MONITORING OF RUSSIA'S ECONOMIC OUTLOOK:

TRENDS AND CHALLENGES OF SOCIO-ECONOMIC DEVELOPMENT

No. 1(145) January 2022

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

GAIDAR INSTITUTE FOR ECONOMIC POLICY

RANEPA
THE RUSSIAN PRESIDENTIAL ACADEMY OF NATIONAL ECONOMY AND PUBLIC ADMINISTRATION

Monitoring of Russia's Economic Outlook: trends and challenges of socio-economic development. 2022. No. 1(145). January. Edited by: V. Gurevich, S. Drobyshevsky, V. Mau and S. Sinelnikov-Murylev; Gaidar Institute for Economic Policy, Russian Presidential Academy of National Economy and Public Administration. 21 p. URL: http://www.iep.ru/files/text/crisis_monitoring/2022_1-145_Jan_eng.pdf

1. MONITORING THE CORONAVIRUS PANDEMIC FOR 2021

Yury Ponomarev, Candidate of Economic Sciences, Head of the Center for Infrastructural and Spatial Research (CIRS) IAES, RANEPA; Senior researcher, Center for Real Sector, Gaidar Institute;

Andrey Makarov, Researcher, CIRS IAES, RANEPA;

Ksenia Borzykh, Junior researcher, CIRS IAES, RANEPA;

Daria Radchenko, Junior researcher, CIRS IAES, RANEPA

Despite late 2020 forecasts, predicting defeat of the COVID-19 pandemic in 2021, global morbidity trends have instead at times increased, with new waves mainly associated with the new variants. The second wave peaked in April-May and the third in August. Peak values of the fourth wave (in some countries,[1] the fifth), from December 2021, are likely to be reached in the first weeks of 2022.

COVID-19 in the world

During 2021, the number of cases dramatically fluctuated worldwide for many reasons, including the emergence of new variants. In January there were high levels (up to 5.22 mn cases per week), dropping to just over 2.5 mn people per week in the second half of February. Peak values in late April exceeded 5.7 mn people per week. The next wave, which started with over 2.5 mn at the end of June, reached over 4.6 mn at the end of August. At the beginning of 2022, the reproduction index R_t was above 1–1.5 in many countries of Europe, North and Latin America, India, and Australia (*Fig. 1*).

The most striking growth is currently associated with the spread of the new Omicron strain. Only on January 10, more than 3.28 mn cases were registered and the number of weekly cases approached 18 mn people.

As of 12.01.2022, the number of COVID-19 cases exceeded 314.45 mn people globally, and the number of deaths was 5.5 mn. In total, more than 47 mn people were ill all over the world and about 262 mn recovered. The largest number of new cases is noted in the United States (up to more than 1 mn per day), in the EU countries (France – 300.000–400.000, Italy, Spain, Great Britain – 200.000–250.000), as well as in India and Argentina (*Fig. 2*).

For comparison: at the beginning of 2021 (as of January 14), the corresponding figures were as follows: the number of cases, 92.75 mn; deaths, 1.99 mn; still ill, 24.5 mn; and recovered, 68.3 mn.

Russia registered 7.33 mn cases for the whole of 2021 (an increase of 230% from 2020), with 6.92 mn recovering (268%), and 252.200 dead (438%). In 2021, there were psychological effects of morbidity (5 mn people in May, 10 mn in December) and mortality (total of 100.000 in April, 200.000 in September, 300.000 in December). As of the beginning of 2022, Russia ranks 6th in terms of the total number of cases, down from 4 and 5th place during 2021.

On the whole, Russia faced several waves of morbidity in 2021 (*Fig. 3*), associated with seasonal growth and new variants[2], and each subsequent

1 Israel, France, Germany, Hungary, etc.

2 Delta strain and Alpha-strain were discovered in January 2021 with Gama-strain discovered in July and Omicron-strain in December.

