

MONITORING OF RUSSIA'S ECONOMIC OUTLOOK:

TRENDS AND CHALLENGES OF SOCIO-ECONOMIC DEVELOPMENT

No. 9(132) May 2021

1. MONITORING OF THE SITUATION WITH THE CORONAVIRUS PANDEMIC AND THE MEASURES TO CONTAIN IT OVER APRIL TO MAY 11, 2021 Y. Ponomarev, A. Makarov, K. Borzykh, D. Radchenko.....	3
2. REGIONAL BUDGETS IN Q1 2021: OWN REVENUES ARE RECOVERING A. Deryugin.....	10
3. FINANCIAL RESULTS OF THE BANKING SECTOR IN Q1 2021 S. Zubov.....	14
4. RUSSIAN INDUSTRIAL SECTOR IN APRIL 2021: INDICATIONS OF CRISIS RESOLUTION S. Tsukhlo.....	17
5. THE EXPERIENCES AND LESSONS OF PUBLIC OFFERINGS ON THE STOCK MARKETS OF THE USA, CHINA AND RUSSIA A. Abramov, A. Kosyrev, A. Radygin, M. Chernova.....	19

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 APRIL TO MAY 11, 2021

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In April – the first decade of May, despite the retention of containment measures in many countries, the situation with the spread of the coronavirus developed in different directions. In a number of countries, the incidence has gradually begun to decline, and some states are facing a third wave of the pandemic. The situation is challenging in Asia, in particular, an explosive increase in the incidence took place in India, which now accounts for the vast majority of all cases in the world. In Russia, the overall situation remained stable during the period under review.

The current situation with COVID-19 around the world

Morbidity

In March, there were frequently days when more than 600,000 new cases were reported. In April – early May the morbidity rate sometimes went up to 800-900,000 new cases. Having said that, by early May the measure of how quickly the virus is spreading R_t declined below 1 in many countries (Fig. 1).

By May 10, 2021, the total number of COVID-19 cases in the world stood at 159.5 mn (for comparison: 134.5 mn as of April 9, 2021), and the death toll exceeded 3.3 mn (vs around 2.9 mn as of April 9). Overall, there were around 19.04 mn current coronavirus patients (vs 23.3 mn as of April 9), and around 137.1 mn had recovered.

The situation was particularly difficult in India, where there was an explosive increase in incidence. For example, on May 10 India accounted for 63.6%

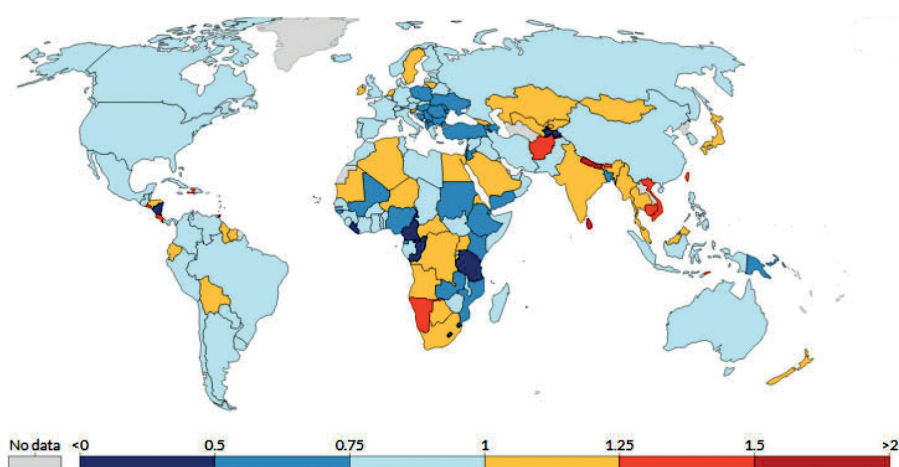


Fig. 1. The R_t estimates by country

Source: Ourworldindata (as of May 5).

Monitoring of Russia's Economic Outlook

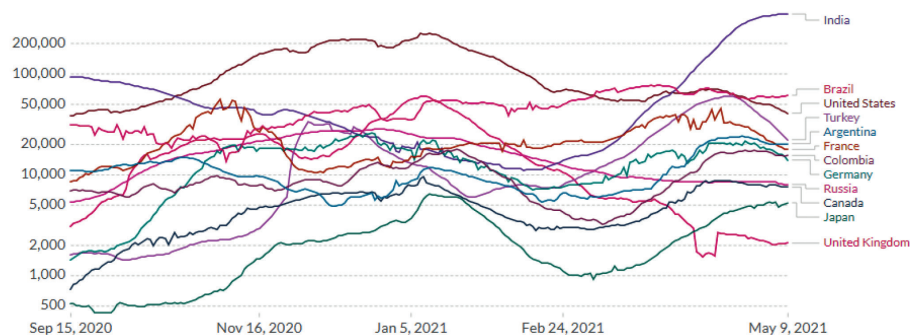


Fig. 2. The new cases trajectories, by country (logarithmic scale), moving average per week

Source: ECDC.

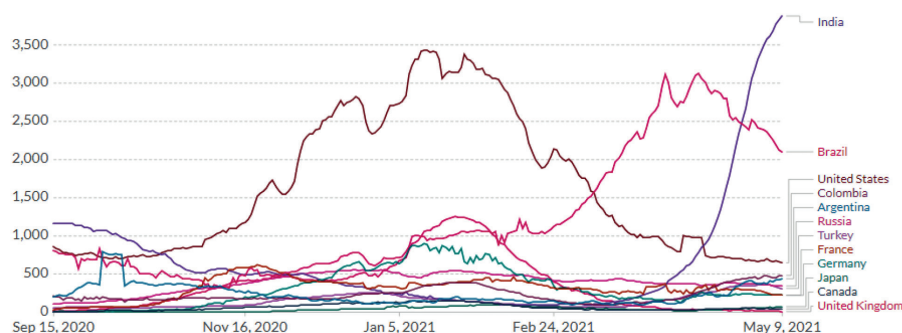


Fig. 3. The rate of 7-day smoothed daily death toll around the world, by country

Source: OurWorldInData.

of all new cases of COVID-19 in the world, the USA, Iran, Turkey, Nepal, Russia, Germany accounted for another 15% (Fig. 2). Russia is in 6th place by the total number of cases. The spread of new strains of coronavirus, which are characterized by greater virulence and lethality, has intensified.

Mortality trends

The mortality rate from coronavirus in the period under review ranged significantly from 9,700 on April 25 to 15,700 on April 28, and at the same time was below the peak values of December (then the death toll could exceed 17,000 per day). The highest daily death toll from coronavirus was observed in India (3,748 deaths per day on May 9), Brazil (934), Colombia (495) (Fig. 3). In Russia, the mortality rate from coronavirus based on operational data increased to 2.31%.¹

The measures being introduced

Quite stringent restrictive measures continue to be in place in many countries of the world, in particular in the EU and Latin America (Fig. 4).

In the EU countries, a gradual easing of restrictions has begun. For example, in Greece, restaurants and bars have been able to work on the street since May 3, schools are opening, however cultural institutions stay closed. In France, bans on movement (more than 10 km from home) are being lifted, schools are opening, and street service in restaurants has begun. In Germany, many restric-

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. Moreover, in some cases additional medical tests are required to confirm this fact. For more details on the specificities of mortality statistics, see: URL: <https://стопкоронавирус.рф/news/20200911-1920.html>

1. Monitoring of the Situation with the Coronavirus Pandemic

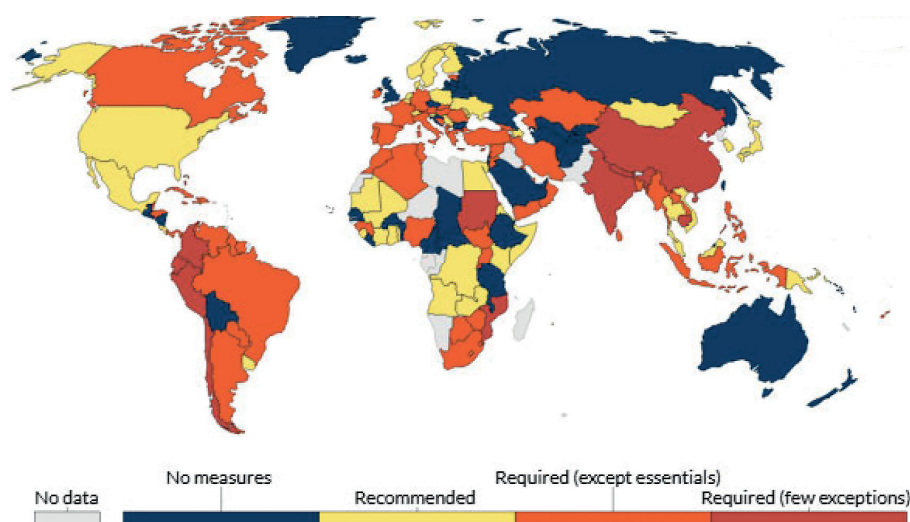


Fig. 4. The stringency of containment measures – stay-at-home requirements

Source: OurWorldInData, as of May 10, 2021.

