

MONITORING OF RUSSIA'S ECONOMIC OUTLOOK:

TRENDS AND CHALLENGES OF SOCIO-ECONOMIC DEVELOPMENT

No. 10(133) June 2021

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Monitoring of Russia's Economic Outlook

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1. THE INDUSTRIAL PRODUCTION DYNAMIC IN MARCH-APRIL 2021¹

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In March-April 2021, the OPEC+ agreement continued to restrain growth in the extractive sector. Nevertheless, the trend component in the production dynamic demonstrated a positive trend on the back of an increased demand for coal and gas in the European and Asian markets. The trend component of production in the manufacturing sector also grew mainly owing to the increase in world prices for products from industries that take a significant share in the production structure (woodworking, metallurgy, chemistry). The current trends raise concerns about the potential acceleration of inflation.

For the correct interpretation of the existing trends in individual industries, it is necessary to decompose their output into components: calendar, seasonal, irregular and trend components;² the interpretation of the latter is of substantial interest.³ Experts of the Gaidar Institute conducted seasonal and calendar adjustment of the series of indexes of all industrial production sectors for 2003–2021 and identified the trend component⁴ on the basis of current statistics published by Rosstat on production indexes in industrial sectors of the economy.

The findings of processing the series for the industrial production index as a whole are shown in *Fig. 1*. *Fig. 2* exhibits the findings of the aggregated indexes of the extractive sector, the manufacturing sector, and the production of electricity, gas, and water supply. For the remaining series, the decomposition findings are presented in *Table 1*.

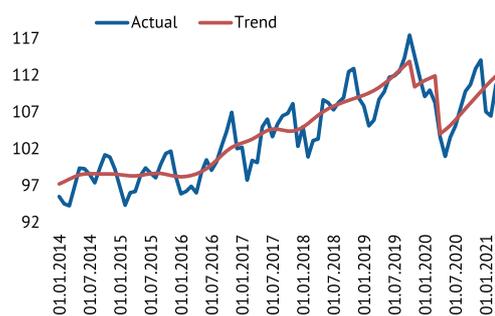


Fig. 1. Dynamic of the industrial production index in 2014 – January-April 2021 (actual data and the trend component), in % to average annual value 2016

Sources: Rosstat, own calculations.

1 The authors express gratitude to M. Turuntseva and T. Gorshkova for assistance in carrying out the statistical analysis.

2 “Trend component” is a well-established term used in literature, but it should be noted that this component is not a “trend” in the strict sense used in econometrics when analyzing time series: in this case, it is the remainder of the filtering out calendar, seasonal and irregular components. It is incorrect to use the “trend component” to predict time series (for most industrial production indexes, it is non-stationary in levels and stationary in differences), but it can be used to interpret short-term dynamic and compare it with past events.

3 The impact of measures limiting the spread of coronavirus infection, in particular, the introduction of a non-working days regime at the end of April 2020, is contained in an irregular component.

4 The trend component was identified using the Demetra package with application of the X12-ARIMA procedure.

In early¹ 2021, the OPEC+ agreement and the deterioration of the epidemiological situation were key factors that had an adverse impact on the industry, which demonstrated near-zero growth rates.

In March-April 2021, the dynamic of the trend component of production of the extractive sector demonstrated slow growth mainly due to the gas and coal industries. The factors that have a positive impact on this trend component remained the same as at the beginning of the year: an increase in external demand from Asian countries for Russian coal amid the ban on coal imports to China from Australia; an increase in external demand from European countries for gas against the backdrop of weather conditions; an increase in external demand from European countries for coal due to a sharp increase in gas prices. The OPEC+ deal² had a negative impact on the trend component, despite the gradual easing of oil production quotas. Preventive maintenance work on infrastructure facilities in the oil and gas industry also made a negative contribution.

The trend component of the manufacturing sector in March-April 2021 continued to demonstrate near-zero growth rates and a positive contribution to its dynamic was made by:

- light industry on the back of the shift in consumer demand to a lower price segment resulting from a decrease in incomes of the population;
- wood processing driven by the increase in world prices for woodworking products, along with increased demand for housing on the back of low mortgage rates and the introduction of preferential mortgages, led to an acceleration in the production of lumber, slabs and furniture;
- production of petroleum products driven by increased domestic demand on the back of growing travel;
- chemical industry driven by the growth of domestic demand; external demand for chemical and mineral fertilizers fueled by the increase in world prices for fertilizers; wing to the continued growth in the production of medicines and materials used for medical purposes;
- metallurgy driven by the growth of export supplies resulting from the increase in world prices for metallurgical products;
- mechanical engineering driven by the production of passenger cars, the demand for which on the back of the continuing shortage (including due to the lack of imported components - electronics) continues to grow.³

