

# MONITORING OF RUSSIA'S ECONOMIC OUTLOOK:

## TRENDS AND CHALLENGES OF SOCIO-ECONOMIC DEVELOPMENT

No. 3(147) February 2022

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## Monitoring of Russia's Economic Outlook

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

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# 1. FOREIGN TRADE IN 2021: EXPORT GROWTH DRIVEN BY A LEAP IN PRICES

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*In 2021, Russia's trade turnover increased by 38% to \$785 bn, the maximum level since 2014. Appreciation of prices for fuel and energy commodities (+61%) amid stable volumes of exports (-1.7%) made it feasible to increase the value of exports to \$267 bn (+59%). The record-high value of \$197.8 bn worth of non-oil and gas exports (+31.0%) was entirely driven by the price momentum (+31.2%) with export volumes of these commodities remaining unchanged (-0.2%). It is noteworthy that exports of machinery and equipment increased the most. No pickup in export volumes of food, metals and timber despite a leap in prices can be probably substantiated by the introduction of export duties and quotas. Unlike exports, an increase in the value of imports to \$293.4 bn (+26.7%) was driven both by a rise in prices (+10.4%) and substantial growth in the volume of imports (+15.0%).*

## Trade dynamics

In 2021, Russian trade turnover picked up by 38% to \$785 bn, the maximum level since 2014. In 2021 on the back of a considerable rise in global prices for most Russian goods exports increased in value to \$491.6 bn, nearly a 50% growth (+45.8%) relative to the pandemic year 2020 (+17% on 2019). Starting from April 2021, monthly volumes of exports surpassed steadily those of the pre-pandemic year 2019 (Fig. 1).

The value of non-oil and gas exports<sup>1</sup> increased to the record-high level of \$197.8 bn (+31% and +38% on 2020 and 2019, respectively). After a plunge in 2020, export volumes of energy commodities recovered to \$267 bn (+59%), a slight increase of 2% relative to the level seen in 2019 owing to a considerable pickup in prices for energy commodities in 2021 (+61% relative to 2020), including oil (+58%), petrochemicals (+51%), piped natural gas (2.1-fold), liquefied natural gas (+12%) and fossil coal (+33%).

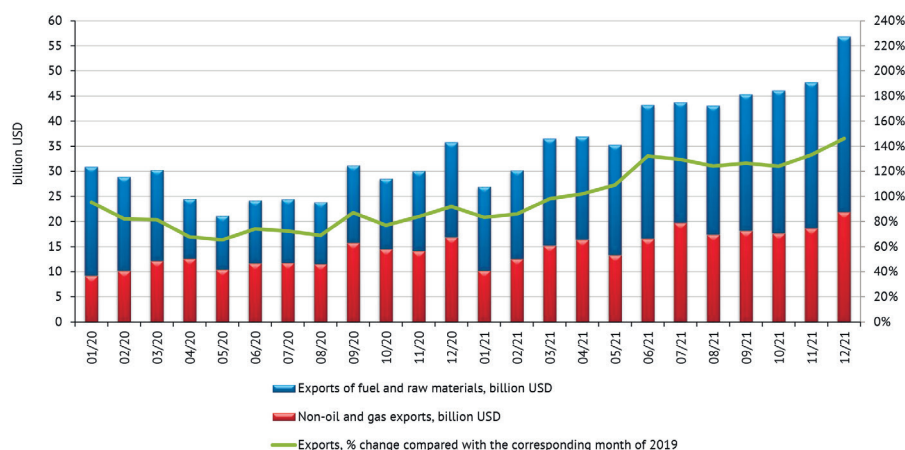
Export volumes of the main types of fuel were relatively stable (-1.7%): oil (-4%), petrochemicals (+2%), piped natural gas (+0.5%), liquefied natural gas (-3%) and fossil coal (+6%). Exports of other commodities (non-energy commodities and classified commodity groups) amounted to \$26.8 bn.

In 2021, imports amounted to \$293.4 bn, a considerable increase of 26.7% and 20.5% relative to 2020 and 2019, respectively. Unlike exports, an increase in the value of imports was driven both by a rise in import prices (+10.4%) and considerable volume growth (+15.0%)<sup>2</sup>. Further, as far back as December 2020 imports of goods surpassed the pre-pandemic level (Fig. 2).

1 The classification of primary products, energy commodities and non-oil and gas commodities is presented on the website of the Russian Export Center. URL: [https://www.exportcenter.ru/international\\_markets/classification/](https://www.exportcenter.ru/international_markets/classification/)

2 Here and elsewhere, price and volume indices in the Fisher format with standard filters applied are used. Description. See: A.Yu. Knobel, A.S. Firanchuk. Foreign Trade in 2020: Overcoming the Pandemic // Russia's Economic Development. 2021. Vol. 28. No. 3. P. 12–17.

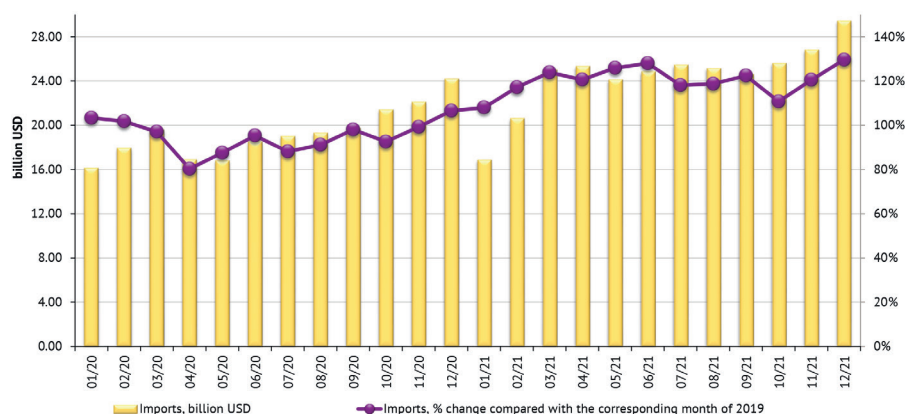
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**Note.** Non-oil and gas exports do not include classified commodity groups.

