group increased by 19% on the back of growth in export volumes (+17%) with a slight change in the average annual price index.

A decrease of -12% in the exports of the "*chemical products*" commodity group can be explained primarily by a downturn dynamic of prices of ammonia (-16%), raw rubber (-19%) and fertilizers (from -10 to -25%) which was partially made up for by a pickup in exports of other products of this industry.

The exports of *wood and articles thereof* remained virtually unchanged (-3.3%) owing to a slight depreciation of export prices of rough timber (-6%)[1], plywood (-4%) and pulp (-12%) with a somewhat uptick in export volumes of these commodities. It is noteworthy that prices and export volumes of newsprint fell dramatically (-24% and -15%, respectively).

The value of exports of *metals and fabricated metal products* decreased by 7% on the back of depreciation of export prices of ferrous metals (-11%) and aluminum (-8%) with insignificant decrease in their export volumes. A pickup in exports of copper (10%) and a 2% appreciation of copper prices made up partially for a decrease in metals exports outturns.

The value of exports of *precious stones and metals* doubled to $30.4 bn and accounted for 17% of non-oil and gas exports.

Non-Oil and Gas Exports

In 2020, non-oil and gas export volumes increased by 4.1% (*Table 1*). Growth in value of exports of precious metals and food products facilitated to overcome implications caused by a dramatic drop in exports of chemical products, classified commodity groups, machinery and equipment.

The sustainability of the aggregate non-oil and gas price index (-1.8%) is underpinned by a considerable appreciation of precious metals prices (+34%) and depreciation of prices of chemical products (-16%) with relatively stable prices prevailing in other large commodity groups.

Export volumes increased somewhat (+4.5%). In 2020, export volume indices picked up in the "*precious stones and metals*" commodity group (71%), the "*food products and agricultural primary products*" commodity group (17%) and the "*textile*" commodity group (17%), but decreased only[2] in "*machinery and equipment*" commodity group (-11%), which included the most advanced high-tech goods.

The exports of *machinery, equipment and transport vehicles* decreased by 10%, while those of the "*other goods*" *commodity group*, including weapons, by 26%. The overall exports of two high-tech commodity groups fell to $31.4 bn (-13.8%).

External demand for gold and precious metals increased sharply on the back of volatility of global markets during the pandemic and a decrease in purchases of gold by the Central Bank of Russia. Without gold supplies taken into account, at year-end the value and volume of Russia's non-oil and gas exports decreased

1 In the past few years, changes in export duties on rough wood led to the contraction of the share of these products in overall timber exports.
2 The "mineral products" commodity group is insignificant for the indicators of non-oil and gas exports.

by 4.3% and 0.2%, respectively. It is noteworthy that the most advanced high-tech commodity groups saw the contraction of exports.

Table 1

Dynamic of non-oil and gas exports across commodity groups in 2020

Commodity group name	Volume of supplies, billion USD		Change: 2020 on 2019, %		
	2019	2020	In value terms	Price index	In volume terms
Food products and agricultural primary commodities (except for textile)	24.8	29.6	19	2	17
Mineral products*	4.6	1.8	-60	-29	-44
Chemical products, raw rubber	27.0	23.9	-11	-16	6
Rawhide, furs and articles thereof	0.2	0.2	-18	-17	0
Wood, pulp and paper products	11.6	11.3	-3	-6	3
Textile, textile products and footwear	1.4	1.5	9	-7	17
Precious stones, precious metals and articles thereof **	12.0	27.4	2.3-fold	34	71
Including gold	5.8	18.5	3.2-fold	25	158
Metals and fabricated metal products	36.4	33.6	-8	-7	0
Machinery, equipment and transport vehicles (without classified groups)	22.5	19.2	-14	-4	-11
Other goods	2.8	2.8	-2	-6	5
Classified commodity groups	10.9	9.2	-15		
Total	154.0	160.3	4.1	-0.3	4.5

* Non-oil and gas exports of the "mineral products" commodity group include salt, lime carbonate and cement.
** without diamonds and other classified commodity items.
Note. The index is calculated on the basis of price per unit of product across 10-place positions included in this commodity group with standard filters applied.
Source: own calculations based on the data of the RF Federal Customs Service.

