MONITORING OF RUSSIA'S ECONOMIC OUTLOOK:

TRENDS AND CHALLENGES OF SOCIO-ECONOMIC DEVELOPMENT

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1. BALANCE OF PAYMENTS IN Q1 2023

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At the end of Q1 2023, the current account surplus shrank almost 4 times compared to Q1 2022 as a result of a reduction in the value of exports and sanctions restrictions. The financial account deficit was shaped influenced by the reduction of foreign liabilities of all sectors of the economy accompanied by a simultaneous growth of foreign assets. The reduction in the trade balance and drop of net sales of foreign currency by the largest exporters contributed to the ruble weakening in Q1 2023.

According to a preliminary assessment of the balance of payments of the Russian Federation published by the Bank of Russia, the current account balance in Q1 2023 constituted $18.6 bn, which is 3.8 times lower than in Q1 2022 ($69.8 bn) and 2 times lower than in Q4 2022 ($37.5 bn). Such a reduction goes beyond the influence of seasonal factors. Due to the lower detailing in the balance of payments of the Russian Federation published by the Bank of Russia compared to previous years, the structure of the current account can be described only in terms of three main balances: trade in goods, trade in services and balance of primary and secondary incomes.

The balance of trade in goods was $29 bn, which is 2.9 times less (by the absolute value by $54 bn) than in Q1 2022 ($83.0 bn). The decisive role in this decline was played by the reduction in the value of exports of goods from $154.5 bn in Q1 2022 to $100.8 bn in Q1 2022 (by 35%).

Such export dynamics is determined by the reduction of the physical volumes of supplies of the Russian products in January-March 2023 compared to pre-sanctioned Q1 2022 (despite the introduction of restrictive measures in February and March 2022, they began to be applied not earlier than April) and low prices on the basic goods of the Russian export (oil, oil products, grain, coal, ferrous and nonferrous metals).

The observed dynamics in the goods and services imports, namely weak growth from $71.5 bn in Q1 2022 to $71.8 bn in Q1 this year is very atypical for falling Russian GDP in Q1 2023 relative to the corresponding period of 2022. The stability of the imports of goods against the same period of the previous year can be explained by strengthening of the national currency: according to the Bank of Russia, growth in the index of the real ruble-to-dollar exchange rate in Q1 2023 relative to Q1 2022 reached 19.5%, which is a significant strengthening, meaning a relative cheapening of imports. The situation is quite different compared to Q4 2022: the reduction of imports by 13% (by $11 bn in absolute terms) is largely due to a 14% fall in the index of the real ruble-to-dollar exchange rate.[1]

The balance of trade in services in Q1 2023 was -$4.9 bn, which in absolute terms higher by 36% of the negative balance of trade in services in Q1 of the previous year. Notably, both exports and imports fell (by 34%, from $13.9 bn in Q1 of this year to $9.2 bn in Q1of 2022) and (by 19%, from $17.5 bn to $14.2 bn) respectively. Indeed, the balance of trade in services deteriorated due to a larger absolute decline in exports.

The balance of primary and secondary incomes changed significantly. It was -$5.5 bn in Q1 2023, down 43% in absolute value from the same figure in Q1 last year (-$9.6 bn). At the same time, both incomes receivable and payable dropped in Q1 2023. The incomes receivable dropped by $2.1 bn (from $12.6 bn to $10.5 bn) and income payable dropped by $6.2 bn (from $22.2 bn to $16 bn) compared to Q1 2022.

It can be expected that in the coming quarters, due to the continuation of capital flow restrictions, difficulties related to the repatriation of profits from Russia by foreign investors, the EU and U.S. restrictions for counterparties from these jurisdictions, the primary and the secondary incomes payable will not grow, and their balance will remain low. Imports in value terms are likely to remain stable due to the need to purchase critical investment and intermediate goods, as well as growth in the overall level of world prices. However, exports in value terms will reduce, because, on the one hand, physical volumes of supplies will decrease due to their incomplete reorientation from the markets of the EU, the U.S. and other "unfriendly" countries to neutral economies, and, on the other hand, prices for basic goods of Russian exports (oil, oil products, metals and grains) will be below 2022 levels.