*Fig. 1. Dynamics of Russia's exports in 2020–2021*

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



*Fig. 2. Dynamics of Russia's imports in 2020–2021*

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

### Non-oil and energy exports

As in case with fuel, a substantial pickup in the value of non-oil and gas exports to \$197.8 bn (+31% relative to 2020) is entirely related to an increase in the index of export prices for these goods (+31.2%) with the index of export volumes remaining almost unchanged (-0.2%) (*Table 1*).

On the back of introduction of export duties and quotas, export volumes of food decreased and those of metals and wood remained unchanged though global prices picked up considerably. For example, owing to the introduction of export duties export volumes of grain and vegetable oil decreased by 14% and 15%, respectively, though export prices for these commodities appreciated (27% and 67%, respectively). The overall volume of exports of **food products and agricultural primary products** shrank (-9%) with average annual price index increasing (+34%). Export duties which were in effect from August 2021<sup>1</sup> produced probably a deterrent effect on exports of **metals and fabricated metal products** which did not change in volume terms (-0.4%) in spite of 1.5-fold growth in the price index (+48%).

1 Resolution No.988 of June 25, 2021 of the Government of the Russian Federation.

## 1. Foreign Trade in 2021: Export Growth Driven by a Leap in Prices

Table 1

Dynamics of non-oil and gas exports in 2021 across commodity groups

Commodity group name	Supply volume, billion USD			Change in 2021 on 2020, %		
	2019	2020	2021	In value terms	Price index*	In volume terms*
Food and agricultural primary products (except for textile)	24.8	29.6	35.9	22	34	-9
Minerals (salt, lime, daubing)	4.6	1.8	0.2	-90	7	-91
Chemical products, natural rubber	27.0	23.9	37.7	58	47	8
Rawhide, furs and articles thereof	0.2	0.2	0.2	30	-6	39
Timber and pulp and paper products	11.6	11.3	15.8	40	42	-1
Textile, textile articles and footwear	1.4	1.5	1.7	17	5	11
Gem stones, precious metals and articles thereof	12.0	27.4	27.4	0	4	-4
Including gold	5.8	18.5	17.4	-6	-5	-1
Metals and fabricated metal products	36.4	33.6	49.6	48	48	0
Machinery, equipment and transport vehicles (without classified groups)	22.5	19.2	25.7	34	6	26
Other goods	2.8	2.8	3.6	31	16	13
Classified commodity groups	10.9	9.2	11.5	24		
Total (without classified groups taken into account)	143.1	151.1	197.8	31.0	31.2	-0.2

\* The index is calculated on the basis of the price per unit of product across 10 important positions of this group with standard filters applied.

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

There was a pickup in exports of aluminum (+29%) and semi-finished iron products (+15%) and a decrease in export deliveries of raw nickel (-67%), raw copper (-40%) and ferrous metals (without crude iron) (-24%). A leap in prices for **timber and wood products** (+42%) did not lead to export volumes growth (-1%), particularly, because of the introduction of export duties on crude timber from July 2021.<sup>1</sup>

At the same time, a number of commodity groups in respect of which no export duties were introduced saw growth in export volumes amid appreciation of global prices. There was an increase in exports of **chemical products** (+8%), including potassium fertilizers (+24%), nitrogenous fertilizers (+5%) and mixed fertilizers (+3%), as well as synthetic rubber (+12%). Over a year, prices appreciated on average the most for nitrogenous fertilizers (+71%) and mixed fertilizers (+66%). From December 2021 through May 2022, export quotas<sup>2</sup> are in place on these products and their limited effect will be felt even in H1 2022. A slight decrease in export volumes of precious metals and gem stones (-4%) was compensated by price movements (+4%).

Export volumes of high-tech commodity groups increased considerably. Export deliveries of **machinery, equipment and transport vehicles** saw highest growth (+26%) in volume terms among all commodity groups with a moderate pickup in the export price index (+6%). This made it feasible to compensate shrinkage of exports caused by anti-COVID restrictions in 2020. Export deliveries of non-oil and gas commodities from the **other goods** commodity group increased, too, (+13%) with a comparable rise in prices (+16%).

### Trade turnover geographic pattern

The EU's share in Russian trade turnover recovered somewhat (up to 35.9%) after hitting the multi-year low in 2020 (Table 2). This happened on the back

<sup>1</sup> Resolution No.737 of May 15, 2021 of the RF Government.

<sup>2</sup> Resolution No.1910 of November 03, 2021 of the RF Government.


of appreciation of prices for energy supplies and other exchange traded commodities, making up the bulk of Russian exports to the European market; over the year these exports increased by 65.4%. A pickup in the EU's share in the overall pattern of Russian exports (+4.5 p.p.) surpassed a reduction in the share of imports from the EU (-1.9 p.p.). On the contrary, a slight decrease in the APEC's share can be explained by the APEC's diminishing presence in Russian exports (-1.4 p.p.) and imports growth (+1.7 p.p.). At the same time, there is considerable growth in value terms both in exports (+38.4%) and imports (+33.5%) from the APEC.