Geographic Pattern of Trade

In 2020, the share of the EU[1] – Russia's main trade partner – shrank from 39.0% in 2019 to 33.8% because of a large share of energy resources in Russian exports. Among the EU member-states, the Netherlands saw the most dramatic decrease (-2.3 p.p.) in its share in the Russian trade turnover as it resells a large volume of Russian oil to international markets. On the contrary, the UK which left the European Union became the leader in terms of growth in its share in the Russian trade turnover (2.1 p.p.) on the back of a several-fold increase in Russian gold supplies. The APEC's share increased (+2.0 p.p.), particularly, owing to an uptick in the presence of China (1.6 p.p.), the US (0.3 p.p.) and Vietnam (0.3 p.p.) in the Russian trade turnover, thus making up for a decrease in the share of Japan (-0.2 p.p.) and South Korea (-0.2 p.p.).

The share of the CIS increased (0.8 p.p.), while exports and imports declined by 10% and 9.4%, respectively. The share of Ukraine in the Russian trade stabilized at the level of 1.7%. The dynamic of trade with the APEC as compared with other countries changed for the worse in imports (-7.5% against -5.3%), but improved in exports (-13.7% against -20.7%). This facilitated growth in the APEC's share in the trade turnover to 9.1% (+0.36 p.p.) owing to Kazakhstan's higher outturns (+0.36 p.p.).

1 27 EU countries without the UK taken into account.

Table 2

Geographic pattern of Russia's trade with its main trade partner-countries in 2013–2020

Region/ country	Share in Russia's trade turnover, %								Change: 2020 on 2019, p.p.
	2013	2014	2015	2016	2017	2018	2019	2020	
EU 27	**46.7**	**45.6**	**42.7**	**40.6**	**40.0**	**40.8**	**39.0**	**33.8**	**-5.15**
UK	2.9	2.5	2.1	2.2	2.2	2.0	2.7	4.7	2.09
Ukraine	4.7	3.5	2.8	2.2	2.2	2.2	1.7	1.7	0.03
Turkey	3.9	4.0	4.4	3.4	3.8	3.7	3.9	3.7	-0.24
Switzerland	1.4	0.9	0.9	1.1	1.0	1.1	1.0	1.0	0.02
APEC	**24.8**	**26.9**	**28.1**	**29.9**	**30.4**	**31.0**	31.8	33.8	2.02
including:									
China	10.5	11.3	12.1	14.1	14.9	15.7	16.7	18.3	1.64
US	3.3	3.7	4.0	4.3	4.0	3.6	3.9	4.2	0.28
Japan	3.9	3.9	4.1	3.4	3.1	3.1	3.0	2.8	-0.19
Republic of Korea	3.0	3.5	3.4	3.2	3.3	3.6	3.6	3.5	-0.19
Vietnam	0.5	0.5	0.7	0.8	0.9	0.9	0.7	1.0	0.26
CIS	**13.4**	**12.3**	**12.5**	**12.3**	**12.5**	**11.7**	12.2	12.9	0.76
of which EEU	***7.4***	***7.2***	***7.9***	***8.5***	***8.8***	***8.1***	8.7	9.1	0.36
including:									
Armenia	0.2	0.2	0.2	0.3	0.3	0.3	0.4	0.4	0.02
Belarus	4.1	4.1	4.5	5.1	5.2	4.9	5.1	5.0	-0.04
Kazakhstan	2.8	2.7	2.9	2.8	3.0	2.6	3.0	3.4	0.36
Kirgizia	0.3	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.02

Source: Own calculations based on the data of the RF Federal Customs Service.

In the past seven years, the share of the EU (without the UK) in the Russian trade turnover diminished by 12.9 p.p., while that of China and the APEC increased by 7.8 p.p. and 1.7 p.p., respectively.

Trade in Services

In 2020, Russia's foreign trade in services decreased dramatically with exports amounting to $44.5 bn (-28.1%) and imports, to $62.8 bn (-36.3%) (*Table 3*). Such a decrease can be explained by travelling restrictions and the pandemic-driven decrease in goods turnover. Over a half of decrease in exports of services (-$8.1 bn out of -$17.4 bn) and three fourths of decrease in imports (-$27.6bn out of -$35.6 bn) can be substantiated by a four-fold contraction of the travelling services sector. A 25% shrinkage of transportation services was the second most important factor which caused the contraction of trade in services. The foreign trade turnover of telecommunication services and building services increased a little, while in other sectors both imports and exports declined.