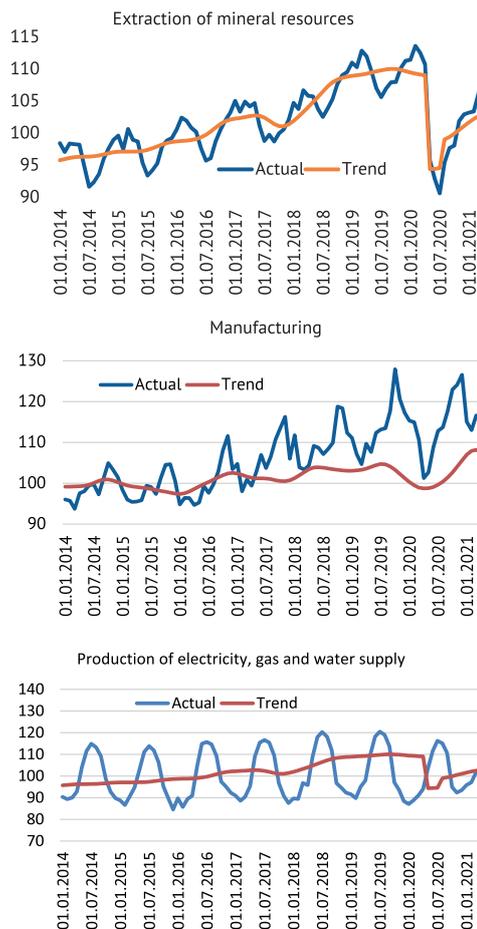


Fig. 2. Dynamic of industrial production index by industry in 2014 – January-April 2021 (actual data and the trend component), in % to annual average value 2016

Sources: Rosstat, own calculations.

1 Kaukin A.S., Miller E.M. The industrial production dynamic in January-February 2021 // Russian Economic Developments. 2021. No. 4 (28). P. 10–14.

2 The quota for oil production in Russia in January-March 2021 was increased as an exception (the total quota remained unchanged), from April 2021, the easing of the terms of the deal continued for all OPEC+ participants.

3 Sales of new automobiles in Russia increased in April by nearly 4-fold. // Vedomosti. 12.05.2021. URL: <https://www.vedomosti.ru/auto/news/2021/05/12/869349-prodazhi-novih-avtomobilei-rossii-virosli>

1. The industrial production dynamic in March-April 2021

Table 1

Change in the output index by industry, %

Industry	Share in industrial production index, %	April 2021 on December 2020, %	April 2021 on April 2020, %	Change within past few months
Industrial production index		102.47	108.09	Growth
Extraction of natural resources	34.54	101.87	94.47	Slow growth
Manufacturing industry, including	54.91	102.02	109.11	Stagnation
Production of food, including beverages and tobacco	16.34	105.12	113.07	Growth
Textile and sewing industry	1.14	105.40	121.79	Growth
Manufacture of leather, leather products and footwear	0.27	102.70	98.90	Growth
Woodworking and manufacture of wood articles	2.02	101.95	106.83	Growth
Pulp and paper industry	3.35	94.46	83.38	Recession
Coke and petrochemicals production	17.25	103.13	105.93	Growth
Chemical production	7.56	102.76	113.51	Growth
Manufacture of rubber and plastic articles	2.14	101.29	109.27	Slow growth
Manufacture of other non-metal mineral products	4.02	100.58	102.01	Stagnation
Metallurgical production and manufacture of fabricated metal products	17.42	105.17	115.60	Growth
Manufacturing of machinery and equipment	6.97	108.71	119.23	Growth
Manufacture of electrical and optical equipment	6.27	99.56	108.97	Slow recession
Manufacture of transport vehicles and equipment	6.75	109.11	132.36	Growth
Other industries	2.42	102.19	113.60	Stagnation
Electricity, gas and water	13.51	101.72	94.28	Slow growth
Wholesale trade		101.39	104.99	Slow growth
Retail sales		99.44	97.14	Stagnation
Freight turnover		100.84	104.15	Stagnation
Construction		98.12	99.82	Slow recession
Volumes of paid services for the population		101.38	101.44	Slow recession

Sources: Rosstat, own calculations.

The trend component of paid services to the population has maintained a negative trend. The dynamic of the trend component of cargo turnover exhibited near-zero rates due to the growth of export supplies of fuel and energy minerals, fertilizers and metallurgical products. Wholesale and retail trade grew slowly in March-April 2021, mainly owing to increased sales of chemical fertilizers, woodworking products and motor vehicles.

The output growth in certain industrial sectors and prices for their products observed in March-April 2021 (caused by a significant increase in world prices in the metallurgical, chemical and petrochemical industries), coupled with a gradual recovery of the labor market, can contribute to a potential acceleration of inflation. Rising prices for products of metallurgical, chemical and petrochemical industries will trigger price increases in related segments of the Russian economy, and a rapid recovery in the labor market may lead to higher wages, which will put additional pressure on inflation in the consumer segment. ▀

2. THE FEDERAL BUDGET EXECUTION FOR 3 MONTHS OF 2021

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At the period-end of January-March 2021, the federal budget surplus was less than in the pre-crisis Q1 2020. After 2020, the budget system recorded an increase in public debt servicing costs driven by a large-scale borrowing and the accumulation of losses by enterprises, which carry forward will limit the corporate income tax revenues.