Table 2

Geographic pattern of Russia's trade with its main trade partner-countries in 2021

Region/country	Share in Russia's trade turnover, %				Change: 2021 on 2020, p.p.		
	2013	2019	2020	2021	Trade turnover	exports	imports
<b>EU-27</b>	46.7	39.0	33.8	35.9	2.1	4.5	-1.9
UK	2.9	2.7	4.7	3.4	-1.3	-2.3	0.1
Ukraine	4.7	1.7	1.7	1.6	-0.2	-0.2	-0.2
Turkey	3.9	3.9	3.7	4.2	0.5	0.7	0.0
<b>APEC</b>	24.8	31.8	33.8	33.3	-0.5	-1.4	2.3
including:							
China	10.5	16.7	18.3	17.9	-0.4	-0.7	1.1
US	3.3	3.9	4.2	4.4	0.2	0.4	0.1
Japan	3.9	3.0	2.8	2.5	-0.3	-0.5	0.0
Republic of Korea	3.0	3.6	3.5	3.8	0.3	-0.3	1.3
<b>CIS</b>	13.4	12.2	12.9	12.2	-0.7	-1.3	-0.1
<b>Of which EEU</b>	7.4	8.7	9.1	8.8	-0.3	-0.6	0.1
including:							
Armenia	0.2	0.4	0.4	0.3	-0.1	-0.1	0.0
Belarus	4.1	5.1	5.0	4.9	-0.1	-0.1	-0.1
Kazakhstan	2.8	3.0	3.4	3.3	-0.1	-0.4	0.3
Kirgizia	0.3	0.3	0.3	0.3	0.0	0.0	0.0

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

Ukraine's share in the Russian trade turnover keeps declining, a three-fold decrease to 1.56% relative to the level seen in 2013. As compared with trade with other countries, trade dynamics with the EEU were weaker in exports (+36.7%) and moderate in imports (+28.4%), bringing down the EEU's share to 8.8%. 

## 2. BANKS' FINANCIAL PERFORMANCE IN 2021

**Sergei Zubov**, Candidate of Economic Sciences, Associate Professor, Senior Researcher, the Structural Studies Department, IAES, RANEPA

*In 2021, the profit of the banking sector hit a record Rb2.4 trillion. The achievement of this high indicator was influenced by several factors: the aggressive banks' policy in the credit market; reduction of provisioning costs due to a low share of overdue loans; growth of commission income on intermediary operations. An increase in the Central Bank key rate led to higher funding costs and a negative revaluation of part of investments in the securities market, which slowed down profit growth in Q4.*

As of the end of 2021, 370 credit institutions were operating in the Russian banking system against 406 a year earlier. Over the year, the number of license revocations amounted to 26, and 11 licenses were voluntarily revoked. At the end of the year, there were 232 banks with universal licenses (248 at the beginning of the year), 103 banks with basic licenses (118 at the beginning of the year), and the number of non-bank credit institutions was 35 (40 a year ago).

The reduction in the total number of banking credit institutions was accompanied by the enlargement of the banking sector: in 2021 there was an increase in assets, own funds and profits. Due to the rapid economic recovery, total assets of credit institutions last year grew by 15.9% (in 2020 – by 16.5%), and banks' own funds – by 12.2% (in 2020 – by 11.3%). Thus, the growth rates of assets and capital approximately remained at the level of the previous year.

As of January 1, 2022, the aggregate profit of the banking sector amounted to Rb2,362.9 bn. (in 2020 – 1,608.1 billion rubles). At the end of the year, the number of profitable banks reached 84% (in 2020 – 80%). Currently, about 20% of the sector (of the total number) are unprofitable banks and banks with low operating efficiency, some of which may cease to exist as banking credit institutions in the future.

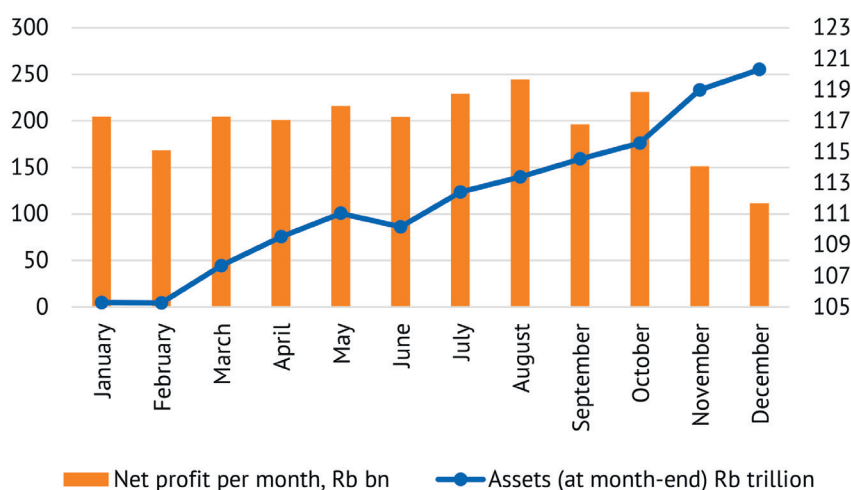
On the whole, Russia's banking sector was prepared for a long-term crisis largely thanks to the CBR's stabilization policy implemented in recent years. Getting rid of insolvent banks, maintaining a high level of liquidity, as well as increasing requirements for the quality of banking products and services by implementing the Basel standards made the domestic banking system more resilient. Increased business volumes and high transactional activity in the context of economic recovery contributed to the growth of banks' positive financial performance.