Overall, the extent of contraction of Russia's foreign trade in traveling and transportation services correlates with the dynamics of relevant indices of the world's largest economies. A slower recovery of Russian foreign trade in services as compared with trade in goods is also in line with the global trend.

Table 3

Dynamics of exports and imports of services across sectors in 2020

Sector of services	Exports				Imports			
	2019, billion USD	2020, billion USD	Change: 2020 on 2019, %.	Input in overall dynamic, p.p.	2019, billion USD	2020, billion USD	Change: 2020 on 2019, %.	Input in overall dynamic, p.p.
Transportation services	20.6	14.9	-28	-9.3	15.4	11.6	-25	-3.9
Travelling	11.0	2.9	-74	-13.1	36.2	8.6	-76	-28.0
Building	4.8	4.0	-17	-1.3	5.5	7.5	36	2.0
Telecommunication, computer and information services	5.5	5.8	5	0.4	5.2	5.7	10	0.5
Other business services	13.0	11.4	-12	-2.6	21.0	15.6	-26	-5.5
Services to individuals and services of the cultural and recreation sectors	0.5	0.4	-20	-0.2	1.6	1.1	-31	-0.5
Other services*	6.6	5.2	-21	-2.2	13.7	12.7	-7	-1.0
Total	61.9	44.5	-28.1	-28.1	98.7	62.8	-36.4	-36.4

Source: own calculations based on the data of the Russian Central Bank.

3. REGIONS' BUDGETS IN 2020: SUPPORT BY THE FEDERATION AND ANTI-CRISIS POLICY

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In 2020, the budget policy of the Russian Federation regarding regions had a strongly pronounced counter-cyclical nature aimed at immediate support of the worst-off subjects. This measure allowed to offset declining tax and non-tax revenues and ensure implementation of regional anti-crisis measures intended to strengthen the public health system, support of the economy and the social sphere.

Proper tax and non-tax regions' revenues contracted by merely 1.8%, which is a good result against the 2009 and 2014–2015 crises and was mainly due to a rebound in tax receipts in H2 2020.

An all-time high public regional debt amounting to Rb2.5 trillion at the end of 2020 does not pose a serious threat for their budget stability owing to a relatively low debt burden.

Revenues

Notwithstanding the crisis coupled with a large number of restrictive measures imposed on economic activity, abolition and deferment of tax payments resulting in the contraction of real GDP by 3.6%, the revenues of the consolidated regional budgets moved up by 9.8% over 2020, which is close to average growth rates for the period 2016–2020 (9.9%) and markedly exceed the inflation rate.[1] Consequently, the amount of these revenues hit Rb14.9 trillion (up by 104.7%) which is just below the average index for the last 5 years (105.7%). A different dynamic is usually observed in the crisis periods. For example, in 2009, the real revenues of the consolidated budgets of the RF subjects (with adjustment to CPI) decreased by 12.1%, and in 2014–2015 down by 2 and 7.4%, respectively.

Nevertheless, the pandemic-induced crisis had an impact on the main parameters of regional and local budgets. Proper tax and non-tax revenues of the regional and local budgets which shrank by 1.8% in nominal terms and by 6.4% in real terms represent one of them. Total revenues of the consolidated budgets of the RF subjects were ensured by fiscal transfers from the federal budget which increased by 54% (Rb 3.8 trillion). All types of interbudgetary fiscal transfers exhibited high growth rates: grants (41.3%), subsidies (81.6%), subventions (52.9%), and other interbudgetary fiscal transfers (48.5%). A Package of non-targeted financial support to the tune of Rb300 bn stands apart. It has exceeded contraction of tax and non-tax revenues of the consolidated regional budgets (Rb194.4 bn).

Reduction in proper tax and non-tax revenues of the consolidated regional budgets at end-2020 can be considered a relatively good result following that in April and May 2020 their values declined by 29.3 and 19.8%, respectively.

1 The Consumer Price Index for 2020 (December 2020 to December 2019) came to 104.9%.

Notwithstanding higher COVID-19 morbidity rate reported in H2, increase in tax and non-tax revenues came to 3.2% relative to the corresponding period of 2019 which allowed to fulfil the year relatively well. The fact that the taxpayers completed obligations on payment of the taxes carried forward from H1 to a certain extent helped to achieve this result.