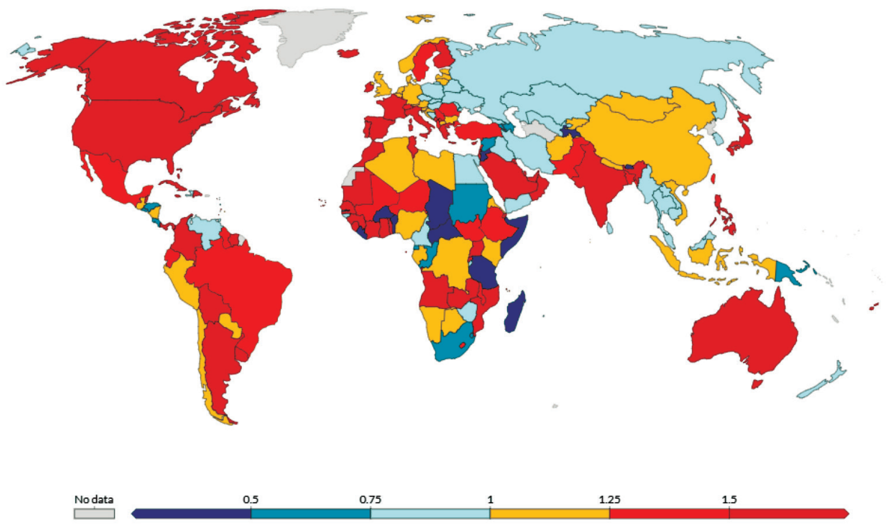


Fig. 1. R_t estimates country wise

Source: OurWorldInData (03.01.2022).

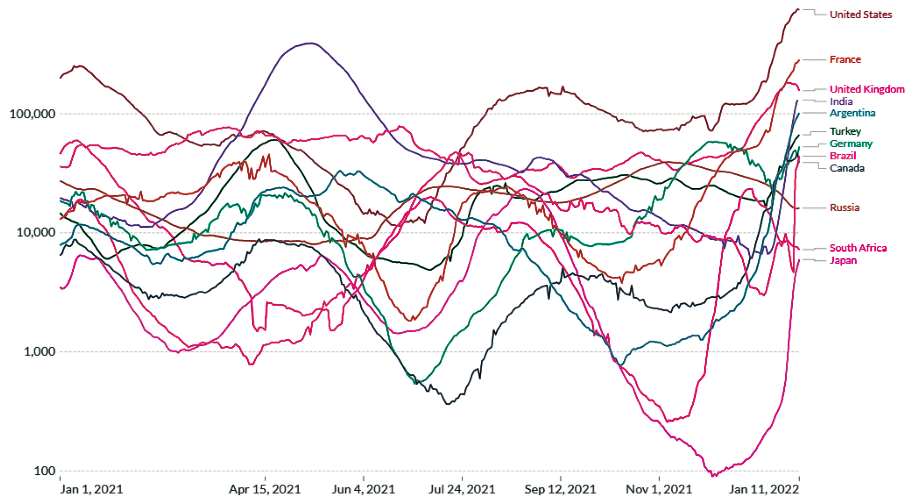


Fig. 2. Trends of new cases across countries (logical scale), weekly moving average

Source: ECDC

variant showed a higher speed of incidence. The most intense were the summer and autumn rise in incidence: the reproduction index *Rt* reached its maximum values at the beginning of the third wave, which grew during the summer months (the maximum value of *Rt* was 1.35 on 13.06). In November, Russia registered a record number of active cases (over 1 mn or 11% of the total number of cases).

Although global mortality from coronavirus fluctuated it did not exceed the peak values of December 2020 (17,000 per day) despite the spread of new variants. For example, in April it fluctuated within the range of about 9,700–15,700 and in the summer months within 6,000–10,000 per day, while by the end of the year the situation improved, at 3,000–8,000 in the last month. This may be due to an increase in the average rate of vaccination of the population during 2021.