Profit growth markedly outpaced asset and capital growth, which improved banking profitability indicators: ROA<sup>1</sup> at the end of 2021 was 2.2% (1.4% a year

1 Return on assets – return on assets, the ratio of net profit to total assets of the credit institution.



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*Fig. 1. Net profit of the banking sector (per month), Rb bn and the volume of aggregate banking sector assets (at month-end), Rb trillion*

Source: "Statistical indicators of the Russian banking sector" (Internet version) / Bank of Russia.  
URL: [https://cbr.ru/banking\\_sector/statistics/](https://cbr.ru/banking_sector/statistics/)

ago), ROE<sup>1</sup> – 21.7% (a year ago – 15.1%). The Russian banking sector remains one of the most profitable in the world. By comparison, the average return on capital for U.S. banks is 12–13%, and for European banks it is 6–8%.

The leading banks managed to take advantage of the current situation in different ways. At the end of the year, the top five most profitable credit institutions were the same banks as a year ago: Sberbank (52.4% of total banking sector profit, annual growth – 58.3%), VTB (10.3%, annual growth – 332.4%), Alfa-Bank (5.7%, annual growth – 14.5%), Gazprombank (3.9%, annual growth – 45.0%) and FC Otkrytie (3.6%, annual growth – 4.4%).

In terms of return on equity, the leaders are small banks and non-bank credit institutions offering a wide range of payment and settlement services, as well as business on marketplaces. The highest return on equity at year-end were shown by: NKO Mobile Card (ROE – 395.6%), NKO Settlement Solutions (83.11%), Modulbank (67.5%), NKO Western Union DP East (62.17%), Kiwi Bank (58%). These organizations and the like have significantly increased the level of profitability in the past year.

Let's analyze the main components of the banks' net profit in 2021.

Net interest income amounted to Rb 4,075.1bn, having exceeded the value of the preceding year (Rb 3,541.3bn) by 15.1% (by Rb 533.8bn in absolute terms). In the context of low interest rates on loans, the growth rate of interest income was not so high: interest income from lending to legal entities increased over the year by 5.3%, while that from loans to individuals – by 7.3%. The growth of these indicators was ensured by the growth in the volume of loans and the end of preferential conditions for loan restructuring due to the pandemic of rapid economic recovery.

Meanwhile, low interest rates allowed banks to significantly optimize interest expenses by reducing interest rates on retail and corporate time deposits. A short-term increase in interest rates on term and savings accounts

<sup>1</sup> Return on equity – return on equity, the ratio of net profit to equity (capital) of a credit institution.



## 2. Banks' Financial Performance in 2021

in the first half of the year ultimately had no effect on the overall reduction of interest expenses: interest expenses on corporate accounts and deposits decreased by 14.4%; on accounts and deposits of households – by 14.7%. Thus, the overall reduction of market rates on attracted resources contributed to the growth of net interest income. The banks managed to substantially increase commission income from lending operations and thus compensate for losses from a low interest margin. Thus, over the past year the growth of fee and commission income on loans to legal entities amounted to 41.6%, and on loans to individuals – 82.7%. This type of income includes fees for services provided when granting loans (for consideration of the application, SMS-notification, credit card service).

Due to the development of electronic settlement forms and high transactional activity of bank customers, the net fee and commission income from intermediary transactions (money transfers, broker services, issuance of guarantees) increased notably (as of the end of 2020, it amounted to Rb 1,284.7bn), and its growth over the year came to 19.6%.

In 2021, most of the growth of bank profit was associated with the recovery of reserves: in absolute terms, their total volume decreased by Rb 740.9bn, or by 60.1% against 2020, and amounted to Rb 491.4bn. The reason behind this phenomenon was the preventive creation of reserves for potentially high-risk debts during 2020, which were restored in 2021 due to the improvement of the general economic situation, as well as the activity of debt collectors and the possibility of assignment of problem loans.

The most significant contribution, reducing the banks' financial performance in absolute terms (for the year – Rb 2,568.2bn), were operating costs associated with the provision of credit institutions. The annual increase amounted to Rb304 bn, or 18.1% (a year ago – an increase of 1.4%), while payroll went up by 10% (in 2020 – an increase of 2.8%). Thus, the reduction in the number of departments and personnel of banks in parallel with the introduction of the latest IT-technologies does not yet give a noticeable positive effect.

The situation on the stock market was not too favorable for banks: starting from Q3, banks faced a negative revaluation of securities due to an increase in the yield of OFZ due to the growth of the key rate, as well as due to the fall of the stock market in Q4. As of the end of the year, the net income from operations with securities was lower than the expenses on the issued securities. The final negative result on securities amounted to Rb 65.2bn (in 2020 a positive result was registered – Rb 115.4 bn).

In the near term, banks will face pressure on margins owing to a slowdown in the high-yield unsecured lending sector and the need to raise deposit rates. The situation on the stock market at the beginning of this year has significantly deteriorated and will remain extremely tense due to increased geopolitical risks and sanctions pressure.