At year-end 2020, as regards the main sources of revenues of the consolidated budgets of the RF subjects, the corporate income tax receipts posted foremost decline (-12.8%) which primarily affected regions with high share of oil and gas sector, extraction and metal production in the structure of the economy; tax on assets of organizations (-0.9%); aggregate income tax (-0.7%); non-tax revenues (-11.7%). At the same time, the PIT receipts went up (7.5% on the back of 15% growth in expenditure of regional and local budgets on wages) and receipts from excises (up by 5.6%).

The 2020 crisis resulted in a decline in fiscal capacity differentiation of the regions: for the first time in recent 4 years growth rates of tax and non-tax revenues of worst-off regions (31 subjects with fiscal capacity[1] below 0.6 in 2019) exceeded indexes reported by better-off regions. The negative correlation coefficient (-0.4) between growth rates of tax and non-tax revenues in 2020 and the level of imputed fiscal capacity of the regions point to shrinking differentiation value. Therefore, provision of additional federal financial assistance to less-off regions resulted in even higher decline in regional differentiation (correlation coefficient between fiscal capacity of regions and revenues growth rates of their consolidated budgets comes to -0.63).

Only 5 RF subjects reported contraction of the consolidated budgets in 2020 and 4 of which (Nenets autonomous okrug, Tyumen region, Yamal-Nenets autonomous okrug, and Sakhalin region) refer to high income regions and contraction of revenues reported in Chukotka autonomous okrug (-4.1%) against the backdrop of their hike by 56.2% seen in 2019 looks an insignificant adjustment.

Expenditures

Over 2020, expenditures of the consolidated budgets of RF subjects advanced by 14.8% exceeding not only the inflation rate but the revenues growth rate and amounted to Rb15.6 trillion which demonstrates a proactive anti-crisis budget policy in place in the regions. In H2, expenditure growth slowed notably to 12.0% against 18.9% in H1 on the back of completion of a number of anti-crisis measures.

The expenditure structure demonstrates a cut in outlays across all budget items except public health (up from 8.6% in 2019 to 12.9% in 2020) and social policy (up from 19.8% to 21.3%) which is due to the implementation of anti-crisis measures. We should highlight increase in outlays on "family and childhood protection" from 0.87% in 2011 to 4.8% in 2020, and the lowest spending values on nationwide issues (for the period since 2011) in 2020 (6% at average value of 6.2% for the period), agriculture and fisheries (1.7% at average value of 2.7%), housing and utilities (8.5% at average value of 10%), and general education (11.5% at 13.4% on average).

Increase in outlays was observed in 83 regions and only the Sakhalin region and Chukotka autonomous okrug reported decrease in outlays (-1.7 and -11.4%,

1 The level of fiscal capacity of RF subject is determined according to methodology approved by the RF Government Decree dated November 22, 2004 No. 670 "On Distribution of Equalization Transfers of RF subjects."

respectively). In both cases, it can be explained by an adjustment following a spike in expenditures seen in 2019 – by 23.4 and 57.1%, respectively.

Balance and public debt

Despite the fact that the federal government provided additional financial relief to the regions in 2020, the outstripping outlays of the consolidated regional budgets led to a record high budget deficit to the tune of Rb0.68 trillion coming to 0.63% of GDP in real terms and is ranked third since 2000 only below 2009 and 2013 values. Regional public debt hit an all-time high value of Rb2.5 trillion.

It seems that the growth of regional budgets deficit and regional public debt do not pose a threat for regional budgets sustainability. Firstly, the parameters dynamic of fiscal balance of the consolidated regional budgets already shifted markedly in H2 2020 when growth in outlays and in proper tax and non-tax revenues constituted 12.0 and 3.2%, respectively on the back of 19.0% and -7.2% posted in H1 2020. This being said, this disparity was still lower in Q4 2020: 10.2 and 6.9% which promises a continuation of this trend. Secondly, notwithstanding a record high value of the regional public debt hit at end-2020, regions' debt burden (27.3%[1]) is still far from peak values (36.5% as of end-2015). Thirdly, the federal government's efforts to provide financial relief to the subjects although have failed to stop regions debt from mounting, nevertheless has contained its spike: if during 2008–2010 and 2013–2014 the annual public debt growth amounted to 20.3–48.2%, in 2020 it was rather moderate – 18.1%. Moreover, if during previous crises the worst-off regions reported high growth of public debt and debt burden which required from the Federation additional relief measures to cut their debt burden, then in 2020, on the contrary Federation's financial help allowed them to maintain debt burden unchanged.