Since the assessment of the balance of payments, starting from Q1 2022, is published by the Bank of Russia in an aggregated form, the financial account is represented by data on net external assets and liabilities of all sectors of the economy. Such a high level of aggregation makes it difficult to analyze the state of individual components of the financial account.

In Q1 2023, financial account of the balance of payments was shaped amid continuing severe sanctions against Russia, including partial freezing of international reserves, as well as restrictions on capital flows imposed by the Bank of Russia.

In Q1 2023, liabilities of all sectors of the Russian economy to non-residents decreased by $13.3 bn (-$34.6 bn in Q1 2022). The data on Russia's external debt as of Q1 2023 show a continuing reduction in the debt of all sectors of the economy. Thus, the volume of foreign debt of other sectors of the economy reduced by 6.6% to $225.1 bn compared to the beginning of 2023. Banks and the RF Central Bank reduced their external liabilities by 1% to $92.5 bn at Q1 2023 end. External debt of public administration bodies in Q1 2023 reduced by 12.7% to $40.2 bn.

While in the beginning of 2023 the share of non-residents on the OFZ market evidenced 11.1%, as of March 1, 2023 it dropped to 9.7%. It was predominantly caused by a decline in non-residents' portfolios (by 10.7%, to Rb1.78 trillion in

1 On the impact of exchange rate dynamics on trade ref. *A.Y. Knobel*. Estimation of the import demand function in Russia // Applied Econometrics. 2011. No.4 (24). P. 3–26; *A. Knobel, A. Firanchuk*. Russia in the world export in 2017 // Economic development of Russia. 2018. No.9. P. 17–21.

January-February 2023), resulting from the transfer of securities rights accounting of Russian issuers to the Russian accounting infrastructure, including OFZ.

Foreign assets in all sectors of the Russian Federation (excluding reserve assets) grew positively by $8.1 bn in Q1 2023 ($42.6 bn in Q1 2022).

The dynamics of the reserve assets in Q1 2023 was mainly explained by operations on the sale of foreign currency under new budget rule. From January 13 to the end of March 2023, the Bank of Russia on the instructions of the RF Ministry of Finance, sold yuan for the amount of Rb308 bn ($4.2 bn). This was due to the short-fall in oil and gas revenues by the budget compared to the baseline. As a result, reserve assets decreased by $5.1 bn (-$10.6 bn in Q1 2022).

It should be noted that on the whole, the implementation of the new budget rule contributes to smoothing the impact of shocks to the terms of trade on the foreign exchange market. At the same time, following the positive revaluation in Q1 2023, international reserves of the Russian Federation grew by 2% and reached $593.9 bn as of April 1, 2023.

In Q1 2023 the ruble experienced a significant weakening against the dollar reaching 9.6% (up to 77.1 ruble/dollar). This was primarily due to a significant decline in the trade surplus from $58.2 bn in Q4 2022 to $29.0 bn in Q1 of this year. However, high rate of the weaker ruble in March-April also indicates that the capital outflow from Russia has accelerated, which can be explained by the reduction of the net sales share of foreign currency by major exporters in the total volume of export (29.2% in Q1 2023 against 35% in Q4 2022).

At the same time, the reduction in the share of foreign currency sales may be because in the context of sanctions pressure companies engaged in foreign trade activities leave funds in accounts in foreign banks in order to facilitate payments.

In the future, the dynamics of the exchange rate will keep to be influenced primarily by the state of current account, as well as transactions for the sale of Russian assets by non-residents limited under capital controls. The key factors of the possible weaker ruble should include the withdrawal of non-residents from Russian assets, the risks of increased sanctions pressure on Russian exports, further growth of imports and a reduction in the trade balance.