According to the operational data of the Russian Finance Ministry, the federal budget revenues for January-March 2021 gained 1.7 p.p. of GDP (with a low base) compared to the first three months of the previous year to 20.8% of GDP (Table 1). The cash execution of the federal budget went up significantly – 28.2% against 23.0% in Q1 2020. However, the volume of oil and gas revenues in Q1 2021, the cash execution of which exceeds the average quarterly rate of projected revenues (27%), still lags behind the level seen in Q1 2020 for Mineral extraction tax (MET) by Rb120.9 bn and for export customs duties by Rb27.5 bn. As a result, the volume of basic and additional oil and gas revenues did not reach the level of Q1 2020: with an average oil price for 3 months of 2021 of \$59.8 bbl basic and additional volumes of oil and gas revenues for January-March 2021 amounted to Rb1,378.0 bn and Rb240.2 bn, compared to the corresponding figures for the 3 months of the previous year: \$48.2 bbl, Rb1,217.9 bn and Rb570.0 bn.¹

The federal budget non-oil and gas revenues for 3 months of 2021 increased by Rb716.3 bn compared to 3 months of the previous year, while the cash execution of the annual revenue plan accelerated to 28.8% against 22.5% – mainly due to domestic and import VAT by Rb303.7 and Rb170.6 bn, respectively. This growth is owing to the fact that sales turnover in Q4 2020 gained 3.8% in nominal terms compared to Q4 2019.

According to the period-end of January-March of 2021, the dynamics of income tax and internal excise taxes in relation to the 3 months of 2020 stays negative and amounts to Rb64.1 and Rb3.2 bn. The decrease in income tax revenues occurred in the wake of the earnings growth of profit-making enterprises in Q4 2020 (Rb5.8 trillion) compared to the same period in 2019 (Rb4.6 trillion). The fact is that the earnings growth was observed mainly in industries with special tax regimes – agriculture, trade in certain goods, while in other industries there was a decrease in earnings.

¹ With the adjustment for excise reimbursement.

2. The federal budget execution for 3 months of 2021

Table 1

The main parameters of the federal budget over January-March 2020 and 2021

	January-March 2020			January-March 2021			Deviation, 2021 to 2020	
	Rb bn	% GDP	Cash execution, %	Rb bn	% GDP	Cash execution, %	Rb bn	p.p. GDP
Revenue, including:	4 731.3	19.1	23.0	5 299.2	20.8	28.2	567.9	1.7
Oil and gas, including:	1 828.7	7.4	24.3	1 680.3	6.6	27.0	-148.4	-0.8
MET	1 427.9	5.8	23.9	1 307.0	5.1	21.8	-120.9	-0.7
export duties	400.8	1.6	23.2	373.3	1.5	29.9	-27.5	-0.1
Non-oil and gas revenues, including:	2 902.6	11.7	22.5	3 618.9	14.2	28.8	716.3	2.5
corporate income tax	327.6	1.3	26.9	263.5	1.0	22.0	-64.1	-0.3
VAT on goods sold in RF	1 116.2	4.5	24.5	1 419.9	5.6	31.7	303.7	1.1
VAT on goods imported to RF	614.4	2.5	20.3	785.0	3.1	25.3	170.6	0.6
excises on goods sold in RF	114.8	0.5	20.6	111.6	0.4	22.8	-3.2	-0.1
import customs duties	155.6	0.6	23.0	190.1	0.7	26.5	34.5	0.1
other revenues	574.0	2.3	22.2	848.8	3.4	37.8	274.8	1.1
Expenditure, including:	4 617.9	18.7	22.1	5 091.1	20.0	22.7	473.2	1.3
interest	171.4	0.7	19.1	238.5	0.9	19.8	67.1	0.2
non-interest	4 446.5	18.0	24.2	4 852.6	19.1	23.9	406.1	1.1
Surplus (deficit) of budget	113.4	0.4		208.1	0.8		94.7	0.4
Non-oil and gas deficit	-1 715.3	-7.0		-1 472.2	-5.8		243.1	1.2
<i>GDP (in current prices), Rb bn</i>	24 757			25 500				

Sources: Ministry of Finance, Federal treasury, own calculations, GDP for Q1 2021 – own estimates.