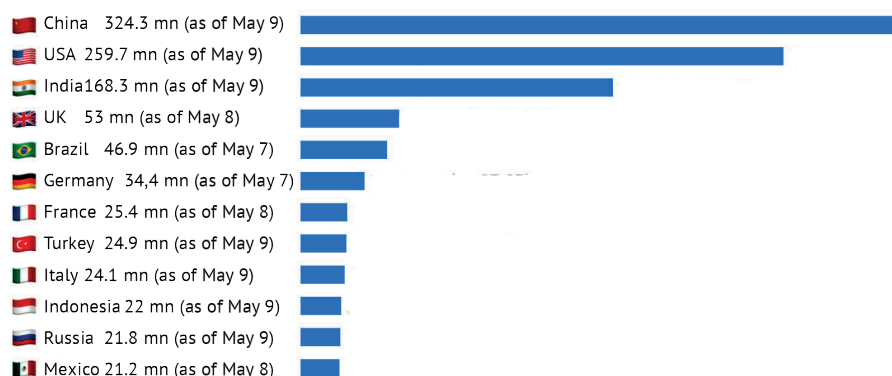


Fig. 5. Vaccination coverage, by country

Source: Yandex, based on data released by OurWorldInData.

tions (curfews, rules for visiting non-food stores, etc.) are lifted for those who have been ill or vaccinated.

Relatively mild (often advisory) restrictions remain in the United States. In India, despite an explosive growth in the cases, there are no stringent federal measures, including aimed to protect the economy, however various restrictions have been imposed in individual states – from lockdowns to curfews. From April 29 to May 17, the nationwide lockdown is valid in Turkey. The state of emergency, which involves the closure of entertainment facilities, has been extended in several regions of Japan including Tokyo until the end of May.

In many countries, including in Russia, mass vaccination goes on (Fig. 5). By May 9, the number of vaccine doses distributed in Russia was 21.8 mn (1.6-fold increase starting from April 8). There are more vaccination centers: in April there were 5,400 stationary centers and 1,520 mobile ones in Russia.¹ In terms of the rate of vaccination, Russia is among the leading countries (ranking 11th by the number of administered vaccine doses), but in terms of vaccination coverage, the country has fallen to 53rd place in the international ranking.

1 URL: <https://ria.ru/20210421/vaktsinatsiya-1729298932.html>

Region	New daily cases	R_t	Total cases	Cases per 100,000	Death toll	Deaths per 100,000
Moscow		1.18	1 121 912	8970.7	18 954	151.6
St. Petersburg		1.01	423 652	7915.9	13 587	253.9
Moscow region		1.06	256 827	3422.8	5 945	79.2
Nizhny Novgorod region		1.07	115 344	3565.8	3 333	103.0
Rostov region		0.98	90 321	2140.1	4 134	98.0
Sverdlovsk region		0.98	87 305	2018.5	3 209	74.2
Voronezh region		0.93	82 148	3520.0	2 726	116.8
Krasnoyarsk Krai		0.97	71 548	2487.3	3 604	125.3
Irkutsk region		0.95	67 565	2810.3	2 326	96.7
Samara region		0.89	62 773	1965.6	1 647	51.6

Fig. 6. Top-10 Russian regions by number of cases

Source: Yandex, as of May 11

The current situation with COVID-19 in Russia

As of May 11, 2021, 4,896,842 coronavirus cases were recorded in Russia (an increase of 7.5% on April 1). The R_t rate hovers around 1 and constitutes 1.05 (0.99 on average for the period under review), which points to the absence of a significant acceleration in the morbidity rate

In April and the first decade of May, a steady decline in the share of active cases (272,900 or 5.6% of the total) was observed throughout the country (with the exception of Moscow). The reaching a morbidity plateau is confirmed by a slowdown in the weekly rate of decline in morbidity (0.4%¹). According to the relevant departments, at the end of April, the epidemiological situation has stabilized in most regions, 32 regions recorded a decrease in the incidence, and 4 regions recorded an increase² (Fig. 6)

Moscow recorded an excess of newly diagnosed cases over the number of recovered patients discharged from hospitals, which was most clearly observed in late April – early May, as well as an increase in the share of active cases from 6.3 to 8% over the past period (Fig. 7). In April, the capital continued to see an increase in the number of hospitalizations observed starting from mid-March. In the first decade of May, the average percentage of hospitalizations to the number of newly diagnosed cases stood at 40.8%³ (45.8% in the first decade of April).

In April and the first decade of May, the hospital bed capacity in the Russian regions remained unchanged: the average indexes of the hospital beds vacancy are 15-20%, in some regions the reserve of beds available for treatment of COVID-19 patients is higher – the Perm region (30%), the Nizhny Novgorod region (32%). In some regional hospitals for patients with COVID-19, the hospital bed occupancy rate increased during the May holidays, for example, in the Republic of Bashkortostan up to 90%.⁴ In St. Petersburg, there is an increase in the number of hospitalizations by 7% in the first week of May.⁵

1 URL: <https://стопкоронавирус.пф/news/20210430-0813.html>

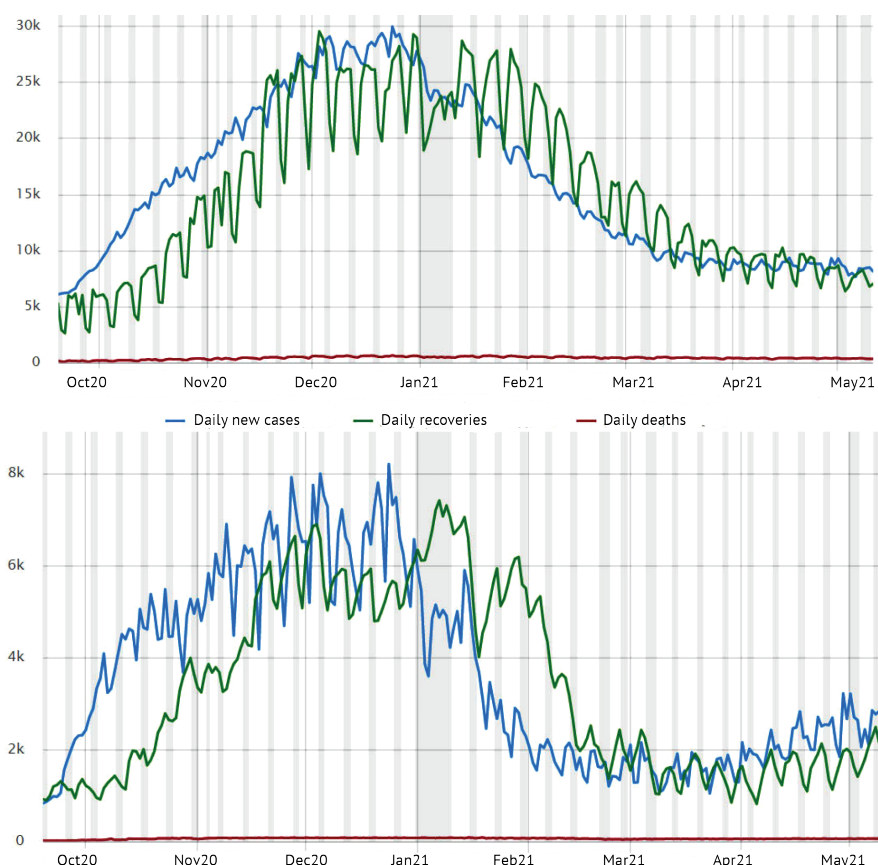
2 URL: <https://www.vedomosti.ru/society/news/2021/05/06/868841-putin-zayavil-o-snizhenii-zabolevaemosti-koronavirusom-blagodarya-nerabochim-dnyam-v-mae>

3 Calculated on data released by the Department of Heal Care of Moscow. URL: <https://mosgorzdrav.ru/ru-RU/news/default/card/5602.html>

4 URL: <https://ufa1.ru/text/health/2021/05/07/69904343/>

5 URL: <https://www.fontanka.ru/2021/05/09/69907091/>

1. Monitoring of the Situation with the Coronavirus Pandemic



Note. Holidays and weekends are highlighted in grey.