In February this year, Russian systemically important banks proposed to the Bank of Russia not to take into account negative revaluation of securities when calculating the capital adequacy ratio, fixing the securities' value at the beginning of the year. The capital reserve (norms H20.0,<sup>1</sup> H20.1<sup>2</sup> and H20.2<sup>3</sup>) remained at a low level recently, forcing banks to curtail their market activities. On February 22, the Central Bank of Russia acknowledged the increased market

1 Basic capital adequacy ratio of the banking group.

2 Capital adequacy ratio of the banking group.

3 Capital adequacy ratio (own funds) of the banking group.

volatility and announced support measures for Russian banks<sup>1</sup>: until October 1, 2022, banks were entitled not to recognize losses due to depreciation of securities, reflecting shares and bonds in statements at their market value as of February 18, 2022. A similar regulatory relief in the form of revaluation of securities at preferential quotations was used in 2015 amid a sharp increase in the key rate. Also, the regulator gave credit institutions until October 1 an opportunity to use foreign currency exchange rates as of February 18 when calculating mandatory banking standards.

It is feasible that the growing geopolitical issues may contribute to increased financial risks, and therefore banks will have to increase provisions for possible loan losses. Thus, in the first half of the year the level of profit and profitability of banking activity will decrease relative to the 2021 level. 

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1 URL: <https://rg.ru/2022/02/22/bank-rossii-obiavil-o-merah-podderzhki-rynka.html>

### 3. AGRICULTURE: THE RESULTS OF THE SECOND YEAR OF THE PANDEMIC

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*Despite the fall in the physical volume of agricultural production and exports in 2021, the excess of 2020 figures in value terms stood at 17.1% and 21.3%, respectively. The main contribution to the change in production indicators was made by a 9% decrease in the grain harvest. Losses in the production of vegetables and potatoes were fully offset by the growth of the production of oilseeds and sugar beets. The growth of livestock production was insignificant. The structure of the cost of agricultural production in comparison with the sources of resources allows us to conclude about the risk of its growth in the event of rising prices on the foreign market and the ruble depreciation in 2022.*

In the second year of the pandemic, we can state that agriculture is passing through the difficulties associated with the coronavirus crisis with fewer losses than might have been expected.

#### **Output**

Producers were optimistic about the situation in 2021 and did not reduce seeding-down (101% by 2020). The index of physical volume of agricultural production in 2021 constituted 99.1%. Taking into account the growth of prices of agricultural producers by 18.1%, the production of agricultural products in value terms went up by 17.1%.

A comparison of the producer price index for agricultural products (18.1%) and the food inflation index in 2021 (10.8%) demonstrates that products in value grew faster than food prices. This casts doubt on the tactic of reducing trade margins as effective in reducing food prices.

The main contribution to the reduction of the physical volume of agricultural production was made by a decrease in the grains harvest (-9% relative to the harvest in 2020). The growth in sunflower and sugar beet crops (+17.6% and +21.6%, respectively) fully compensated for the decrease in the production of potatoes and vegetables (-6.7% and -2.8%, respectively) in the structure of gross output (Fig. 1). The change in livestock production was extremely insignificant, neither for any type of product (from 0 to +0.3% by 2020), nor for livestock products as a whole.

The decrease in grain production in 2021 is largely due to unfavorable weather conditions: a significant loss of winter crops is always reflected in the total volume of agricultural production. In 2021, winter crops were killed in almost 10% of the area under crops. Nevertheless, the 2021 grain harvest is more than 10% above the average of the last decade and only 3% below the average of the last five years, which saw record harvests in 2017 and 2020.

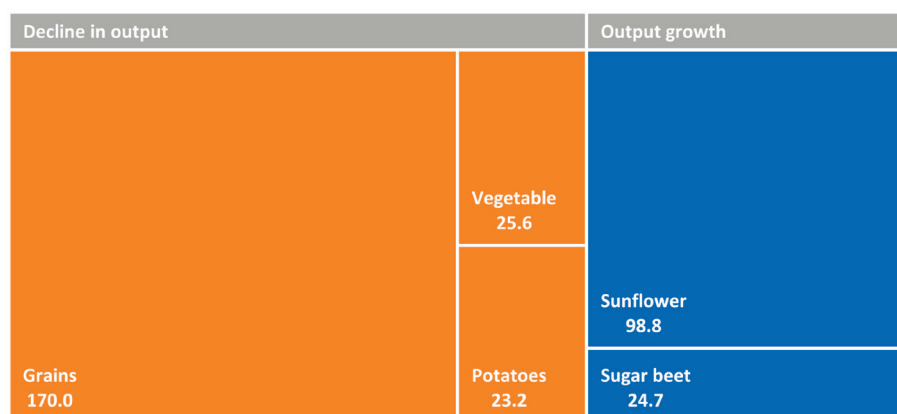


Fig. 1. Contribution of main agricultural products to gross output growth in 2021 (valuation in 2021 prices, Rb bn)

Source: own calculations on Rosstat data.

According to the first 11 months of 2021 results, the balance of profits and losses in agriculture amounted to 137.1% against 2020 (which is worse than in 2020 – 163.3%). The share of profitable farms moved up to 83.1% (82.3% in 2020), and the share of unprofitable farms decreased to 16.9 (vs. 17.7% in 2020). Overdue accounts payable grew insignificantly – by 1.7%. Overdue indebtedness on credits and loans was much higher – an increase of 4%. Thus, in 2021, the number of loss-making farms dropped, however the overdue indebtedness of the rest increased.

## Export

According to the Federal Customs Service, Russian agricultural exports in 2021 hit the \$36.1 bn mark, exceeding the 2020 level by 21.3%. The growth was ensured by the high level of global prices: compared to 2020, the physical volume of exports in 2021 dropped by 5.4%.