1 The debt burden of a region is defined as the ratio of the volume of its public debt to the volume of tax and non-tax revenues of its budget for the corresponding year.

4. BANK RESERVES IN 2020: THE STRUCTURE REMAINS FLAT

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In 2020, the funding of the banking sector remained rather balanced: the funding base structure of credit institutions did not shift notably. Decline in deposit interest rates boost gradual change in behavior of bank customers and accelerate demand for securities, gold, PIF shares and other tools of investment and saving nature.

The credit institutions still formed their reserves primarily from the funds of customers (individuals and legal entities) whose share as of January 1, 2021 amounted to 71.2% of the total bank liabilities (71.4% a year earlier). The principal bank resources are funds received from individuals[1] which constitute 32.7% of the total bank liabilities, deposits from legal entities,[2] except credit institutions, – 23.5%, funds of organizations on settlement accounts[3] – 14.9%, raised funds from banks including from the Bank of Russia – 12.0%. The share of capital base comes to 10.3%.

Total amount of retail deposits at end-2020 hit Rb32.9 trillion, over past year increase constituted Rb2.4 trillion in absolute terms or 10.9% against Rb2.0 trillion or 6.9% in 2019.

Last year, ruble's depreciation propelled the retail deposits growth. Total growth was due to the increase in currency deposits by 13.8% (at end-2019 down by 2.2%). Funds denominated in rubles went up by 6.5% (up by 9.3% in 2019). However, given the US dollar exchange rate dynamic (ruble's appreciation in 2019 and its devaluation in 2020) foreign currency deposits in dollar terms declined by 7.9% against up by 9.8% in 2019.

At the end of the day, the retail deposit dollarization[4] remains moderate, the share of currency deposits in the overall volume of retail deposits moved up by 25% (19.6% at end-2020). However, this upward trend was due to the ruble's devaluation in the first place.

Enactment of the law[5] which determined the new procedure for taxation of retail deposits was one of the main events in 2020 on the retail deposits market. Prior to the enactment of the new law, ruble deposits with interest rate exceeding the Bank of Russia key rate by 5 p.p. as well as currency deposits with the interest rate above 9% were subject to taxation. According to new procedure, PIT 13% to be paid when total interest gains on all deposits surpass

1 Including deposits, funds on accounts, and escrow accounts of individuals opened for cost sharing construction.
2 Including state organizations.
3 Including accounts receivable, fund on brokerage, factoring, and forfeiting transactions.
4 All foreign currency deposits.
5 Federal Law dated April 01, 2020 No. 102-FZ.

tax-exempt minimum which depends on the current key rate and is computed using the following formula:

Rb1,000,000 × key rate as of January 1.

At the year-end before February 1, banks must submit to FCS information on total interest gains on the retail bank accounts. Parting from this data, the tax authorities combine all interest gains and compute annual PIT amount. Citizens will have to pay this tax only in 2022 (not later than December 1, 2022) on tax assessment to be received from tax authorities.

In 2020, the trend of personal savings redistribution dominated on the back of the CBR policy and cut in interest rates. In H1, many people preferred to keep cash at the onset of the containment measures implementation, however in mid-year following stabilization of the situation and gradual incomes rebound, the amount of deposits stabilized. In the meantime, banks contributed to the flow of funds by offering more lucrative rates on savings accounts. At the year-end, total value of retail savings deposits hit Rb21.2 trillion; annual outflow from savings deposits amounted to Rb1.68 trillion or 7.8%; meanwhile current accounts (minus funds on escrow accounts) increased by Rb4.1 trillion or by 54.5% to Rb11.6 trillion, call deposits and short-term deposits up to 30 days went up by 25.3%.

Despite inflation rise and cut in real disposable cash incomes of the population[1] and deterioration of wages dynamic, people invested in currency and built up savings at the end of the year. In the meantime, there was some revival of interest on the part of the population towards investment in real estate and stock market operations. At end-2020, bank profits from intermediary services on broker and similar agreements provided to citizens and to non-residents went up by 144.4% against 31.1% reported in 2019. Demand growth on investment funds' shares from retail investors was due to the cut in rates on deposits and positive profitability of funds. Over the period from early 2020 until the end of Q3, the total number of registered investment funds increased by 4.6%, surge in assets came to 7.7% for the same period.