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

Source: Yandex, as of May 11.

Measures to contain the spread of the coronavirus in Russia

In Russia, the situation with the containment measures imposed in connection with COVID-19 remained practically unchanged. The face mask wearing regime and social distancing are still mandatory in the majority of regions (except 18 regions, the city of Moscow including¹), a stay-at-home regime for individuals aged 65+ years and the risk group is in place.

As an additional measure to contain the spread of the coronavirus in the first decade of May, the days between holidays were declared non-working (holidays in schools, distance learning in universities), but restrictions on the operation of retail trade and catering organizations were not imposed. In Moscow, control over the implementation of sanitary and epidemiological measures in public gathering has been strengthened,² in St. Petersburg restrictions on public events and night clubs have been extended until the end of May.³

In order to accelerate the pace of vaccination in Moscow, starting with April 27 a program to encourage vaccination of the population over 60 years of age involving the distribution of gift cards for the purchase of goods and services of everyday demand has been operating. In the Chukotka Autonomous

1 URL: <https://стопкоронавирус.рф/news/20210427-1326.html>

2 URL: <https://стопкоронавирус.рф/news/20210510-1326.html>

3 URL: <https://www.kommersant.ru/doc/4799425>

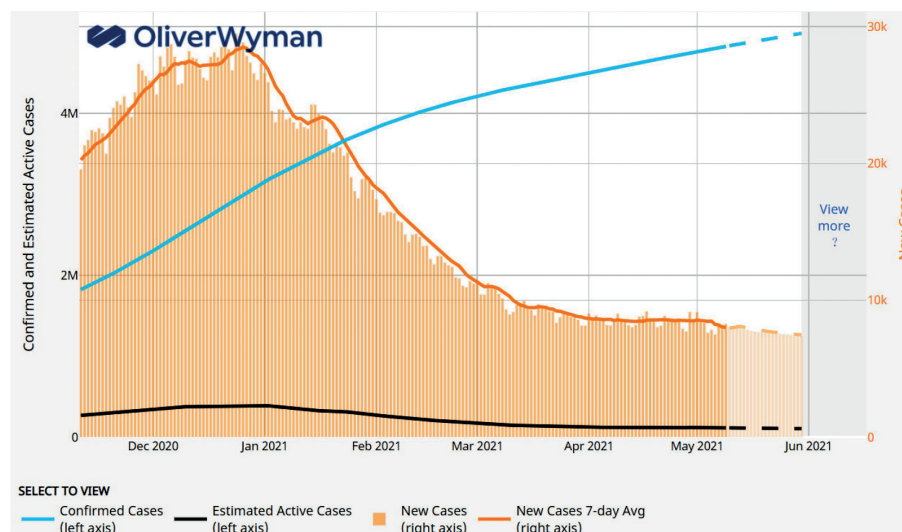


Fig. 8. The growth forecast for the number of confirmed new cases and active cases

Source: Johns Hopkins University, May 9, 2021.

Okrug, one-time payments will be made to citizens aged 60+ who have been registered and vaccinated in the region.

Given the unfavorable epidemiological situation, Russia suspended international flights to Turkey and Tanzania (from April 15 until June 1), and also extended the restriction on air traffic with Great Britain. By the decree of Rosпотребнадзор from April 15, citizens entering Russia must provide the results of testing for coronavirus infection within three days, regardless of the way of arrival.¹

The forecasts for the situation development

According to foreign forecasts, the trend for the stabilization of the number of new coronavirus cases remains (Johns Hopkins University², Fig. 8).

Towards the end of May, according to the updated IHME forecast,³ that takes into consideration the spread of new coronavirus strains, Russia's mortality rate is expected to jump by around 17% compared to the beginning of the month. During the summer, the trend is expected to change and there will be a gradual decrease in the mortality toll associated with the coronavirus pandemic.

By the end of this month, it is still remains to be seen the effect of the introduction of non-working days in the period from 4 until 7 May on the dynamic of morbidity rate. However, it can already be said that it will not be as large as expected, since, according to surveys of the Superjob portal, 44–60% of employees of companies (depending on the size) continued to work during this period. In addition, in early May, due to the holidays, the rate of vaccination fell (Fig. 9).

In the long term, the low level of readiness of Russians to be vaccinated is expected to go on: according to the findings of a Gallup study,⁴ at the end of 2020, residents of Eastern Europe and the former Soviet Union were more

1 URL: <http://www.garant.ru/news/1457231/>

2 URL: <https://tinyurl.com/yxvf5zla>

3 URL: <https://tinyurl.com/y47sbc5y>

4 URL: <https://tinyurl.com/bvwwbjnu>

1. Monitoring of the Situation with the Coronavirus Pandemic

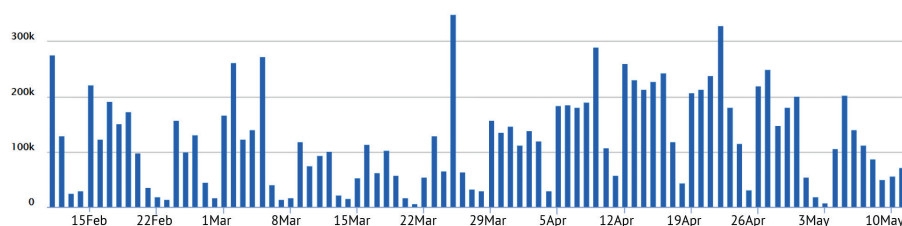


Fig. 9. Number of first jabs, persons per day

Source: vaccination statistics Gogov.ru (URL: <https://gogov.ru/articles/covid-v-stats>), May 11, 2021.

likely than respondents from other countries to be unwilling to get vaccinated. In Russia, according to surveys, the situation has hardly changed in 6 months.¹



¹ URL: <https://tinyurl.com/5zprfe9e>; URL: <https://www.interfax.ru/russia/763882>

2. REGIONAL BUDGETS IN Q1 2021: OWN REVENUES ARE RECOVERING

Alexander Deryugin, Senior Researcher, Budget Policy Studies Department, IAES RANEPA

In Q1 2021, the revenues of the regions' consolidated budgets went up compared to Q1 2020. The growth was ensured by the federal budget fiscal transfers and an increase in the own tax and non-tax revenues of regional and local budgets. According to the results of H1 2021, we can expect double-digit growth rates of own tax and non-tax revenues of the consolidated budgets of the subjects of the Russian Federation, and the main trend in the structure of public debt of the regions until the end of this year will be the replacement of commercial loans with budget ones.

Revenues

According to preliminary data on the implementation of the consolidated budgets of the subjects of the Russian Federation for Q1 2021, the total revenues gained 12.0% compared to the same period in 2020 and amounted to Rb3.43 trillion. At the same time, the main quarterly growth took place in March (at the end of February, the increase came to 5.2%).

The most important sources of growth were corporate income tax (+29.7%), excise taxes (+14.4%), taxes on total income (+13.3%), and intergovernmental fiscal transfers (+24.3%). Thanks to them, the growth rate of revenues is significantly higher than inflation for the period under review.¹ Personal income tax grew slightly slower (+3.5%), while property taxes decreased by 23.4%.

The overall high growth rates of intergovernmental fiscal transfers in Q1 2021 were achieved due to subsidies (+119.7%), other types of intergovernmental fiscal transfers (+150.3%) and, to a lesser extent, subventions (+31.9%), while the volume of governmental grants significantly decreased (-18.6%).