The highest mortality was noted in such countries as the USA (almost 864,000), Brazil (620,000), India (almost 485,000), Russia (almost 318,000),

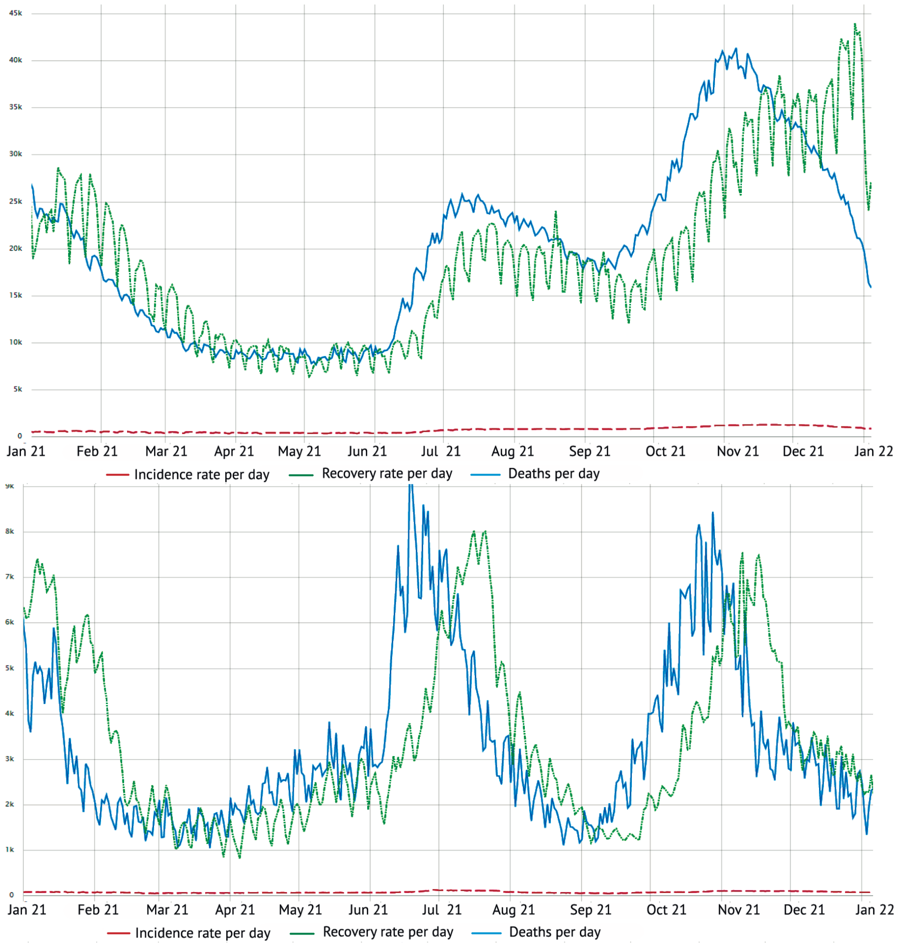


Fig. 3. Number of new cases, recoveries and deaths in 2021 in Russia (top Figure) and in Moscow

Source: Yandex as on 10.01.2022.

Mexico, Peru, Great Britain, Indonesia. The highest mortality was registered during the autumn rise in incidence (the fourth wave): maximum daily growth of cases amounted to 1254 people in November. In Russia, the rate of mortality resulting from coronavirus increased from 1.8% (14.01.2021) to 2.9% early January 2022[1] (*Fig. 4*).

During the year, restrictions were loosened and tightened in many countries according to epidemiological dynamics. European countries faced rather severe restrictions in the beginning of the year, which were continued in view of the new wave of the pandemic (closures of stores, restaurants, remote education). In late spring and summer, a phase of easing restrictions took place, which was associated with the vaccination campaign and the beginning of the tourist season. However, new measures were demanded due to the spread of the Delta variant. In autumn, taking into consideration hopes for establishing collective immunity (for example, the EU reached a threshold of 70% of vaccinated people), many countries announced lifting quarantine measures (Iceland was the first

1 In Russia, due to specifics of statistical accounting, they record only those deaths where COVID-19 is defined as the main cause. However, in some cases, additional medical study is required to confirm this fact. For more details on the specifics of mortality statistics see: URL: https://стопкоронавирус.рф/news/20200911-1920.html