Table 2

The federal budget expenditure over January-March 2020 and 2021

	January-March 2020			January-March 2021			Deviation, 2021 to 2020	
	Rb bn	% GDP	Cash execution, %	Rb bn	% GDP	Cash execution, %	Rb bn	p.p. GDP
Expenditure total, including:	4 617.9	18.7	22.1	5 091.1	20.0	22.7	473.2	1.3
Nationwide Issues	282.9	1.1	16.2	379.9	1.5	18.9	97.0	0.4
National Defense	860.7	3.5	25.9	947.5	3.7	29.4	86.8	0.2
National Security and Law Enforcement	436.1	1.8	17.4	474.4	1.9	19.6	38.3	0.1
National Economy	361.0	1.5	12.4	409.8	1.6	12.1	48.8	0.1
Housing and Utilities	92.3	0.4	29.7	183.7	0.7	46.5	91.4	0.3
Environmental Protection	84.9	0.3	23.7	102.0	0.4	30.2	17.1	0.1
Education	200.0	0.8	19.3	236.3	0.9	20.9	36.3	0.1
Culture and Cinematography	29.0	0.1	19.1	30.3	0.1	21.1	1.3	0.0
Healthcare	385.9	1.6	33.8	237.3	0.9	19.5	-148.6	-0.7
Social Policy	1 417.4	5.7	27.4	1 614.4	6.3	28.2	197.0	0.6
Physical Culture and Sports	9.4	0.0	11.9	9.4	0.0	12.6	0.0	0.0
Mass Media	17.8	0.1	18.7	5.4	0.0	5.2	-12.4	-0.1
Public Debt Servicing	171.4	0.7	19.1	238.5	0.9	19.8	67.1	0.2
Intergovernmental fiscal transfers	269.0	1.1	24.7	222.0	0.9	20.6	- 47.0	-0.2

Sources: Finance Ministry of Russia (operational data), Federal Treasury, own calculations.

The increase in the federal budget non-tax revenues for the period under review by Rb465.6 bn¹ occurred mainly due to non-repayable receipts to the tune of Rb229.6 bn and revenues from fines, sanctions and damage compensation in the amount of Rb148.1 bn.

The federal budget expenditure in Q1 2021, compared to the same pre-crisis period of the previous year, gained 1.3 p.p. of GDP, or 10.2% in nominal terms, with a comparable level of cash execution (*Table 2*).

The increase in federal budget expenditures recorded in Q1 2021 compared to Q1 2020, both in nominal and absolute terms, is mainly driven by the accelerated disbursement of funds for certain subsections of the functional classification of expenditure. Percentage of cash execution from the annual approved volumes: for social security of the population (41.2%) of the section "Social Policy" (an increase of 0.6 p.p. of GDP); for international relations and international cooperation (52.7%) of the section "Nationwide Issues" (an increase of 0.4 p.p. of GDP); for housing (75.7%) of the section "Housing and Utilities".

A significant decrease in expenditure under the Healthcare section by 0.7 p.p. of GDP, or by Rb158.6 bn, is due to a reduction in the volume of funding under the subsection "Other issues in the field of healthcare". Regarding the remaining sections, there are no significant deviations in the dynamic of the expenditure part of the federal budget for Q1 2021 compared to the same period in 2020 in absolute and nominal terms.

The federal budget surplus in January-March 2021 amounted to Rb208.1 bn, which is almost twice as much as last year's level (Rb113.4 bn for 3 months of 2020). The non-oil and gas deficit dropped by Rb243.1 bn to Rb1,472.2 bn, which indicates some improvement in the situation with the medium-term sustainability of the federal budget.

As for the cash flows as a source of covering the budget deficit, their raising on the domestic market takes place in the "planned" order: Rb739.4 bn were mobilized, which is equivalent to 1/5 of the annual borrowing plan. As a result, the volume of state domestic debt increased by Rb683.0 bn in January-March 2021, reaching Rb15.8 trillion by April 1. At the same time, the volume of funds of the National Welfare Fund in ruble equivalent also demonstrated an uptick in the first 3 months of this year (by Rb256.4 bn) and as of April 1, 2021 amounted to Rb13.8 trillion.

The Ministry of Finance of the Russian Federation did not make any placements on the foreign market over the period under review.

The dynamic of the main parameters of the federal budget for Q1 2021 indicates the stabilization of public finances in the context of the pandemic that has not yet ended and the associated restrictions. In addition, in 2020, the Russian economy has amassed problems that can adversely affect the balance of the federal budget in the future. The fact is that carry forward of losses recorded at the end of 2020 will put pressure on the amount of corporate income tax due to the budget system in the current and subsequent years, and the record amount of borrowing during 2020 (Rb5.2 trillion) is inevitably realized in a fairly short and noticeable increase in the cost of the public debt servicing. In particular, it can be seen that spending on the public debt servicing by the federal budget increased from 0.7 p.p. of GDP in Q1 2020 to 0.9 p.p. of GDP in Q1 2021. 

1 Minus receipts from import excises, which grew by Rb 7.6 bn.

3. CORPORATE LENDING IN JANUARY-APRIL 2021

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Once the Bank of Russia lifted regulatory easing related to the pandemic, the quality of corporate loan portfolios of Russian banks did not deteriorate: the average level of past due debt remains stable and at a low level; the growth rate of corporate lending corresponds to the 2020 values; the interest rates dynamic is moderately volatile. At the same time, the increase in banks' risk appetite in the context of economic recovery requires increased attention of the regulator to the quality of the bank's corporate portfolio and the adequacy of risk accounting. Accumulated credit risks can become a source of problems for the banking system in the event of destabilization of the economic situation in the wake of epidemiological, political and other factors.