In Q1 2021, revenues increased in 77 regions. The growth leaders were relatively well-off territories: Samara (+47.6%), Belgorod (+42.9%), and Lipetsk regions (+41.6%). In the last two regions of the Federation, the result was partly due to the low base of last year. The Sakhalin region (-51.1%), the Yamal-Nenets Autonomous Okrug (-25.7%), and the Republic of Crimea (-18.0%) experienced the largest reduction in consolidated budget revenues, which in all three cases was due to the effect of a high base of 2020 (according to the growth rate of consolidated budget revenues in Q1 2020 the Sakhalin region, the Yamal-Nenets Autonomous Okrug, and the Republic of Crimea were ranked 1st, 2nd, and 8th, respectively).

¹ According to Rosstat, the CPI in Q1 2021 relative to the corresponding quarter of 2020 constituted 105.55%.

2. Regional budgets in Q1 2021: own revenues are recovering

Thus, according to the Q1 2021 fallout, the revenues of the regions' consolidated budgets not only did not decrease compared to the relatively prosperous Q1 2020, but also exhibited a sizable growth, which was ensured by the growth of fiscal transfers from the federal budget and an increase in their own tax and non-tax revenues (+9.0%). Taking into account the record slump in revenues from the main tax sources in April and May 2020, we can expect double-digit growth rates in H1 2021 in the Russian Federation's own tax and non-tax revenues.

Expenditures

For Q1 2021, expenditures of the regions' consolidated budgets amounted to Rb3.10 trillion, an increase of 14.4% compared to the corresponding period in 2020. This is higher than the inflation rate and the growth rate of budget revenues, which is a continuation of the trends of 2019 and 2020, when the growth rate of budget expenditures exceeded 14%.

Budget expenditures increased in 79 subjects, and in 65 of them the growth exceeded inflation for the same period. The leaders in the growth of budget expenditures were the Samara region (+50.0%), Sevastopol (+42.7%), and the Republic of Ingushetia (+40.0%), which are also among the leaders in the growth of budget revenues (1st, 14th and 12th places, respectively). Expenditures of the consolidated budgets of the Chukotka Autonomous Okrug (-10.7%), the Sakhalin region (-10.5%) and the Republic of Crimea (-8.8%) decreased, which was also largely due to the current dynamic of their budget revenues.

The growth rate of expenditures on subsidies to budgetary, autonomous institutions and other non-profit organizations (which are the main object of expenditure of regional and local budgets and account for 42.6% of the total expenditures of the consolidated budgets of the subjects in Q1 2021) did not exceed the growth rate of budget revenues and amounted to 9.4%.

The largest growth was observed in expenditures on investments in state (municipal) real estate (+35.1%), social security and other payments to the population (+22.7%) (due to the continued implementation of anti-crisis programs to support the population), as well as other budget allocations (+45.0%). Expenses on payments to staff for ensuring the performance of state (municipal) bodies, state institutions, management bodies of state extra-budgetary funds grew slower (+0.1%), as well as on the purchase of goods, works and services for state (municipal) needs (+7.6%). Despite a significant increase in the commercial part of the regions' public debt (the volume of securities and loans extended by credit institutions increased by 26.1%), the cost of servicing it in the period under review compared to the same period in 2020 decreased by 0.1%, owing to lower interest rates observed in the economy.

Balance and public debt

Despite the higher growth rates of expenditures of the consolidated budgets of the subjects of the Russian Federation compared to revenues reported in Q1 2021, sub-federal budgets as a whole were executed with a surplus (Rb325.5 bn), which is a seasonal feature.

The record level of the regional budget deficit recorded in 2020 led to an increase in the public debt of the subjects of the Russian Federation, which reached Rb2.44 trillion as of April 1, 2021, which, although 2.3% lower than the debt level as of January 1, 2021, is 18.6% higher than the corresponding level as of April 1, 2020.

Monitoring of Russia's Economic Outlook

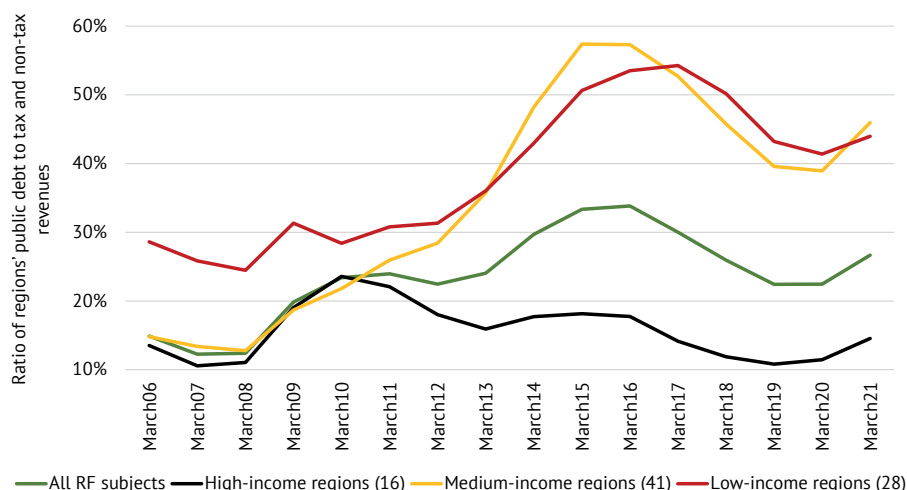


Fig. 1. Debt burden of the Russian Federation with different level of fiscal capacity, %

Source: calculated on data from RF Finance Ministry and Federal Treasury.

The average debt burden of the federal subjects increased to 26.7%,¹ which is 4.2 p.p. higher than the level of April 1, 2020 (22.5%), but remains significantly below its maximum for the end of March value of 33.8%, recorded on April 1, 2016 (Fig. 1).

Medium- and low-income regions² have higher-than-average debt burdens (46% and 44%, respectively). The Republic of Mordovia (195.8%), the Republic of Khakassia (140%), and the Udmurt Republic (128.4%) have a high level of public debt, exceeding 100% of the region's tax and non-tax revenues. The latter relatively recently became one of the regions with a very high level of public debt.

For the period from April 1, 2020 to April 1, 2021, the public debt increased in 51 subjects of the Russian Federation, and the debt burden went up in 63. The leaders in terms of the public debt growth rate were St. Petersburg (+182.4%), the Perm Krai (+150.8%), and the Kemerovo region-Kuzbass (+85.9%), and in terms of the increase in the debt burden – the Udmurt Republic (+33.2 p.p.), the Republic of Kalmykia (+29.3 p.p.), and the Kemerovo Region-Kuzbass (+28.3 p.p.).

The onward dynamic of the regions' debt burden will depend on their own tax and non-tax budget revenues, on the volume of the federal financial assistance, as well as of the prospects of anti-crisis measures aimed to support the population and the economy. The high current growth rates of the regions' own revenues, the implementation of the Russian President's proposals to support the regions, as well as the rate of vaccination of the population, which will speed up the completion of anti-crisis measures, will contribute, firstly, to slowing the growth rate of the regions' public debt and their debt burden, and,


1 Debt burden – the ratio of the amount of public debt to the amount of tax and non-tax revenues of the budget of a subject of the Russian Federation.

2 The level of fiscal capacity of a subject of the Russian Federation is determined in accordance with the methodology approved by the Decree of the Government of the Russian Federation of 22.11.2004 No. 670 "On the distribution of subsidies for fiscal equalization of the subjects of the Russian Federation". High-income regions will be 16 subjects whose level of estimated fiscal capacity exceeded 1.0 for 2021, medium-income – 41 subjects with the level of estimated fiscal capacity before the distribution of equalization subsidies from 0.6 to 1.0 for 2021 and low-income – 28 subjects with the level of estimated fiscal capacity below 0.6 for 2021.

2. Regional budgets in Q1 2021: own revenues are recovering

secondly, to curbing the growth of public debt servicing costs by increasing the share of budget loans in the structure of the regions' public debt.

Changes in the structure of regions' public debt for the period from April 1, 2020 to April 1, 2021 repeated the dynamic of previous years: the share of budget loans stabilized at 48.3%; the share of loans from credit institutions decreased to 20.3%, which is already close to the minimum for the end of March for the period since 2006 (19.5% in 2011); the share of state bonds continued to grow, reaching 28.6%, and state guarantees updated their minimum – 2.5%.