According to our estimates, in the base case scenario with the Urals oil price at $50/barrel, the key rate in the range of 7–8% and maintenance of the current rate of capital outflow, the ruble exchange rate in the summer months could reach Rb90/dollar. If the rate of capital outflow slows down, the ruble will stabilize at the current oil prices at the level of Rb78–83/dollar. In the pessimistic scenario, a drop-in oil prices to $40/barrel, maintaining the current rate of capital outflows and the severity extent of monetary policy, the ruble exchange rate may approach the level of Rb100/dollar.

2. MICROFINANCE MARKET IN 2022

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The imposition of anti-Russian sanctions had almost no effect on the activities of microfinance organizations (MFOs) and despite the slowdown in the growth rate of the total portfolio and the growth of funding costs the profitability and net income of MFOs hit all-time high levels over the past few years. This year MFOs will face regulatory restrictions aimed at minimizing credit risks; adapting to the new conditions will stabilize the situation in the industry and balance the risk-income ratio.

The total volume of microloans in the past year reached the mark of Rb772 bn, which is 22.5% higher than in the previous year, however, the growth rate of disbursements decreased markedly compared to 2021. By the end of 2022, the total portfolio of microloans amounted to Rb365 bn, while the annual growth rate stood at 10.9%, which is considerably lower than the corresponding indicator for 2021 (the growth rate was 32.1% then).

In 2022, the net profit of microfinance organizations increased by 39% compared to the previous year and amounted to Rb41 bn, which is the highest indicator since 2018. The total revenue of MFOs in 2022 surged to Rb314 bn (an increase of 60% by 2021). ROE went up to 19% (a record level for the entire existence of the Russian microfinance market).

Quarterly net profit volumes grew throughout the year, peaking in Q4. Net profit growth was provided by both large participants (including the online segment) and small companies. Increased profitability of MFOs was accompanied by an increase in the share of income from sale of additional services: the share of MFOs income from non-core activities in 2022 rose to 17% (in 2021 – 13%). In particular, about 24% of MFOs received a significant part of income (more than 10%) from other activities, including commissions from the sale of additional services and products (different types of insurance, telemedicine, SMS-informing, expanded service package, etc.).

Debt service quality deteriorated starting from Q2 (a sharp increase in NPL 90+), further during the year it remained virtually unchanged. The share of NPL 90+ in the microloan portfolio increased by 5 p.p. last year – from 29.6% to 34.6%. In 2021, the growth of this indicator was only 0.7 p.p. It is also evidenced by the deteriorating quality of the loans, as well as a significant volume of the sold debt: in 2022, the amount of assignment was Rb57.6 bn, which is 89.0% more than in 2021 (Rb30.5 bn). The number of assignment agreements soared by 70.4% to Rb4.6 mn in 2022 against Rb2.7 mn in 2021.

The structure of the total portfolio of microloans during the year has not undergone significant changes: the largest share in the total volume of issued microloans belongs to PDL-online loans – 22.3% (an increase of 4 p.p. over the year), IL-online loans account for 19.9% (an increase of 5 p.p.), SME off-line loans – 19.1% (no change).[1]

The level of interest rates jumped in the past year. More than 70% of the volume of consumer loans in Q4 was issued in the 0.8–1% interest rate range (in 2021, the share of such loans was 56%) (*Fig. 1*), the share of contracts in this range reached 82% of the total number (in 2021 – 75%). The increase in the share of loans with high TIC (true interest cost) allowed MFOs to raise profit and profitability indicators, despite the growth in operating costs.

Over 40% of consumer loan originations are loans with an HDR (household debt ratio) – this share somewhat decreased against 2021 (47%) and remained flat throughout the year.