As of May 1, 2021, the total corporate debt before Russian banks hit Rb46.9 trillion. The growth of the corporate portfolio in the first four months of this year amounted to Rb3 trillion, or 6.8%, which exceeds the growth of total bank assets (5.5%). A year earlier, the corporate loan portfolio of Russian banks for the same period also rose by Rb3 trillion, or 7.8%, to Rb39 trillion. Thus, the growth rate of corporate lending relative to the beginning of 2020 remained unchanged.

The corporate loan portfolio denominated in rubles has grown by 7.5% since early 2021 and amounts to Rb35.6 trillion, or 74.6% of the total corporate debt. A year earlier, the growth of the ruble portfolio stood at 6.1%, and its share in the total loan portfolio was approximately at the same level – 74%. The foreign exchange portfolio has grown by 4.6% this year, and last year a more significant rise of 13.8% was ensured by the ruble's depreciation.

Despite the increase in lending volumes, in Q1 2021, a decrease in the number of bank borrowers was recorded (*Fig. 1*). Thus, banks get rid of troubled borrowers as they complete soft-window facilities where the state acted as a guarantor for the loan; in the meantime, there is a decrease in demand from enterprises for loans at higher market rates.

Starting with April 1, 2021, the central bank has canceled part of the anti-crisis measures introduced in March last year. During the previous 12 months, banks were able not to temporarily worsen the assessment of the credit standing of their clients and not to classify the loans originated as lower in quality where the borrowers' financial problems were due to the pandemic and the introduction of restrictive measures. After the lifting of these easing requirements, lending institutions are again required to reflect in the reserves the real quality of loans issued to legal entities that were restructured during the pandemic, and to set up additional reserves in a situation of high credit risks.

Monitoring of Russia's Economic Outlook

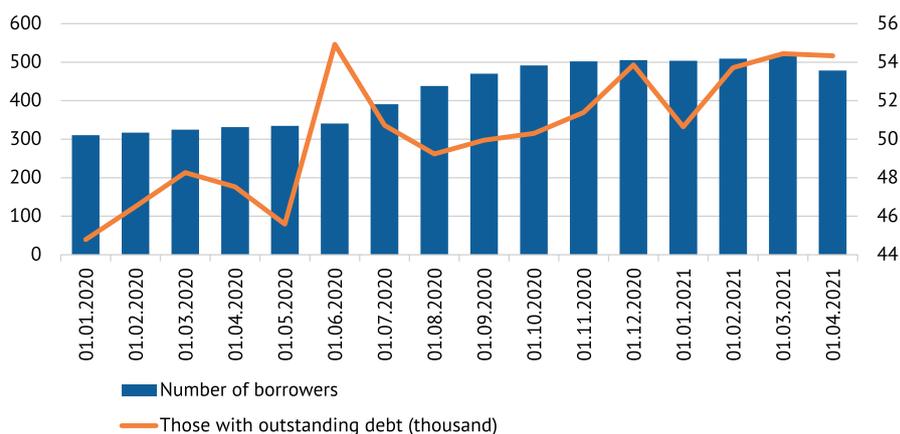


Fig. 1. Number of legal entities-residents and individual entrepreneurs in debt (including outstanding debt) in 2020–2021

Source: "Information of the number of borrowers and issued loans" (Internet version) / Bank of Russia. URL: http://www.cbr.ru/statistics/bank_sector/sors/

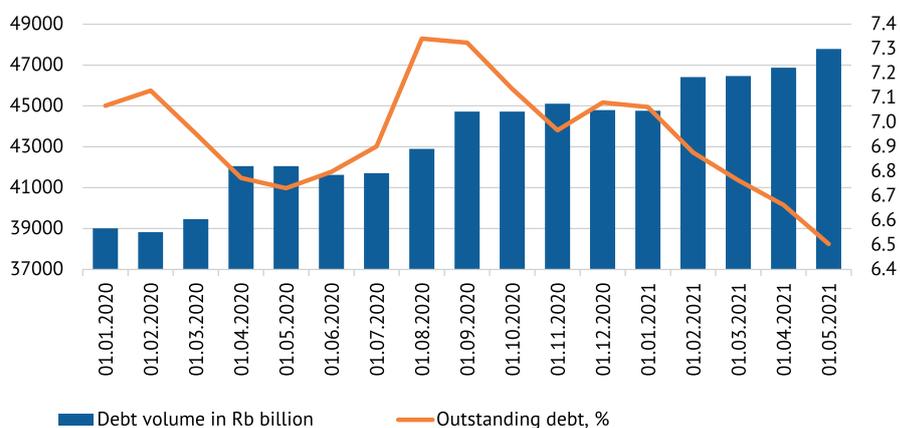


Fig. 2. Corporate lending dynamic in 2020–2021

Source: "Information of the number of borrowers and issued loans" (Internet version) / Bank of Russia. URL: https://cbr.ru/banking_sector/statistics/

In general, the majority of Russian banks adequately assessed the risks of their clients, without abusing the Central Bank of the Russian Federation's easing, which allowed avoiding possible difficulties associated with their lifting. According to the financial statements as of May 1, 2021, the level of outstanding corporate loan debt amounted to Rb3.1 trillion, an increase of Rb351 bn, or 12.7%, since the beginning of the year. Having said that, the ratio of outstanding debt to the total corporate loans portfolio decreased from 7.1% to 6.5%. Arrears are reduced due to the assignment of claims on nonperforming loans.