The main trend in the structure of the regions' public debt until the end of this year will be an increase in the share of budget loans, which, according to the proposal of the President of the Russian Federation, formulated in the Address to the Federal Assembly, will replace commercial loans. The share of the latter, in turn, will decrease. It is also possible to increase the debt burden of subjects that previously pursued a strict budget policy and have a low level of public debt (first of all, most of the donor regions, as well as the Vladimir region, the Republic of Crimea, Sevastopol, the Republic of Dagestan, the Chechen Republic, the Republic of Tyva, the Altai Krai, Primorsky Krai, etc.). According to the Address, these territories will be offered long-term infrastructure budget loans at a preferential rate. 

3. FINANCIAL RESULTS OF THE BANKING SECTOR IN Q1 2021

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

In Q1 2021, banks formed reserves in advance in the required amount. Therefore, there was no sharp decline in profits owing to the gradual abolition of easing in terms of the formation of reserves for large corporate loans. Nevertheless, compared to 2020, we should expect a slight deterioration in the bank profitability. The reason is a possible reduction in the credit supply amidst growing credit risks and a decrease in income from currency revaluation due to the strengthening of the ruble.

At the beginning of 2021, there were 406 credit institutions operating in Russia, and by April 1, their number had decreased to 398. 294 banks were profitable (at the beginning of the year – 321), unprofitable – 101 (at the beginning of the year – 85). They recorded total profit to the tune of Rb577.6 bn, which is 5.6% less than in Q1 2020, when this index stood at Rb611.7 bn.

In general, the Russian banking sector remains one of the most profitable (Fig. 1).

The Bank of Russia recorded a significant increase in net interest income (NII)¹ for Q1 2021 compared to the corresponding index for the previous year – from Rb851 bn to Rb921 bn.² However, accrued interest income on placed funds (loans, deposits, debt securities and other placed funds and acquired rights of claim) decreased by 5.5% compared to Q1 2020. Despite a significant increase in the total loan portfolio, the decrease was recorded both for retail loans (by 0.7%) and for loans to non-governmental commercial organizations (by 13.7%). This situation is largely due to a decrease in market interest rates and a large number of soft loans in the banks' portfolios.

In general, the increase in NII was ensured by a reduction in interest expenses on deposits, deposits and other attracted resources; the overall decrease was 18.6% (a year ago for the corresponding period – a decrease of 11.5%), which indicates the successful optimization of bank expenses in the context of interest margin contraction.

Since the beginning of 2020, banks have been actively offering savings accounts to the population as an alternative to term deposits.³ As a result, interest

1 Net interest income – the difference between the revenue generated from the placed funds (loans, investments in bonds and promissory notes, etc.) and the expenses associated with raised resources (deposits, issue of bonds and promissory notes, etc.).

2 URL: https://cbr.ru/Collection/Collection/File/32231/presentation_20210426.pdf

3 The savings account is opened for an indefinite period of time, the terms of funds on it are not set, and the bank does not guarantee the invariance of the rate (often the yield depends on the customer's transaction activity on the bank's cards, the amount of the balance on the savings account, or on any other conditions). As a rule, banks do not provide customers with the opportunity to use savings accounts for settlements, which distinguishes them from current/card accounts; in some cases, banks require maintaining a fixed balance on the savings account.

3. Financial results of the banking sector in Q1 2021

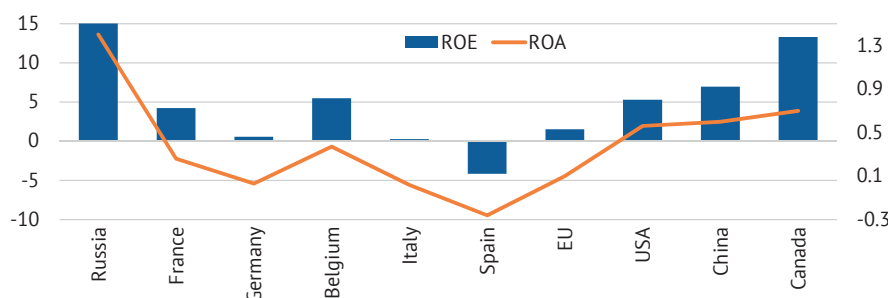


Fig. 1. Indexes of return on equity (ROE) and return on assets (ROA) by countries (as of January 1, 2021), %

Sources: Bank of Russia. URL: http://www.cbr.ru/banking_sector/otchetnost-kreditnykh-organizatsiy/; European Central Bank, Supervisory Banking Statistics, Fourth quarter 2020, URL: https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.supervisorybankingstatistics_fourth_quarter_2020_202104~5f2a05de9f.en.pdf; data of portal URL: <https://www.macrotrends.net/>

expenses on funds in the accounts have been steadily growing over the past 12 months (an increase of 43.6% compared to Q1 2020). At the same time, bank interest costs on retail deposits decreased by 35.9%; at the same time, the total decrease in interest costs (in total on retail accounts and deposits) was 27.9% for the year.

Meanwhile, fee-based income on transactions with placed funds gained 37.1%. This type of income includes fees for opening and maintaining accounts, SMS notifications, insurance, payments for reducing rates, and other types of income. Thus, the trend of compensating for low interest rates by increasing fee-based income has become even more obvious. A year ago, the increase in this type of income was 14.1%.

The income from operations with securities was formed depending on their type. Total income from operations with debt securities decreased by 34.3%, which was primarily caused by a decline in market interest rates and, as a result, interest and coupon income. At the same time, for operations with equity securities (shares, stakes), total income increased by 33.7%, which is due to the growth of the stock market in recent months. Another factor in increasing the income on equity securities is the growth of the exchange rate value of shares. Income in the form of dividends, on the contrary, decreased significantly – by 60.4%. However, dividends on shares of subsidiaries and affiliates increased by 114%. This index is ensured by the growth of this type of income in three banks: Otkrytie (53%), Sberbank (37%), and HCF Bank (7%).

Net income from operations with derivative financial instruments and hedging operations decreased by 33.1%, which is mainly due to the stabilization of the ruble exchange rate (traditionally, the most common and profitable instruments are those with foreign currency as the underlying asset).

Income from operations with foreign currency and precious metals decreased by 43%. The decline in the rate of depreciation of the ruble against the dollar and the temporary strengthening of the ruble against the euro in the first quarter of 2021 significantly affected the bank results: with a general drop in income and expenses on transactions with foreign currency and precious metals and their revaluation, a net negative result of Rb146.6 bn was recorded (as of April 1, 2021, this index was positive and amounted to Rb119.2 bn), which is almost entirely owing to the negative revaluation of funds denominated in foreign currency, while foreign currency purchase and sale operations bring banks insignificant income (Rb16.6 bn for foreign currency purchase and sale

operations in cash and non-cash form). The decline in gold prices have also negatively affected the banks performance: a negative outcome of Rb17.0 bn was recorded for the purchase and sale operations and from the revaluation of precious metals.

The increase in expenses related to the provision of credit institutions' activities remains relatively low. Headcount expenses increased by 6.3% (a year ago – an increase of 2.8%), fixed assets operations dropped by 1.3% (a year ago – a decrease of 0.7%), organizational and management expenses decreased by 0.4% (a year ago – a decrease of 5.3%). In the future, banks will continue to introduce modern methods of cost optimization, and their share in the total amount of expenses will decrease.

In the near future, we should not expect a significant increase in the marginality of the banking sector. Russian banks are forced to show a tendency to reduce the risk appetite for credit operations and carefully approach the assessment of credit risk in the context of a decline in real disposable incomes of the population and incomplete recovery of small and medium-sized businesses. Despite the expected increase in interest rates on both loans and deposits, the volume of banking operations will grow at a low pace. This will be largely determined by the Central Bank's incentive policy in the form of concessional lending (for example, the "FOT 3.0" program) and the provision of temporary regulatory relief to banks in relation to the loan loss provision.

The quality of the loan portfolio, i.e. the level of outstanding debt and the need to make additional reserves after the cancellation of the Central Bank's easing, will have a decisive impact on the financial results. Banks are likely to seek to compensate for the lack of a significant increase in net interest income by increasing operations that generate fee-based income and cutting their own operating costs.