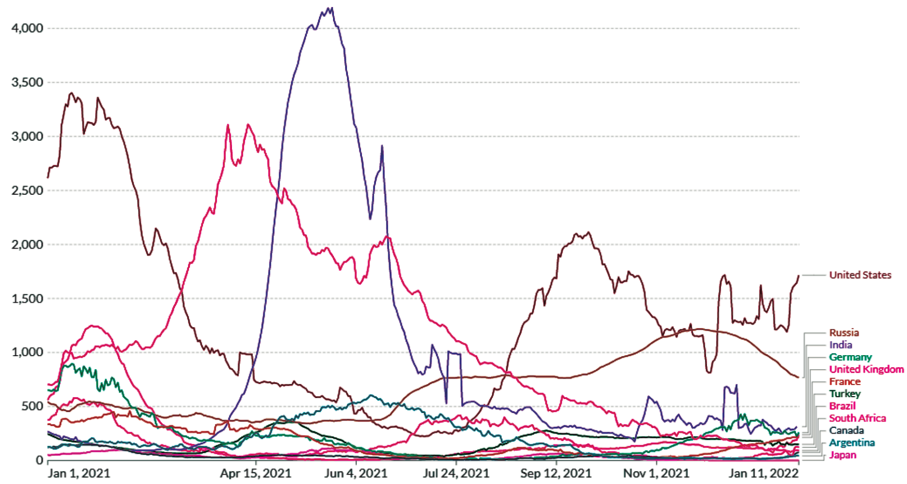


Fig. 4. Trends in the number of deaths per day by countries, smoothed per week

Source: OurWorldInData.

country to lift all restrictions), but visiting restaurants, shopping centers and other institutions became possible more often on presentation of a certificate of vaccination (QR-code).

At the same time, differences among countries remained. In the USA, restrictions were milder compared to the EU and tended toward recommendation. In Sweden, the policy of soft recommendatory restrictions, assuming voluntary responsible behavior and social distancing. In Japan, nationwide lockdowns were avoided, while a state of emergency was imposed in prefectures shutting down enterprises (bars, shopping malls). In India, despite the explosive growth of the disease, restrictions varied, regulated by authorities of the states.

By 2022, many countries had introduced quarantine restrictions due to the emergence of the new Omicron variant and a worsening epidemiological situation (*Fig. 5*).

In Russia, a flexible approach was implemented in 2021: restrictions were imposed during peak periods of incidence growth and relaxed during periods of stabilization. Due to regional differences in the epidemiological situation, measures to combat the spread of COVID-19 in the regions varied depending on the dynamics of indicators in specific regions. Together with additional support measures[1] this reduced the damage of the pandemic to the country's economy.

In 2021, the opening of borders continued. The list of countries with re-established air traffic was significantly expanded. In particular, international air traffic was allowed among Russia, Finland, Singapore, Germany, Bulgaria, the USA, South Africa, South Korea, Austria and other countries.

On January 18, 2022, the Government of the Russian Federation announced a plan for additional measures to counteract Coronavirus in the context of a possible increase in the number of cases. This involves strengthening primary health care, additional financing of CMI, increasing testing, strengthening sanitary control, expanding the activities of counseling call centers and organizing distant work by employers.

1 For example, the Nationwide Action Plan for Employment and Income Recovery, Economic Growth and Long-Term Structural Changes in the Economy (approved by the Government on September 23, 2020, Minutes No. 36, Section VII) (No. P13-60855, dated October 2, 2020), with a significant period of implementation falling on 2021.