According to the Bank of Russia,¹ from March 20, 2020 to March 31, 2021, the volume of restructured loan debt exceeded Rb5.6 trillion, or 15.6% of the total portfolio of the surveyed banks (except for small and medium-sized businesses). The loan debt volume on restructured loans issued to small and medium-sized businesses hit Rb917.7 bn, or 15.8% of the total loan debt of SMEs. Lending institutions in general adequately approached the assessment of credit risks, as evidenced by the increase in provisions for potential loan losses. This means

1 URL: https://cbr.ru/Collection/Collection/File/32275/drknb_18_2021.pdf

3. Corporate lending in January-April 2021

that the volume of restructured debt does not pose a serious threat to the stability of banks.

The sectoral structure of corporate loans has not changed significantly. Manufacturing industries are the leaders in terms of borrowing (26% of the total loan portfolio of non-financial companies). The share of real estate transactions accounts for 16.5%, wholesale and retail trade – 9.6%, agriculture – 6.3%, mining – 6.3%.

According to the results of Q1 2021, the largest lending volumes were recorded in wholesale and retail trade – Rb2.3 trillion; in the field of real estate transactions – Rb914.0 bn; in the food industry – Rb804.6 bn.

The most problematic areas of activity are the production of other nonmetal mineral commodities – 41.9% of overdue debt in the total debt portfolio; manufacture of machinery and equipment for agriculture and forestry – 28.6%; wood processing and manufacture of wood products – 20.8%.

Many areas of activity experienced serious difficulties in raising bank loans and were forced to reduce the volume of borrowing. As of April 1, 2021, 34 OKVED-2 classes (42% of all activities) recorded a decrease in bank loan debt relative to the level of April 1, 2020. The most notable drop in volumes was recorded for OKVED-2 classes “65 - Insurance, reinsurance, activities of non-state pension funds, except for mandatory social security” (a decrease of 87.8%); “53 - Postal and courier activities” (a decrease of 65.1%); “74 - Other professional scientific and technical activities” (a decrease of 48.1%).

The highest rates of loan debt growth were recorded in the classes “78 - Employment and recruitment activities” (an increase of 427.1%); “82 - Administrative and economic activities, auxiliary activities to ensure the functioning of the organization, activities to provide other support services for business” (an increase of 229.1%); “94 - Activities of public organizations” (an increase of 150%).

In February of this year, the Government of the Russian Federation adopted a Resolution¹ defining a new procedure for supporting business in the most struggling industries. These include the hospitality business, culture, tourism, sports and entertainment.

Participants of the previous soft-window facility (SMEs and individual entrepreneurs) will be given the opportunity to obtain a bank loan at the rate of 3% for the restoration of business activity. The loan can be issued in the period from March 9 to July 1, 2021, the maximum term of the loan is 12 months. The size of the loan for each business is determined on the number of employees, the maximum amount of borrowing is Rb500 mn. The main requirement for borrowers is to retain at least 90% of their jobs during the term of the loan agreement. The borrower is exempt from paying interest and the principal amount during the first 6 months of the loan agreement. The accumulated debt is repaid in equal installments on a monthly basis, starting from the 7th month. The borrowed funds can be used to carry out any business activity, including the payment of salaries to employees, payments on interest and on the principal debt under existing loan agreements. During the validity period of the loan agreement, the payment of dividends, the purchase of own shares and shares in the authorized capital, as well as charity expenses are banned. In the event of violation of the

¹ The RF Government Resolution of 27.02.2021 No. 279 “On the approval of the rules for granting subsidies from the federal budget to Russian lending institutions to compensate for their lost income on loans issued in 2021 to legal entities and individual entrepreneurs for the restoration of entrepreneurial activity.”

terms of the agreement (in terms of the number of employees and the use of borrowed funds), the borrower will service the loan at a commercial rate.

The state will be a guarantor for loans under the soft-window facility. As with the implementation of previous preferential programs, banks will be reimbursed for lost revenues from the state budget.

During the crisis, the Russian Government and the central bank managed to minimize bank risks and stimulate lending to the corporate sector. However, the still high concentration of corporate liabilities is a potential source of systemic risk for the domestic banking sector. Accordingly, in the medium term, measures will be required to encourage the diversification of the corporate loan portfolios. The success of their implementation will largely depend on the development of small and medium-sized businesses, the implementation of the strategy for the development of competition and antitrust regulation in the country. 

4. MIGRATION: MAIN TRENDS IN JANUARY-FEBRUARY 2021

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The net migration of the Russian population in January-February 2021 remained virtually unchanged compared to the same period last year, however was able to make up for only 14.6% of the losses from natural population decline. The number of migrant workers in Russia decreased by more than a third over the past year, while more and more such migration is ensured by migrant workers from Central Asia.