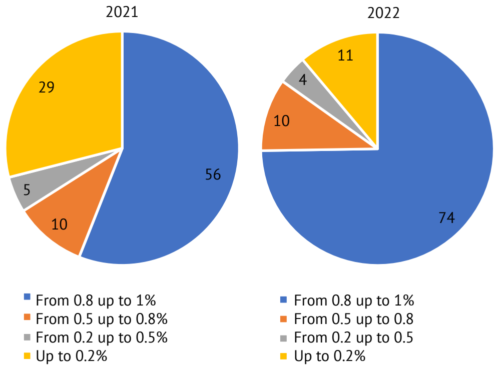

Fig. 1. Share of signed contracts in a certain interest rate range (by amount) in 2021–2022, %

Source: Bank of Russia website. Microfinance market trends in 2022. URL: https://www.cbr.ru/analytics/microfinance/mfo/mmt_2022/

During the year, the situation in the microfinance market largely depended on geopolitical and macroeconomic factors. In Q1 2022, the MFO market saw a decrease in the volume of originated loans. However, the drop-in disbursements had almost no effect on the volume of the portfolio – a simultaneous decline in debt repayment led to an increase in the share of overdue debt. Since May 2022, the microfinance market moved into the recovery phase followed by the implementation of pent-up demand: the volume of loans originated in Q3 soared by 25% compared with Q2. In Q4, the volume of loans dropped by 3% compared to Q3, which was due to the effect of the high base of the previous period.

Last year the digitalization of the microfinance market continued - more and more loans are issued through online channels. In 2022, the portfolio of online loans surged by 53%. In Q4 2022, 82% of all contracts were completed online (compared to 74% in Q4 2021) with some companies developing an online small business loan activity in 2022. The online segment is quite competitive and characterized by higher concentration: at the end of 2022, around 80% of the online market portfolio was accounted for by 25 companies.

Over the past year, the total volume of funds attracted by MFOs decreased by 22.4% – from Rb116 bn to Rb90 bn. During the year, the volume of attracted funds corresponded to the dynamics of issued loans: the decrease in activity in H1 2022 led to a sharp decline in the volume of attracted funds, in Q3, there was a 42.1% growth compared to the previous quarter, the volume of attracted funds in Q4 2022 compared to Q3 dropped by 8%. The decrease was mainly due to companies operating in the POS segment.[2] On the whole, the share of funds borrowed from credit institutions has decreased drastically (almost twofold, from 52.6% to 25.6%). In addition to the traditional sources of funding during 2022, 7 MFOs raised Rb1.3 bn by issuing and placing bonds, the total liabilities on outstanding bonds at the end of 2022 were 11 companies for a total of Rb12 bn.

The large technology companies are gradually becoming the backbone of the MFO market. Companies with a portfolio of over Rb1 bn form the bulk of profits

1 PDL – Pay Day Loans, IL – Installment Loan. SME – loans to small and medium-size enterprises.
2 POS – Point of Sale, type of consumer lending for the purchase of a specific product

in the MFO market: the MFO market is gradually becoming more concentrated and large companies find it easier to comply with changing economic environment and adapt their business models to new conditions. The established client base and the level of technological development allow such companies to timely restructure scoring models and product line to meet the needs of borrowers.

Collateral models of MFOs in the past year had a positive impact on the collateralization of loans. Some types of collateral, such as cars, increased in value, and as a result, the collateralization of the portfolio became larger. Although the share of collateralized loans does not exceed 2% of the total loan portfolio in 2022, the collateral segment is growing and taking share from both non-collateralized MFOs and lending institutions.

In general, the microfinance market is resilient to the current crisis risks, although a variety of negative phenomena were observed during the past year: an increase in the cost of attracting clients, a drop-in receipt, a decline in demand for loans. The resilience of the microfinance sector can be explained by various factors. Firstly, back in the pandemic, microfinance organizations restructured their business processes and customer interaction moved to the online environment, thereby reducing costs and creating a product line in line with the demand of the target audience. At the beginning of 2020, online loans accounted for less than 40%, in 2022 – about 70%. Secondly, MFOs are focused on one core product, which allows them to promptly manage risks and change assessment requirements without suspending their operations. Thirdly, MFOs offer a product that has no competitor in the alternative banking segment. Today, banks are aimed at larger amounts, longer terms and relatively low credit risk. Thus, MFOs actively continue to develop, attracting new audiences and maintaining a balance between growth of their business and risk.