Other paramount component of funding base of Russian banks – corporate funds moved up by Rb6.9 trillion or by 21.0% over 2020 and hit Rb39.6 trillion. Funds growth in ruble equivalent came to 14.6%, in foreign currency – 37.8%. The share of foreign currency funds in the overall volume of fund went up from 27.6 to 31.4% over the year.

Interest rates on ruble deposits of both legal entities and individuals decreased in 2020 on average by 27–30% (down by around 15–18% in 2019). Among factors – the reduction of the CBR key rate and implementation of measures aimed at boosting soft lending that made banks to cut deposit rates to maintain sustainable margin of interest. Decline in interest rates has reflected on the banks' interest expenses dynamic on deposits of individuals and legal entities that were falling in the course of 2020 (*Fig. 1*).

Interest rates on currency deposits (US$, euro) fluctuated slightly with predominantly downward trend, in the course of the year they stood in the range below 1%. In late 2020, some banks (in particular, Alfa-bank, Gazprombank, and Saint Petersburg) put in place new rules for servicing of accounts denominated in the European currency that entered into force from January 1, 2021. According

1 According to Rosstat estimate by 3.5% in annual terms in 2020.

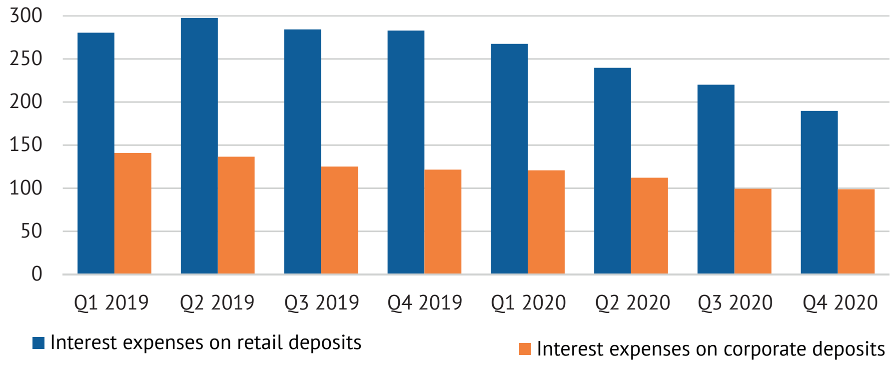

Fig. 1. Dynamic of bank interest expenses on retail and corporate deposits in 2019–2020, Rb bn*

Source: A Report on financial results (form No. 102) for the period from January 1, 2019 until January 1, 2021 / Bank of Russia. URL: http://www.cbr.ru/banking_sector/otchetnost-kreditnykh-organizaciy/.

to the new rules banks charge a monthly fee for account management denominated in euro. Fees can be set in percent of account balance or as a fixed fee in absolute terms. Consequently, expenses for servicing a retail account can exceed interest gains which equals to a negative interest rate. This policy is due to the fact that the European central bank set a negative interest rate on deposits denominated in euro as an anti-crisis measure (liabilities in euro incurred bank losses) and on the back of euro's appreciation against the US dollar.

Bank liabilities are not attractive financial instruments for the customers: compared to interest-bearing deposits their emission is insignificant. At end-2020, total value of issued bank bonds hit Rb2.3 trillion against Rb1.9 trillion in 2019 which is up by 19.2% over the year (up by 43.3% over the previous year). The value of issued bank bills amounted to Rb397.7 bn up by 4.0% over the year against minus 12.8% in 2019. Total value of issued certificates of deposit and savings certificates plunged by 64.4% against -75.5% in 2019 and stays at a low level – Rb13 bn.

The financial crisis has affected the banking sector's liquidity which, in its turn, reflected on funding dynamic seen on the interbank market. Over the year, the volume of loans and deposits drawn on Bank of Russia lending facilities grew by 17.4% against -76.0% seen in 2019. Hike in BoR loans by 46.8% was especially notable (down by 6% in 2019) which demonstrates deterioration of bank liquidity and mounting dependence from the CBR loans.