Long-term migration

According to the available operational data¹ on long-term migration, in January-February 2021, the positive migration balance of the Russian population amounted to 26,800 people, staying approximately at the level of the previous year (27,100). Compared to the corresponding period of last year, both the number of arrivals (by 4.8%) and the number of departures (by 6.3%) decreased slightly. At the same time, the positive migration balance with the CIS countries went up by 6.7%, and with the non-CIS countries dropped notably. Given that the comparison is made with the four months of 2020 that have not yet been affected by the restrictions imposed during the COVID-19 pandemic, it is clear that this year the pandemic does not significantly affect the parameters of long-term migration taken into account.

The migration gain has increased with many CIS countries, except Ukraine, Uzbekistan and Turkmenistan. In recent years, migration from Ukraine has been taking on a wave-like nature – the rises in some years when the country becomes the main migration donor to Russia, are replaced by declines, when the migration parameters come back to normal.

Given that the natural decline of the Russian population, including due to the pandemic, continued to remain extremely high, migration in the first 2 months of 2021 made up for losses from it only by 14.6%, in other words the index of natural population loss remains approximately at the level of 2020. We believe that this year the compensating role of migration will increase, but it will be very far from compensating for losses close to 100%.

The number of intra-country movements in January-February decreased by 8.9% compared to the corresponding period of last year. Migration within Russia continues to decline for the third year in a row (the decline commenced in Q1 2019). In contrast to previous years, when the index, experiencing slight fluctuations, generally grew (since 2011), in recent years there has been a steady trend of decreasing migration activity of Russians. This is a worrying

¹ To date, Rosstat has published data only for January-February 2021. The Agency has recently shifted the deadline for providing information, postponing the publication of data to later dates.

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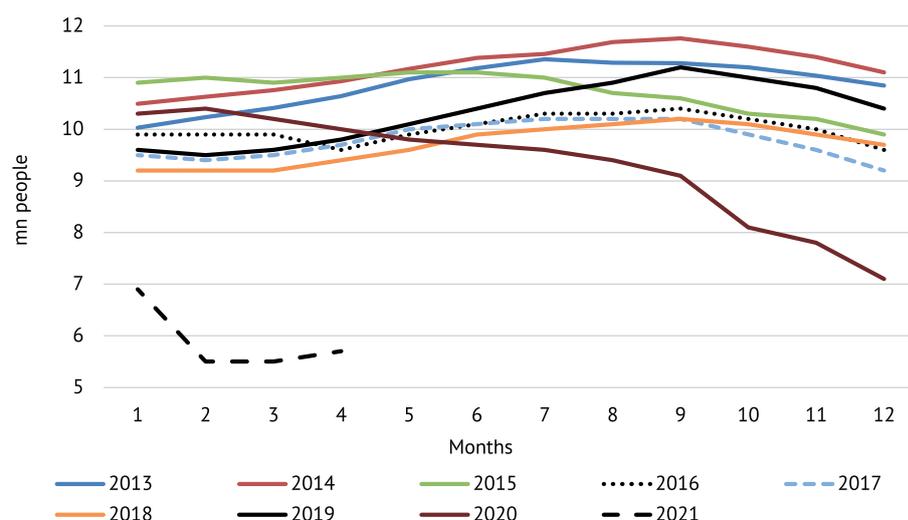


Fig. 1. Number of foreign citizens in Russia as of end of month, mn people, 2013–2021

Sources: RF FMS, PDMI of MIA RF, CBDFCR

trend that commenced before the outbreak of pandemic and may have been strengthened by the restrictions imposed and the large-scale shift to remote work. We believe that during 2021, compared to last year, the decline will stop, but this will still mean a very significant decrease in intra-country willingness to relocate.

The decline in the level of long-term migration, according to the data of the Labor Force Survey (LFS),¹ is not compensated by the growth of temporary labor migration of Russians: in 2019, it increased by merely 0.3%, while in 2017–2018 the growth reached almost 3%.

Temporary migration

In 2019, prior to the outbreak of the pandemic, the number of foreign citizens who stayed in Russia for all purposes ranged from 9.6 mn to 11.2 mn people. During 2020, due to the complete closure of the borders for entry and exit, the situation changed dramatically and the total number of foreigners in Russia decreased from 10.3 mn at the end of January 2020 to 7.1 mn by the end of the year. In 2021, due to the lack of noticeable progress in restoration of normal transportation links with Russia's principal migration donors, the foreign presence continued to decline, and as of April 1, 2021, the number of foreign citizens amounted to 5.54 mn. Only in April, probably owing to the partial opening of air links with Uzbekistan and Tajikistan, there was a small increase, and on May 1, the number of foreigners rose to 5.66 mn (Fig. 1).

As before, 86% of all foreigners staying in Russia are citizens of the CIS countries, their share has hardly changed over recent years. The citizens of Central Asia and Ukraine are the most widely represented in our country, while the number of citizens of Ukraine is almost equal to the number of citizens of Kyrgyzstan (Table 1).