The situation in the foreign exchange market will also have a certain impact on the financial results of banks. Due to the fact that in recent months there has been an outflow of funds from foreign currency deposits, while the volume of foreign currency assets of banks remains stable, in the event of a decline in the ruble exchange rate, credit institutions will again have the opportunity to earn on a positive currency revaluation. 

4. RUSSIAN INDUSTRIAL SECTOR IN APRIL 2021: INDICATIONS OF CRISIS RESOLUTION

Sergey Tsukhlo, Candidate of Economic Sciences, Head of Business Surveys Laboratory, Gaidar Institute

In April 2021, the Russian industrial sector continued its confident recovery from the crisis. Positive dynamics of demand accompanied by high optimism in sales forecasts and a shortage of finished goods stocks allow the enterprises to maintain growth of the output and increase demand for labor. The inflation expectations of industrial enterprises continue to rise surpassing the levels of 2010 and 2015. The fact that investment plans of enterprises turned a profit and the pre-crisis credit availability restored with the rates remaining at the minimum level in April, were indications of the pandemic crisis resolution.

According to respondents, the demand sustained its positive dynamics in April 2021. The balance (growth rate) of sales remained an 8-year maximum, although it declined after the record +9 p.p. in February to +5 p.p., however, such an intensive growth in demand has not been recorded by the Gaidar Institute polls since 2013. Sales forecasts after the decline in December 2020 become more and more optimistic (+3 p.p. in April). However, the November result demonstrating a 12-year maximum since 2008, has not yet been surpassed.

The persisting positive dynamics of actual sales and growth of optimism in demand forecasts strengthen the confidence of enterprises in the resumption of industrial growth and motivate them to increase their finished goods stocks. After reaching a 20-year minimum in December 2020 (which can be interpreted as the minimum hopes for growth in demand), the balance of stock estimates increased by 12 p.p. by April, however, remains negative for the time being; there are still more responses “below the norm” than “above the norm.”

The growth in demand and shortages of the finished products stocks allowed the Russian industry to increase production volumes as from July 2020. Such positive dynamics of output (growth vs the previous month) has been successfully maintained by enterprises until present. The only exception was January 2021 (national holiday period). At that time, the balance of actual changes in output amounted to zero after the seasonal clearance.

A similar situation may develop also in May, as its first decade was declared non-working. Meanwhile, the industrial plans suggested a fairly intensive growth in production. High and sustained optimism of output plans is typical for industrial enterprises since January 2021.

In Q2 2021, Russian enterprises reported a change in the structure of restrictions on industrial growth. Two major restrictions related to the virus crisis have reduced the negative impact on the domestic industry. The vagueness of the current situation and its prospects, ranked first in the rating of enterprises during three crisis quarters, retreated in 2021 to the 2nd place, and to date, it

is being referred to only by 42% of enterprises. Traditional factor, that is the “insufficient domestic demand” came out on top in Q2 2021, however, the reference to this factor has already returned to pre-crisis levels.

Russian industry ranked third the factor of the weak ruble and the rise in the cost of imports during the pandemic crisis recovery with 34% of references. This situation is most likely associated with the outstripping growth in demand for imports to the detriment of the demand for products of the Russian enterprises, as well as with the rise in prices for imported machinery and equipment.


The labor shortage returned in the top 5 restrictions on industrial growth in Q2 2021, pushing back competition with imports. However, this was not due to a reduction in references to competition, but solely due to the growth of personnel problems at enterprises.

According to enterprises, credit factors close the rating of the top 17 restrictions on industrial growth. If the lack of credit was traditionally allocated to the last places, then, in April 2021, the “proposed credit rate” dropped to the ranking bottom line. Currently, it is being referred to only by 1% of enterprises after the rise in the key rate in March.

In April, the inflationary expectations of the Russian industry continued growing, adding another 4 p.p. to the March result, which repeated the records of 2010 and 2015. There are 5 p.p. of the balance of price forecasts remained before reaching the indicators of the pre-crisis July 2008.

High optimism in both demand forecasts and output plans supports high labor demand from industrial enterprises. In April, the balance of hiring plans increased by another 3 p.p. and hit a 13-year high, while more optimistic plans in the Russian industry were registered in the beginning of 2008.

The investment plans of the Russian industry, which collapsed in April 2020, have finally climbed into positive territory after 12 months. The recovery of this indicator was slower compared to other plans and forecasts. However, currently, they have become definitely positive and demonstrate another sign of the pandemic crisis resolution.

The March increase in the key rate by the Bank of Russia had no effect on the minimum rate on ruble loans offered to industry. Since February 2021, this indicator has been at its lowest levels, and in April it amounted to 8.6% per annum in rubles. The aggregate availability of credits (which includes not only the nominal rate, but also other lending conditions), on the contrary, has undergone significant changes during these months. In February, the indicator dropped to a local minimum, almost reaching the crisis minimum level registered in May 2020 and amounting to 46%. However, already in March, banks started facilitating the access to borrowed funds for the Russian industry, and according to borrowers' estimates, they adjusted the “normal” availability of credits to the pre-crisis level of 74%. 

5. THE EXPERIENCES AND LESSONS OF PUBLIC OFFERINGS ON THE STOCK MARKETS OF THE USA, CHINA AND RUSSIA

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Public offerings have been playing an increasingly important role in fundraising for an accelerated development of businesses in the new economy. The IPO market has triggered an intense competition between the USA and China. Russia's stock market has stayed away from these processes. The experience of the USA and China shows that for the IPO market to properly develop, it is not sufficient just to introduce some formal changes in the specific procedures for handling certain types of stock market transactions, or any new tax incentives. It is necessary to launch more profound institutional changes targeting the motives of stock issuers, investors and government departments.

In Q1 2021, the global stock market for IPOs by new companies was demonstrating growth trends, both in the “classic” IPO segment and in that of SPAC IPOs (IPOs by special-purpose acquisition companies).¹ Over the course of Q1 2021, a total of \$119.3 bn was raised by stock issuers through classic IPOs (less SPACs) vs \$32.9 bn in Q1 2020 (Fig. 1). Out of the total IPO volume, \$73.2 bn, or 61.4%, was handled by US stock exchanges; \$32.9 bn, or 27.6%, by Chinese stock exchanges; and only \$13.2 bn (or 11.0%) by the stock exchanges operating in the other countries and regions.

The competition in the IPO market focuses on raising capital for hi-tech companies and those operating in other new sectors of the economy (fintech, pharmaceuticals, and sustainable development). In the USA, the SPAC IPO model had been evolving to provide the stock issuers in the new sectors of the economy with an easier access to the financial resources of institutional and private investors. According to Spacktrack.net (a SPAC tracker tool), from 2020 onwards, 562 new companies have entered the stock exchanges in the USA thanks to SPACs, and 136 of those companies have already entered into merger agreements with large private stock issuers.

In Q1 2021, US stock exchanges accounted for 93.0% of the total value of SPAC IPOs around the world (Fig. 2). Over that quarter, SPAC IPOs raised \$92.7 bn, which is 1.2 times more than the total amount of capital raised over the

1 Unlike a classic IPO, SPAC deals involve the purchase of stocks by investors at a fixed price, usually at \$10 per share. Together with their SPAC shares, the investors receive warrants entitling them to buy shares at a fixed price in the new public company that will be created on the basis of the SPAC. The founder of the SPAC, who is usually a reputable venture capitalist, usually gets an up to 20% preferential interest in the new company. Within not more than two years after the IPO, the SPAC must enter into a merger and acquisition (M&A) deal with a private company that is seeking to go public. As a result of that deal, the SPAC shareholders may exchange their SPAC shares for shares in the new public company. If they do not want to participate in the new company, they can get back their \$10 per share plus a small fixed interest. Typically, only institutional investors participate in IPOs of SPACs. Private investors only purchase SPAC shares during an IPO on the secondary market.