The concentration level of bank resources remains high. Five major credit institutions assets account for 67.7% retail deposits (this indicator stood at 65.5% in 2019) and for 58.3% of legal entities deposits (59.2% in late 2019). Five major banks have markedly increased their assets by 49.5% against 24.7% in 2019 by resorting to CBR loans.

In 2021, the situation on the bank deposits market will be determined by various economic, socio-political and other (including epidemiological) factors. Surge of inflationary trends in early 2021, most likely, will not lead to further lowering of the key rate. Consequently, upsurge of the bank deposits market will stabilize and will mostly depend on the income level of the population. At the same time, there is a high probability for demand growth for alternative instruments and emergence of new hybrid deposit models with elements of investment product.

5. RUSSIAN INDUSTRY IN JANUARY 2021: RECOVERY OF DEMAND FORECASTS

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The dynamics of demand, moderately negative in comparison with the pessimistic forecasts, allowed the industry to avoid a reduction in output in January, to revise the production and sales plans for the better. However, according to regular polls by the Gaidar Institute, these factors also resulted in the intensive increase in prices for the enterprises products compared to the previous month and contrary to forecasts. In December, the industry expecting a deteriorating epidemiological situation and a drop in demand, was prepared to sacrifice growth of prices to maintain sales. However, this was not required in January, enterprises were able to raise their prices and revise the forecasts for their changes. The personnel policy of industrial enterprises demonstrates great resistance to the impacts of the actual and expected epidemiological situation.

The reduction in the balance of actual sales changes in January 2021 turned out to be not as catastrophic as the enterprises considered in December 2020 amid deteriorating demand indicators. The indicator fell by 10 points against the 30 points expected a month earlier.

Successful restrictive measures and success of Russian medical science and pharmaceutical industry made it possible to avoid a negative epidemiological scenario in January. The same circumstances ensured the recovery of demand forecasts after the December failure. In January, they won back 12 points out of 30 lost a month earlier.

The dynamics of demand managed to hold the content with sales at the level of December 2020. 59% of enterprises considered the volumes of January demand as “normal”. Similar average estimates were obtained in 2018 and 2019. In 2020, the average satisfaction with demand was 53%.

In January 2021, industrial enterprises abandoned the policy of minimizing finished stocks. The share of answers “above the norm” increased to 8% after reaching the historical (since March 1992) minimum of 5% in December 2020. This proves a confident control of enterprises over stocks.

The January dynamics of output corresponded to the December plans of enterprises to a greater extent compared with the dynamics of demand after clearing of seasonality. The balance (growth rate) of output dropped to zero, i.e. in January, according to enterprises’ estimates, the amount of production was the same as in December. This is exactly the situation that the enterprises planned in December.

January output plans have fully recovered from the December failure. The balance of production intentions of the Russian industry rose to +16 points. This value is the post-crisis indicator maximum first recorded by surveys back in June 2020.

The personnel policy of the industry in late 2020 – early 2021 demonstrated greater resistance to the impacts of the actual and expected epidemiological situation. Since September 2020, enterprises have switched to recruiting personnel and maintained this positive trend for the 5th straight month. In December, the industry reported its most intense hiring in a decade. In January 2021, the balances of both actual and expected changes in the number of employees decreased, but remained at the level of non-crisis values.

In January 2021, the industry reported such an intensive increase in its prices compared to previous month, which surveys had not recorded for 10 years since January 2011. However, a similar result (+31 points after seasonal clearing) was achieved in January 2015 after the devaluation of the ruble in December 2014. In 2020–2021, a one-time ruble devaluation of a similar scale was not experienced.

However, the industry is now forced to increase the balance of changes in prices from +10 in December to +31 points. The result of the recent 6 months looks even more impressive. After -7 points in July (absolute price decline), the indicator increased by 38 points. Larger semi-annual growth in the balance of price changes for the entire period of our surveys 1992–2021 was evidenced only once, after the 1998 default. At that time, the balance soared from -12 to +41 points.

The enterprise price forecasts for December 2020 did not foretell such price increases. Moreover, the balance of expected price changes decreased in December (after seasonal clearing) from +20 points in November to +6. The January balance of expected price changes rose to +28 points and became a 6-year high. The previous peak of inflationary expectations fell on January 2015, it was +31 points then and remained unbeatable.