A structural analysis of Russian agrarian exports (Table 1) suggests that the largest decrease in its physical volume (-12.1%) is observed for products of the grain industry. The expert community voices opinions on the significant negative impact of export restrictions on the volume of grain exports.<sup>1</sup> We do not fully agree with these estimates: calculations based on FAS USDA<sup>2</sup> data demonstrate that the ratio of exports of major types of grain to its production in Russia in the season 2020–2021 is at 38.7–38.9% against 37.7% in the “pre-pandemic” season 2019–2020. That is, the drop in exports is caused by the smaller size of the current harvest (-9% to the 2020 harvest). Obviously, government measures to restrict exports do not significantly change the proportions of exports/production, however they restrain domestic prices, resulting in limited income for agricultural producers.

A 6.1% drop in the physical volume of exports of products of the fats-and-oil industry is owing to fluctuations in the size of the sunflower harvest – the raw material for the production of the main export product of the industry, sunflower oil. Export in 2020 reflected the results of processing of the then record 2019 harvest. A decline in sunflower seeds harvest in 2020 led to the marked reduction in 2021 oil exports, with the size of the 2021 harvest. The size

1 URL: <https://www.agroinvestor.ru/analytics/news/37552-gosduma-rekomendovala-pravitelstvu-otmenit-poshlinu-na-eksport-zerna/>

2 URL: <https://apps.fas.usda.gov/psdonline>

### 3. Agriculture: the results of the second year of the pandemic

Table 1

Structure and dynamics of Russian agricultural exports in 2021

Commodity groups	Specific weight, %			2021 on 2020, %		
	2020	2021	2021 in 2020 prices	Total	As affected	
					prices	Quantity
Total	100.0	100.0	100.0	121.3	128.3	94.6
Fat-and-oil industry	16.5	20.1	16.4	147.5	157.2	93.9
Grain industry	33.9	31.5	31.5	112.6	128.1	87.9
Fish and seafood	15.9	16.5	16.4	126.0	128.6	98.0
Meat and dairy products	3.7	3.8	4.1	122.0	117.6	103.7
Food and processing industry	15.0	14.3	16.9	115.8	108.9	106.3
Other products	15.0	13.9	14.7	112.9	121.6	92.8

Source: own calculations of FCS.

of the 2021 harvest (+17.6% compared to 2020) suggests that the year 2022 will see a recovery and growth in oilseed exports.

Export restrictions probably contributed to the reduction in the physical volume of exports of other agro-industrial products. Export of sunflower, rapeseed and soybean seeds, which in 2020 accounted for 30.6% of exports in this commodity group, decreased notably after the introduction of restrictions: for sunflower – by 93.3%, for soybeans – by 28.4%, and for rapeseed – by 61.2%.

There was an increase in exports of food and processing industry products and meat and dairy products in both monetary and physical terms. This is a positive trend: the share of products of medium and upper redistribution in agricultural exports is growing. However, the volumes of export of these commodity groups remain insignificant and exert little influence on the aggregate development of agro-industrial complex exports (*Fig. 2*). The export potential of these products is quite considerable but there are many small and microenterprises among the producers. And they need support in establishing links for exports.

Thus, a decrease in the physical volume of exports is not evidence of problems in agriculture, for which exports in recent years have been one of the main factors of development. However, the exports dynamic once again raises questions about the validity of the target values of the federal project “Export of Agricultural Products” and assessment of the effectiveness of its implementation. According to the project data sheet, growth of exports in comparable prices in 2021 should have amounted to 12% (from \$ 25 to \$ 28bn). Based on the above indicators, we can say that this goal was short of the target.

Average prices of Russian agrarian exports rose both under the influence of a general rise in food prices and owing to changes in the structure of exported goods – an increase in the share of goods with a higher price per unit (ton) of output (*Fig. 3*). Such a trend is noted for the food and processing industry (which is largely due to a decline in exports of sugar, the price of which is lower than the average for the group), other agricultural products (reduction in exports of oilseeds), fish and seafood.

#### Risk of rising prices of agricultural products

The rise in prices on the world market has affected not only food products, but also the resources necessary for their production. To assess the risk of

## Monitoring of Russia's Economic Outlook

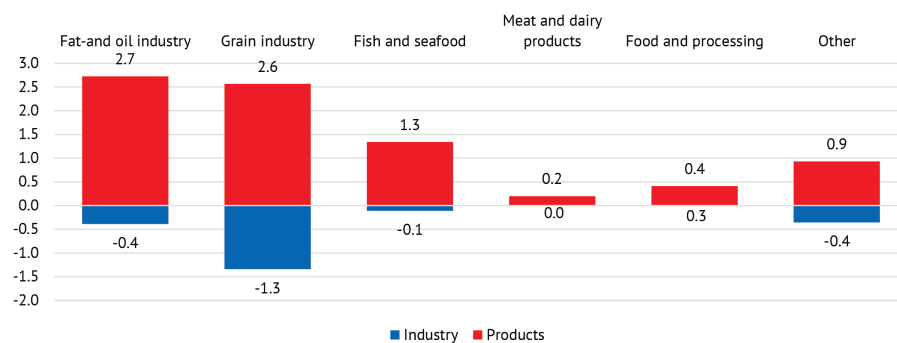


Fig. 2. Contribution of factors to the growth of Russian agrarian exports in 2021 relative to 2020, USD bn