However, the situation may worsen in 2023, depending on the pace and scale of maturing credit risks, which should not yet be ruled out due to the unpredictable external environment. Another factor of possible reduction of profitability of microfinance business is regulatory restrictions, which will inevitably increase in the current situation.

Since the beginning of 2023, measures were introduced in the MFO market to limit the growth of the Households' indebtedness. First of all, we are talking about macroprudential limits of the Central Bank in the form of quantitative restrictions on lending to borrowers with high HDR: in the structure of MFO loans to borrowers with over 80% HDR, according to new rules, should not account for more than 35% of all loans issued in a quarter (in Q4 2022 such loans amounted to more than 40%). Another measure was the introduction of a new law from July 1, 2023,[1] which will reduce the maximum cost of microloans: now the maximum daily rate cannot exceed 0.8% or 292% per annum (at present the maximum daily rate – 1%, or 365% per annum).

In this context, MFOs will expand their product and service lines, begin to actively implement upselling and will seek to compensate for the drop-in business margins by aggressively selling third-party products. If official players significantly reduce disbursement of funds, the number of shadows MFOs may grow. However, a significant drop in the volume of loans should not be expected, the need of citizens to borrow money will continue to grow.

1 Federal Law of 29.12.2022 No. 613-FZ "On Amendments to the Federal Law 'On Consumer Credit (loan)'".

3. THE PRELIMINARY RESULTS OF THE INTERNATIONAL MIGRATION OF THE POPULATION TO RUSSIA IN 2022

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In 2022, the indices of the registered migration growth in the population of Russia in the long-term international migration remained within the band of their usual values specific to the 2012–2019 period. Though arrivals from Russia's most traditional migration donors decreased in 2022 as compared with the previous year, growth in arrivals from Tajikistan made up completely for this decline. The number of participants in the Russian compatriot resettlement program decreased by nearly 14,000, however, the number of issued primary residence permits and temporary stay permits increased by 54,000 permits.

The statistics on the permanent (long-term) international migration of the population published by Rosstat takes into account permanent residence registration (and removal from registration) of migrants, as well as temporary registration of migrants for the period of 9 months or more. So, these data do not include migrants registered in Russia for the period of less than 9 months, as well as emigrants from the number of permanent residents of the Russian Federation who did not deregister on their own from the permanent registration.

In 2022, the number of registered arrivals in the international migration was equal to 685,000, slightly surpassing the 2021 level (668,000), but failed to achieve the pre-pandemic level seen in 2019 (696,000 arrivals). At the same time, in 2022 the number of registered arrivals from most CIS countries decreased as compared with the previous year, while that from Kirgizia remained almost unchanged (*Table 1*). Tajikistan facilitated growth in arrivals in Russia in the international migration (184,000 arrivals in 2022 against 127,000 in 2021).

The year 2022 saw 668,000 departures from Russia in the international migration, but it is infeasible to compare it with the indices of 2021. In H2 2021, the RF President's Decree,[1] which extended the deadlines for registration of foreign nationals in Russia (because of the consequences of the COVID-19 pandemic), was still in effect. For this reason, the automatic accounting of such departures took place as early as 2022, thus reducing artificially the number of departures in H2 2021 and increasing it in H1 2022 (*Table 1*). Accordingly, the indices of migration growth in the population of Russia were considerably higher than the actual ones in 2021 and much lower based on the results of 2022.