Monitoring of Russia's Economic Outlook

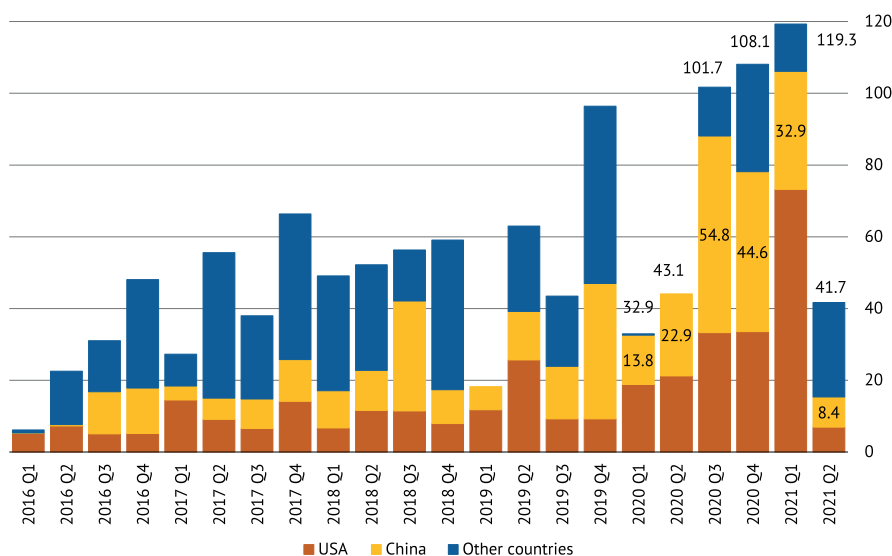


Fig. 1. The volume of capital raised through IPOs, less SPAC IPOs, billions of US dollars, 2016 – April 2021

Source: Bloomberg, data updated as of April 30, 2021.

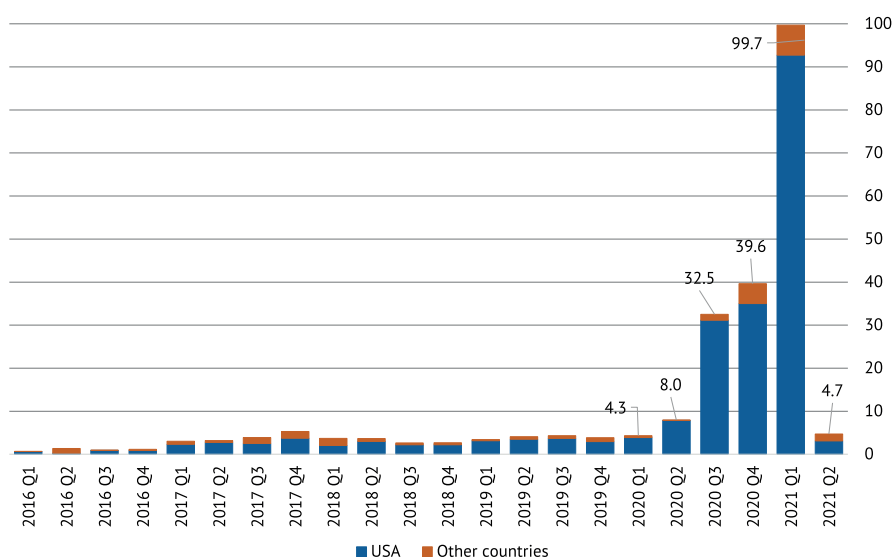


Fig. 2. The volume of capital raised through SPAC IPOs, billions of US dollars, 2016 – April 2021

Source: Bloomberg, data updated as of April 30, 2021.

entire year 2020 (\$74.4 bn). Many countries, including the European Union and Russia,¹ have been closely following the experience of SPAC IPOs.

The advantages for investors of SPAC IPOs by comparison with classic IPOs are as follows: guaranteed secure value of their investments in stocks issued by SPACs until their merger with the target companies; the right to withdraw their investment by means of selling their shares on the stock exchange, or by means of reselling them to the issuer before the M&A deal is closed; and the opportunity to get more complete information about the future target company

1 URL: <https://www.rbc.ru/finances/10/02/2021/6022767e9a79476f42aa9fc3>

5. The experiences and lessons of public offerings on the stock markets

while the M&A deal is being negotiated. The presence of reputable venture capitalists among the company founders provides investors with a chance to enter in a profitable M&A deal with a private company possessing a high growth potential. SPACs have made it possible to democratize the process of investing in venture capital stocks for private investors. In January 2021, according to data released by the Bank of America, the volume of trades in SPAC shares carried out on its platform by individual investors amounted to 46% of the total SPAC trading volume.¹

For private stock issuers, the benefits of a merger with a SPAC are the possibility to promptly raise significant financial resources, primarily from institutional investors, and the professional expertise of venture capitalists.

At the same time, the rapid growth of SPACs is associated with higher risks for investors. The results of a study by J. Ritter et al.² based on a follow-up of the activities of 114 SPACs over the period of 2010–2018 demonstrate that, from the launch of an IPO until the merger with a target company, the average return on SPAC shares amounts to 9.3% per annum. However, following the M&A deal with a target company, investors lose 15.6% on average if they buy common shares in the merged company on the first day of trading and then hold them for a year. During SPAC IPOs, it is necessary to more fully disclose information to investors and properly regulate the activities of company founders, because the latter, even if the stock prices offered by the new companies decline after the merger, can still receive significant benefits in the form of 20% interest in their stock acquired on preferential terms.³

These risks are well understood by the US financial regulatory agency (the Securities and Exchange Commission (SEC)). Representatives of the SEC have claimed that they thoroughly scrutinize the transactions involving shares issued by SPACs in order to safeguard the interests of investors.⁴

China's approaches to developing the IPO segment of the national stock market are rather different. Despite the decline, over January–April 2021, of the Shenzhen and Shanghai Stock Exchange Indexes by 3.8% and 1.6%, respectively, the volume of IPOs launched by Chinese stock issuers early this year demonstrated a growth that was faster than in 2020, the year that had seen a 10-year record high of the stock placement volume index, to the total value of \$136 bn (Fig. 3). The growth drivers in China's IPO market are the high demand of private companies for stock market investments, the existence of a capacious domestic stock market dominated by private investors, and the opening of the mainland IPO market to global investors. Another impetus for the IPO market development in China was given by the enhanced competition with the USA, in particular, the increased risk of delisting of some major Chinese companies on the US stock exchanges.⁵

Of particular interest has been the implementation with the support of President of the People's Republic of China Xi Jinping, from July 2019 onwards, of the ambitious project to create a hi-tech stock market on the Shanghai Stock

1 Li Yun. Unusual first-day rallies in SPACs raise bubble concern: «Every single one of them has gone up». CNBC-online. 2021, Feb. 10.

2 Gahng Minmo, Ritter Jay R., Zhang Donghang. SPACs. March 2nd, 2021. URL: <https://site.warrington.ufl.edu/ritter/files/SPACs.pdf>

3 Ramkumar Amrith. SPAC Insiders Can Make Millions Even When the Company They Take Public Struggles // The Wall Street Journal on-line. 2021, April 25.

4 Michaels Dave, Ramkumar Amrith, Osipovich Alexander. SPAC Hot Streak Put on Ice by Regulatory Warnings // The Wall Street Journal on-line. 2021, April 16.

5 Wong Sharnie. Chinese IPO Shift to H.K. and the U.S.? // Bloomberg. 2021, April 30.

Monitoring of Russia's Economic Outlook

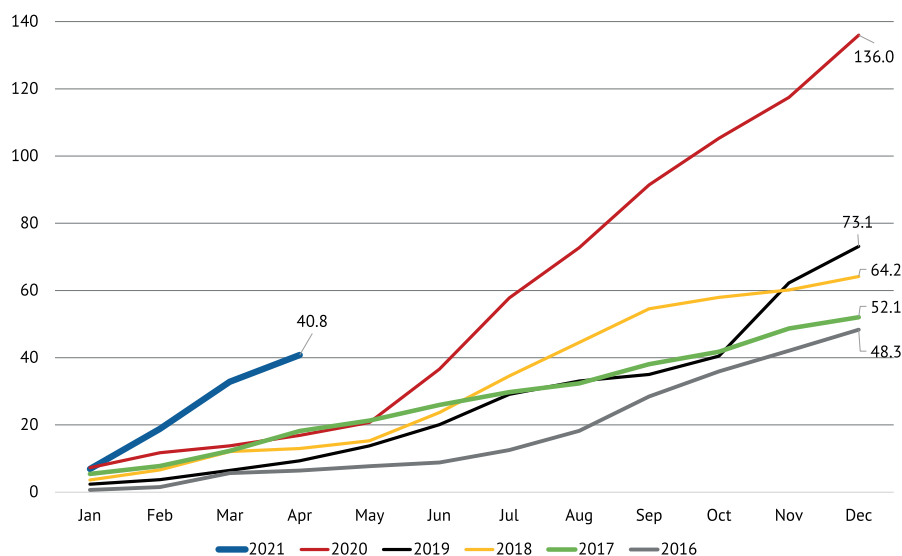


Fig. 3. The volume of capital raised by Chinese companies through IPOs on the domestic and other exchanges from January 2016 through April 2021, billions of US dollars, year-on-year running total

Source: Bloomberg, data updated as of April 30, 2021.