Source: own calculations on FCS data

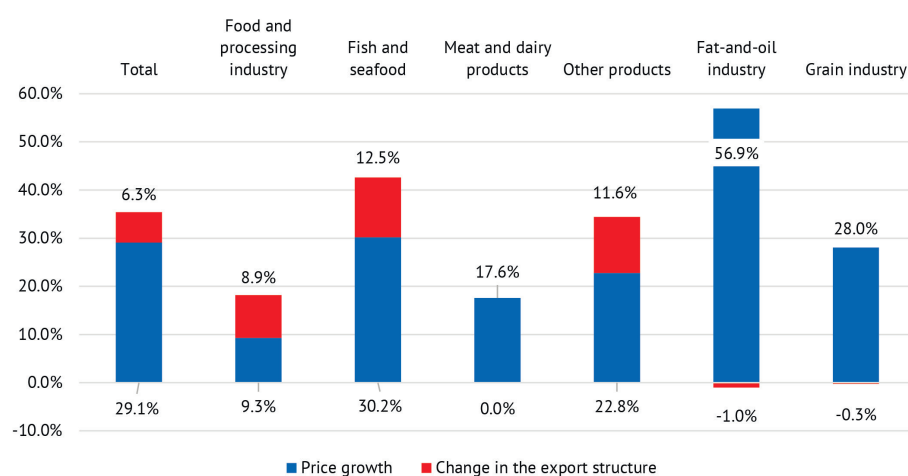


Fig. 3. Factors of formation of the average price for exported agricultural products in Russia in 2021 relative to 2020

Source: own calculations on FCS data.

rising prices for agricultural products we can focus on the cost structure of agricultural producers. The significant dependence of individual cost items on prices for imported or exported resources demonstrates that producers' costs may fluctuate both with changes in prices on foreign markets and under the influence of ruble exchange rate movements. In Table 2, the resources that are largely imported are marked in green, and the resources that are exported are marked in yellow.


Table 2

Structure of the cost of production of wheat and sugar beet, %

Cost element	Wheat	Sugar beet
Labor compensation	12.5	10.6
Seeds	9.2	15.7
Mineral fertilizers	14.5	14.4
Organic fertilizers	0.4	1.0
Plant-protecting agents	9.2	7.8
Petroleum products	10.5	8.7
Spare parts	10.5	9.5
Other	33.2	33.3

Source: consolidated report on agricultural support, 2020

### 3. Agriculture: the results of the second year of the pandemic

High dependence on external market prices and ruble exchange rate fluctuations require discussion of measures that could be taken by the government as part of the rejection of directive restrictions on retail prices. Such measures, guided by international experience, could be the rejection of high duties on modern plant protection products, reduction/rejection of excise taxes on fuel for agricultural producers, the introduction of a mechanism to protect the domestic market for exported resources<sup>1</sup>. 

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1 URL: <https://www.agribusinessglobal.com/plant-health/npk/china-expected-to-stop-phosphate-exports-food-production-prices-set-to-rise/>



## 4. ADMISSION TO RUSSIAN UNIVERSITIES IN 2021

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*Admission to universities financed from the federal budget increased in 2021. This was partly due to social reasons, thus, for instance, the intention to support the population in the period of coronacrisis. The growth was primarily typical of the state higher educational institutions, while private ones evidenced a decrease in the number of students admitted to budget-funded places. At the same time, there was a redistribution of budget admission in favor of regional universities.*

### Growth of budget admission

Budget admission to public universities in 2021 increased by 31.855 students, including those admitted for the first year of the bachelor's, specialist's and master's degree in all forms of education. Moreover, budget admission to private universities<sup>1</sup> in 2021 decreased by 416 people, amounting to 2.613 students against 3.029 a year earlier.

The growth of budget admission to public universities was due to the following reasons. Firstly, it was the continuation of the 2020 approach, when an increase in the admission quotas (AQ) was considered as one of the measures of social support of the population amid the pandemic and uncertainty in the labor market. Secondly, due to demographic reasons, there has been an increase in the number of the eleventh-graders in recent years and therefore, growth in budget admission should ensure the share of the budgetary contingent in public universities. Thirdly, budget-funded admission is being redistributed between the regions, and its increase is a way of doing no harm to those regions and universities where they have most of the budget places. As a result, in 2021 admission financed from the federal budget was reduced in 20 subjects of the Russian Federation, while it increased in 63 (in two regions: the Yamalo-Nenets autonomous national area and the Nenets autonomous national area there was no increase). Fourthly, growth of budget admission to universities signifies a certain reduction in the flow of eleventh-graders to the organizations of secondary vocational education, which turned out to be heavily overloaded.

The increase in the admission quotas primarily benefited the Novgorod and Moscow regions with a growth of more than 52%. This is due to the desire to reduce the flow of applicants seeking to enter budget-funded places at universities in Moscow and St. Petersburg. However, in Novgorod region budget-funded admission increased by 465 students compared to only 154 in Moscow region. Admission at the expense of the federal budget increased by 40.3% in

<sup>1</sup> Private as well as public universities, receive admission quotas (budget funded places) based on annual competition held by RF Ministry of Education and Science aimed to distribute admission quotas.

#### 4. Admission to Russian universities in 2021

the Republic of Mari El: here the increase in budget-funded places was quite significant: 1.339 students. At the same time, there are only two large public universities and two branches of large public higher education institutions in this Republic: Mari State University and Volga State Technological University, Volga branch of Kazan National Research Technological University and Volga branch of Kazan National Research Technical University named after A.N. Tupolev-KAI. Moreover, admission at the expense of the federal budget slightly increased in the Republic of Mordovia (by 7.8%) and fell in the Republic of Chuvashia (by 2.8%), which are geographically close to the Republic of Mari El.

The budget admission increased by 36.8% (by 32 students) in the Lipetsk Region, but on the whole, it remains small – only 119 students. Apparently, these state-funded students will work for Novolipetsk Metallurgical Plant and the region's social sphere.