Compared to last year's data as of early May, when the number of citizens from the main CIS countries has not yet markedly dropped, citizens from the CIS countries were 39% less (compared to May 1, 2019 – by 42%). The number of citizens of Ukraine and Moldova decreased the most – by 53% and 51%, respec-

1 According to Rosstat data obtained on request.

4. Migration: main trends in January-February 2021

tively (compared to 2019 – by 61% and 58%); the least - the number of citizens of Kyrgyzstan - by 18% (by 13%), Armenia – by 22% (by 29%), Tajikistan – by 35% (by 36%).

Table 1

CIS citizens in Russia as of date, persons

	04.05.14	01.05.16	01.05.18	01.05.19	01.05.20	01.05.21
Azerbaijan	600096	483830	605341	636957	701614	299081
Armenia	491501	490850	492349	488260	446403	347680
Belorussia	404218	704297	613983	648523	659418	562961
Kazakhstan	559379	553491	455462	479588	466464	263491
Kirgizia	539108	561756	639706	713001	757652	623043
Moldavia	562939	489694	376079	320115	270082	132875
Tajikistan	1137939	947251	1084153	1255165	1242629	809166
Uzbekistan	2509998	1726198	1926345	2099835	2046189	1190634
Ukraine	1606186	2325673	1904548	1700775	1386103	654920
CIS, total	8411364	8283040	8097966	8342219	7976554	4883851

Sources: data released by RF FMS and PDMI of MIA RF.

Starting with last spring, the number of EU citizens has decreased by 3-fold, so low it has never fallen over the last decade. At the same time, the number of citizens of countries such as Spain, Italy, and France has decreased by more than 5-fold (Table 2). If we analyze the reasons for stay, the number of tourists, as well as those staying with commercial and tourist purposes, has decreased to the utmost (by 74–78%); the number of employees has dropped least of all (by 36%); those staying with official purposes has even increased by 2%.

Table 2

Number of foreign citizens from some EU countries and the USA in Russia as of date, persons

	04.05.14	01.05.16	01.05.18	01.05.19	01.05.20	01.05.21
EU as a whole	1166725	441855	379721	377881	687921	226133
Germany	348266	91410	87159	84360	138196	40576
Spain	76669	12043	12721	12602	29652	5597
Italy	75429	24516	21610	20762	42347	8203
Great Britain	177840	28646	18151	15397	27615	8513
Finland	105989	80006	61038	46239	87349	46561
France	65701	26449	24193	26012	58556	10131
USA	219667	42628	35231	32550	53651	23149

Sources: data of RF FMS and PDMI of MIA RF.

As of May 1, 2021, the migrant workers count (who indicated the purpose when entering Russia – “work for hire”) amounted to 2.68 mn, three quarters of them were citizens of Central Asian countries. Compared to 2020, the migrant workers count dropped by 35% (compared to May 1, 2019 – by 38%). The largest reduction was in the number of migrant workers from Ukraine and Moldova – by 58 and 52%; migrant workers from Azerbaijan dropped by 49%, Kazakhstan and Uzbekistan – by 42%, Tajikistan – by 37%. The flow of migrant workers from Armenia and Kyrgyzstan was the least affected by the reduction - they were 17 and 18% less, respectively.

Of all the migrant workers in Russia, 1.03 mn had valid documents for work (work permits or patents), and 913,000 had the right to work without such documents (migrants from the EAEU countries). Thus, about 72% of migrant workers had the right to legally enter the Russian labor market.

Due to the repeated extension of the Decree of the President of the Russian Federation on the validity of permits for migrants who were already in Russia, and the lack of a significant influx of new foreign workers, in 2021, the number of newly issued documents sharply decreased (*Table 3*). At the end of Q1 2021, 47% fewer patents were issued and 14% fewer work permits (WP).

Table 3

Registration of work permits for migrant workers in RF, January-March, 2014–2021, persons

	2014	2016	2018	2019	2020	2021	
Work permits for foreign citizens (FC)*	257996	22855	21005	22974	15508	13304	
Including	Work permits for qualified specialists (QS)*	10177	2501	2898	3196	1665	953
	Work permits for highly qualified specialists (HQS)	6730	4531	4900	7165	5651	7678
Patents**	434436	280628	341369	363891	420332	224233	
Total	692432	303483	362374	386865	435840	237537	

* from January 1, 2015 issued to citizens solely from visa entry countries.

** from January 1, 2015 issued to citizens from visa free countries for work at individual entrepreneurs and legal entities.

Sources: data of RF FMS and PDMI of MIA RF.

Over Q1 2021, regional budgets received Rb8.91 bn for patents paid by migrant workers (in 2020, for the same period – Rb13.86 bn; in 2019 – Rb11.29 bn). The overwhelming majority of payments are made by migrant workers from two Central Asian countries. Thus, it was the citizens of Uzbekistan and Tajikistan who received 93% of patents in 2021; the share of Moldovan citizens accounted for 1% of the patents received, and Ukrainian citizens – 3%. 