Exchange (the STAR Market of the SSE) as an alternative to the Nasdaq Stock Market in the USA. So far, that project, which has been closely supervised by the Chinese government departments, can hardly be considered to be successful. In Q1 2021, the total value index of the new companies listed on the STAR Market amounted to \$4.2 bn vs \$5.1 bn in Q4 2020. In April 2021, the companies worth \$0.8 bn were listed on the STAR Market vs \$1.7 bn in March.¹ In November 2020, the launch in the STAR Market of the largest IPO in the world, to the value of \$36 bn, was planned by Ant Financial Services Group, China's technology startup; it was canceled by the personal instruction of Xi Jinping.

The reason for a slowdown in the growth of the STAR Market was the introduction of some new requirements.² Under the new rules, the companies specializing in financial technologies and services, or in real estate transactions and investments, may not be listed on the STAR Market.

Another factor responsible for the delays in IPOs by tech giants (Alibaba, Tencent, ByteDance, JD.com, Meituan, etc.) was the requirement that they should correct their violations of antimonopoly legislation and alter their business model so as to bring down their risks and increase their financial stability. According to China's President Xi Jinping, big tech companies should not be allowed to gain an advantage in anti-competitive practices thanks to their size, capital and big data resources.³

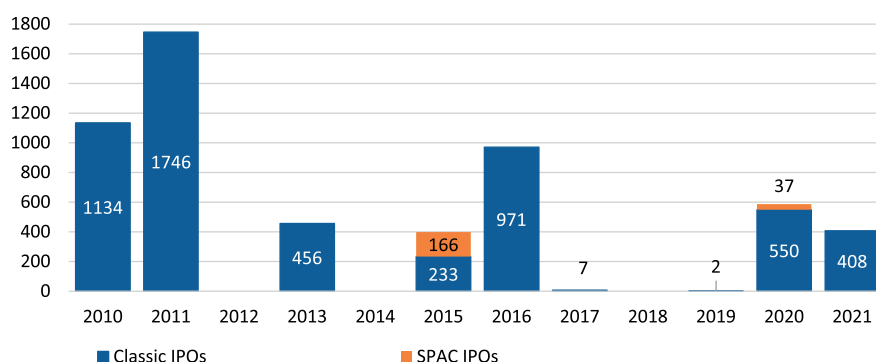
At present, it is still difficult to assess the effects of the measures undertaken by the Chinese authorities on the future prospects for the national IPO market. On the one hand, the active government intervention in the operation of stock exchanges and private tech business, which is a manifestation of ongoing conflicts among the elites in Chinese society, can slow down the

1 Chiu Joanne. Ant's Halted IPO Takes the Shine off China's STAR Market // The Wall Street Journal on-line. 2021, May 5.

2 URL: <http://www.csrc.gov.cn/pub/zjhpublic/zjh/202104/P020210416593313122391.pdf>

3 Wei Lingling. Ant IPO-Approval Process Under Investigation by Beijing // The Wall Street Journal on-line. 2021, April 27.

5. The experiences and lessons of public offerings on the stock markets



*Fig. 4. The value volume of IPOs on Russian stock exchanges in 2010–2020, billions of US dollars**

* The figure shows only those IPOs by Russian PJSCs on Russian stock exchanges that were launched with the purpose of raising new capital, or the resales of blocks of shares by their current holder to a new owner. The SPO and IPO-SPO deals on foreign exchanges are not taken into account.

Source: own calculations based on data released by the World Federation of Exchanges (WSE) and releases on IPOs by specific companies.

development of large private companies and the stock market. On the other, the antimonopoly regulation measures applied to the large ecosystems in China may boost competition and eliminate the discrimination of small and medium-sized businesses in their access to online trading services, payment services and social media marketing, thus facilitating the emergence of new issuers on the stock exchanges.

In Russia, public offerings on stock exchanges have been faced with serious problems. Over the period from 2010 through April 2021, the IPOs launched by Russian PJSCs on the domestic exchanges were sporadic and on a relatively small scale (*Fig. 4*). After 2011, the annual volume of IPO transactions never exceeded \$1 bn. In 2020, the volume of IPOs on the Moscow Exchange amounted to only \$587 mn, which accounts for 0.2% of the global total volume of classic IPOs.

The problems associated with the domestic IPOs are manifest in the low and sometimes even negative underpricing indices (the difference between the closing price of a stock on its first day of trading and the set IPO price). During the three largest domestic IPOs launched in 2020–2021 by Sovcomflot PJSC, Samolet Group PJSC, and Segezha Group, the underpricing indices stood at -4.3%, 0.3%, and -0.4%, respectively. This points to the fact that the set price of these IPOs was overvalued, while the demand for these stocks displayed by the trading participants was not high enough. For reference: during the two largest IPOs launched in 2020 on the Nasdaq Stock Market (USA) by Russia's major offshore stock issuers, Ozon Holdings PLC and HeadHunter Group, the stock underpricing indices amounted to 34.3% and 24.1%, respectively.

The underpricing of the IPOs launched by Russian stock issuers is the lowest in the world, averaging 3.3% over the period 1999–2013.¹ In the US domestic market, the average underpricing index for classic IPOs stood at 16.7% over the period 2001–2020, including 41.6% in 2020. In China, the average underpricing index for the period 1999–2020 was 170%, including 175% in 2020.

¹ Ritter Jay R. Initial Public Offerings: Underpricing. 2020, December 29. URL: <https://site.warrington.ufl.edu/ritter/>. Loughran Tim, Ritter Jay, Rydqvist Kristian (2021). Initial Public Offerings: International Insights. 2021, March 22. URL: <https://site.warrington.ufl.edu/ritter/files/International.pdf>

The level of public disclosure of statistics on the IPOs and SPOs carried out by Russian companies is unsatisfactory. In Russia, there is currently no entity responsible for keeping a register of such transactions. The estimates published by the World Federation of Exchanges, the Moscow Exchange and other organizations are incomplete and vary significantly.

An analysis of the problems existing in the IPO markets in the USA, China and Russia has resulted in a number of proposals concerning the development of the public offering segment of Russia's stock exchanges.

The main obstacle to the growth of IPOs by Russian stock issuers has been the cautious stance of evolving private companies towards the prospects of raising capital on the stock market, which requires the disclosure of highly transparent information on their activities, coupled with an uncertain investment climate and the risks of a hostile takeover of their businesses. In addition to the tried and true measures designed to improve the investment climate, the entry of new companies into the market could be further accelerated, for example, by the removal of barriers to the development of independent fintech companies. This implies the implementation of a certain set of measures, including the enforcement of open banking standards for big financial institutions, the lifting of restrictions on interbank transfers of money by individuals between their accounts with different financial entities (for example, the establishment of caps on excessively high tariffs imposed by big retail banks on the interbank transfers by individuals, which currently amount to 1.5% of the transfer value).

The demand for IPOs could be further boosted by the following steps: the creation of a legal basis for the development of corporate and individual pension plans with a broad coverage of the working population; the implementation of measures designed to improve the accessibility and economic efficiency of investments in mutual funds, as well as the quality and transparency of the information on their activities.

It is necessary to develop a legal framework designed to regulate SPAC IPOs on the Russian stock exchanges, targeting in the main qualified investors; and to improve legislation on investment funds in order to simplify the launch of IPOs and SPOs for venture capital funds and private equity funds, which are focused on public offering of Russian stocks.

The experience of the STAR Market in China could be valuable from the point of view of the close attention of the top government authorities to implementing market methods of raising capital for national hi-tech companies.

The financial regulator, in cooperation with self-regulatory organizations and the Russian stock exchanges, should establish a system of statistical accounting and quarterly public reporting on IPO-SPOs of Russian stocks. 