For the same reason, the indices of registered migration growth in the population of Russia in the permanent (long-term) international migration in 2022 cannot be compared with the relevant 2021 index. According to the real-time data, in 2022 registered migration growth in the population of Russia

1 Decree No.392 of June 15, 2020 of the RF President "On Temporary Measures Aimed at Regulating the Legal Status of Foreign Nationals and Stateless Persons in the Russian Federation in Connection with the Risk of the Further Spread of the New Coronavirus Infection (COVID-19)."

Table 1

The indices of the international migration of the population in Russia in 2021–2022, persons

	Arrivals		Departures		Migration gain	
	2022	2021	2022	2021	2022	2021
Overall, including:	685 407	667 922	668 257	238 020	17 150	429 902
Azerbaijan	30 566	35 209	35 473	11 550	-4 819	23 659
Armenia	58 661	70 078	70 200	24 843	-11 467	45 235
Belarus	17 225	23 120	18 983	7 696	-1 650	15 424
Kazakhstan	63 569	72 668	69 319	24 351	-5 689	48 317
Kirgizia	61 515	61 101	69 145	18 552	-7 567	42 549
Moldova	21 627	27 248	21 183	11 104	558	16 144
Tajikistan	183 783	126 840	99 265	30 231	84 806	96 609
Ukraine	118 799	122 669	121 555	58 000	-2 535	64 669
Uzbekistan	52 972	56 808	62 481	20 799	-9 406	36 009

Source: UISIS, Rosstat. Demographic indices. The number of arrivals, departures and migration gain. URL: https://www.fedstat.ru/organizations/

was slightly higher than 17,000 persons. In future, these data will be revised upwards owing to the fact that the latest census of the Russian population revealed more residents than the current population statistics did and the results of migration of the population during the previous intercensal years will be recalculated with the results of the census taken into account. For the sake of removal of the effect of transfer of registration of a large portion of departures from 2021 to 2022, it is possible to average the number of departures for both the years. In this case, the expected registered migration growth in the long-term migration of the population of Russia in 2021 and 2022 amounts to around 220,000-230,000 persons a year, which value is within the band of a usual migration gain specific to Russia in the past ten years (except 2020). The number of participants in the Russian compatriot resettlement program, these participants accounted for a considerable portion of migration growth in Russia's permanent population in the past few years, keeps falling. In 2019 the number of program participants was equal to 108,500 persons, however, it fell because of the pandemic to 62,000 participants[1] in 2020 and picked up partially to 78,500 participants in 2021. But in 2022 growth in the number of resettlement program participants came to a halt and even declined again (64,800 participants).[2] At the same time, in 2022 the number of temporary residence permits issued to foreigners in Russia increased by 20,000 permits as compared with 2021 (174,000 permits against 154,000 permits); the number of primary residence permits grew by 34,000 permits (286,000 permits against 252,000 permits a year ago).[3]

Overall, based on the results of 2022, the situation in Russia with the international migration registered as a long-term one can be characterized as

1 The summary of the main indicators of activities on the migration situation in the Russian Federation in January-December 2020. The RF Ministry of Internal Affairs. URL: https://мвд.рф/dejatelnost/statistics/migracionnaya/item/22689548/

2 The summary of the main indicators of activities on the migration situation in the Russian Federation in January-December 2022. The RF Ministry of Internal Affairs. URL: https://мвд.рф/dejatelnost/statistics/migracionnaya/item/35074904/

3 The summary of the main indicators of activities on the migration situation in the Russian Federation in January-December 2022. The RF Ministry of Internal Affairs. URL: https://мвд.рф/dejatelnost/statistics/migracionnaya/item/35074904/ (???Там же. Если на той же стр.)

relatively stable. Its overall indices do not differ much from those seen in 2021 and the past few pre-pandemic years. The internal distribution of the long-term international migration is most likely shifting towards natives of Tajikistan and, to a lesser extent, Kirgizia. Also, it cannot be ignored that a large portion of migrants is not accounted for in the long-term international migration. It happens because some migrants live actually in Russia for a long period of time, but have a registration for the period of less than 9 months, while others leave Russia without applying for a removal from permanent registration.