There has been an almost one-third increase in admission at the expense of the federal budget in the Belgorod region, where a world-class agricultural research and education center (REC) is being developed. Apparently, the promotion of the development of this REC is the reason for the growth of budget admission in this subject of the Russian Federation. At the same time, in Kemerovo Region, where REC has also been established, the budget admission increased by only 3.5%. It can be assumed that this difference in the encouragement of the development of scientific and educational centers is due to the increase in budget admission already in 2020 by public universities in Kemerovo region, while it was very small in Belgorod region in 2020.

In one of the largest university centers of the country in the Tomsk region, the admission financed from the federal budget increased by 21.6% or by 2.149 students. Two other leading university centers of the country, Moscow and St. Petersburg, increased budget admission, however, insignificantly: by 4 and 2% respectively (by 3.199 and 875 students). At the same time, in Moscow and St. Petersburg admission at the expense of regional budgets increased: in Moscow it was not very significant: by 4.6%, but in St. Petersburg it was quite noticeable: by 61.7%

The budget admission to the public universities of the Jewish Autonomous Region increased by 98 students or 35.8%. This was largely a compensation, though not to the full extent, for its significant reduction in 2020, when it decreased by 125 students.

Growth of the indicator under consideration in the Tyumen region amounted to 14.2% and 11.3% in the Khabarovsk Krai.

There was a significant decline in admission at the expense of the federal budget to public universities in the Vladimir Region: by 14.4% (by 411 students), the Republic of Karachay-Cherkessia – by 14.9% (by 184 students), the Kostroma Region – by 8.5% (by 143 students), the Pskov Region – by 11.5% (by 197 students), the Republic of Adygea – by 17.6% (by 335 students). As can be assumed, these reductions of the indicator are mainly due to its growth in 2020, although in the Republic of Karachay-Cherkessia it has fallen for the second year in a row. At the same time, the average USE score among students admitted to budget-funded places has been falling in these regions, which may well have been the reason for refusing to increase budget-funded admission or for keeping it at the same level. For example, in the Vladimir region, the average (for all state universities) minimum score for USE in many fields of study has dropped below 40. The situation in the Republic of Karachay-Cherkessia is even more alarming.

As for paid education in the public universities, it fell by 1.2% on the whole in the Russian Federation, i.e. it was replaced by budget admission. However, in many regions paid admission increased, sometimes significantly. In the Amur and Astrakhan regions, its growth exceeded 30%; in Vladimir region it was 9.5%, 16% in Kaliningrad region, 12.6% in the highly subsidized Ivanovo region (while admission to public universities sponsored by federal budget fell there by 1.8%). The situation was similar in the Republic of Chuvashia, where paid admission increased by 16.6%, while budget-funded admission decreased by 2.8%.

Paid admission increased by 38.7% and 35.4% in the highly subsidized Tuva Republic and in the more prosperous but also subsidized Smolensk Region marked by a large share of low income households. In Khabarovsk Krai paid admission to state universities increased compared to a very significant growth of budget admission; this situation is based on a structural mismatch between the population's demand for training and specialties of higher education and the state's preferences.

### Structure of training in Bachelor's and Specialist's Degree

In terms of the personnel training structure, only 14.5% of students were admitted to the bachelor's degree program in "Economics" in 2021 at the expense of budgetary allocations vs overall admission (in public universities this indicator was 20.4% and 0.8% in private), while the rest will pay for their studies.

A similar or close situation is typical for "Management" (budget-funded admission accounts for 11.2% of total admission), "Jurisprudence" (11.5%), "Linguistics" (22.3%), "State and municipal administration" (9.8%), "Advertising and public relations" (11.6%), "Business informatics" (24.1%), "International relations" (23.9%), "Personnel management" (10.1%), "Psychology" (19.7%) and a number of others.

Admission at the expense of federal, regional and local budgets amounted to 48.6% of the total one in Specialist's Degree. The smallest number of state-funded admissions was for the specialties "Law Enforcement" (5.3%), "Economic Security" (6.4%), "Customs" (7.3%), "Legal Support of National Security" (8.3%), "Forensic Expertise" (13.7%) and "Dentistry" (16.2%).

Such specialties as "Special-purpose transport vehicles" (99.1%), "Musicology" (98.8%), "Chemical technology of energy-saturated materials and products" (98.5%), "Designing of aviation and rocket engines" (98.1%). (98.5%), "Design of aircraft and rocket engines" (98.1%), "Design, production and operation of missiles and space rocket systems" (98.1%), "Radio-electronic systems and systems" (98.0%) and a number of others, where the proportion of budget admission is over 90%, enjoyed the highest admission financed from the budget in 2021. On the one hand, the state invests as much as possible in training of engineering/technical personnel, as well as specialists whose training is extremely limited ("Musicology") on the other hand.

The budget admission at the average level of 50 to 65% in 2021 was for the specialties "Pharmacy" (50.7%), "Graphics" (51.4%), "Psychology of official business" (52.5%), "Medical biochemistry" (58.0%), "Railway operation" (59.1%), "Mining" (62.2%), "Veterinary" (63.9%).

Interestingly, the budget admission to the specialty "Fire guarding" is less than half, i.e. 46.2%, which is quite strange, since it seems that the state should be responsible for fire safety.

#### 4. Admission to Russian universities in 2021

The largest budgeted admission, 18,542, was in the 2021 in “Medical business”, while paid admission to this specialty was 19,472. This means that the population’s demand for medical specialties is quite high. However, it is not quite clear why the budgetary admission, although relatively large, is now less than half, while there is a shortage of doctors. 