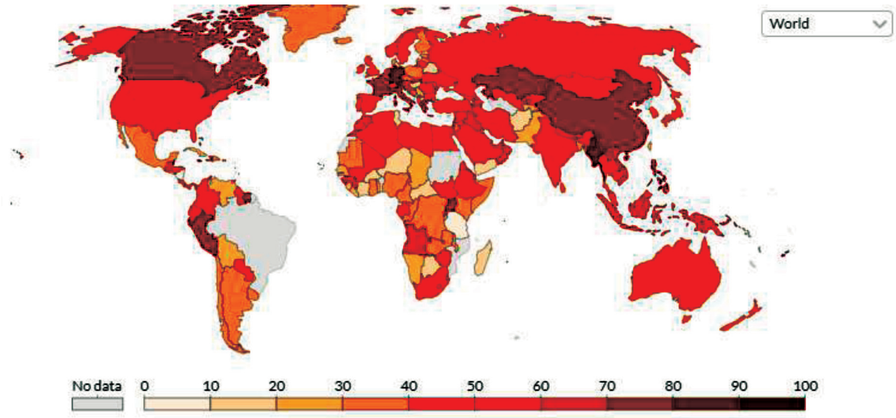


Fig. 5. Index of quarantine restrictions rigidity (100 – maximum tough measures), integral estimates (closure of schools, distant work, travel ban, other measures – 9 indicators)

Source: OurWorldInData, 11.01.2021.

Vaccination

In 2021, governments rolled out mass vaccination. OurWorldInData reports that 58% of the global population was vaccinated against COVID-19 with at least one component at year's end (less than 0.1% the year before), including 49% fully vaccinated.

During 2021, 68% of global vaccine doses were used in Asia (more than 6 bn doses), the comparable shares in Europe (12% or 1.1 bn doses), North America (9% or 832.8 mn doses), and South America (7% or 645 mn). Low-income and lower-middle-income countries had vaccination coverage of 8.9% and 50%, respectively, while high-income and upper-middle-income countries had more than 76%.

The global leaders in vaccination per capita (with a share of fully vaccinated population over 70%) were the UAE, China, South Korea, Canada, Chile, EU countries (Portugal, Spain, Italy, France, and Germany) and others). These countries also note high rates of revaccination: the number of booster vaccine doses administered in these countries exceeds 20 doses per 100 people. Russian vaccination and revaccination coverage rates remain below the world average (*Fig. 6*).

In Russia, the vaccination against Coronavirus began on December 5, 2020, thereby making the Russian Federation the second country after China to begin the process. On January 18, 2021, a mass vaccination campaign was announced.[1] In July, there was a significant growth spurt in vaccinations, partially due to the introduction of compulsory vaccination for a number of professions in some regions and QR codes for visiting public places. However, a comparison of regional vaccination rates shows that in regions that introduced requirements and regions that did not, the percent vaccinated grew at about the same rate. Therefore, perhaps a strong motivation was the onset of a new wave of COVID-19 in Russia and a significant increase in cases during this period.

Growth of morbidity and mortality in November and December resulted in more being vaccinated; moreover, an increase in the number of revaccinations (an impact of the summer peak) was visible.

1 URL: https://tass.ru/obschestvo/10472641

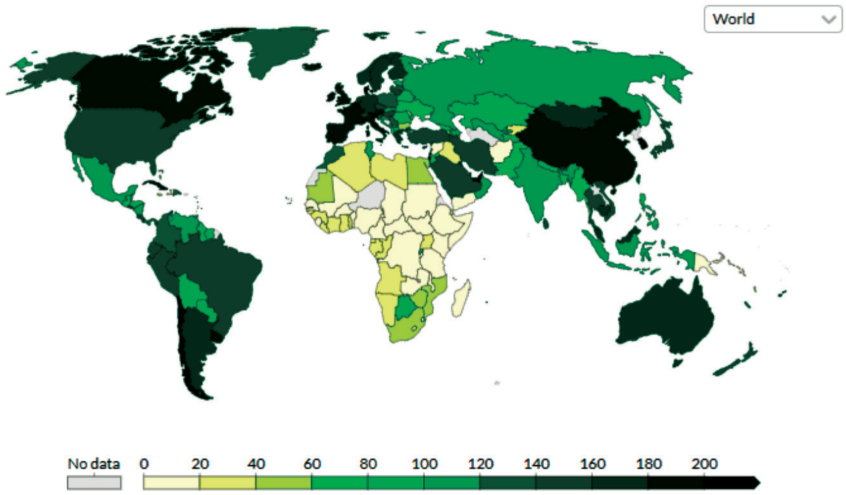


Fig. 6. Countries' vaccination rates (total number of vaccine doses per 100 people) as of January 1, 2022
Source: OurWorldInData.

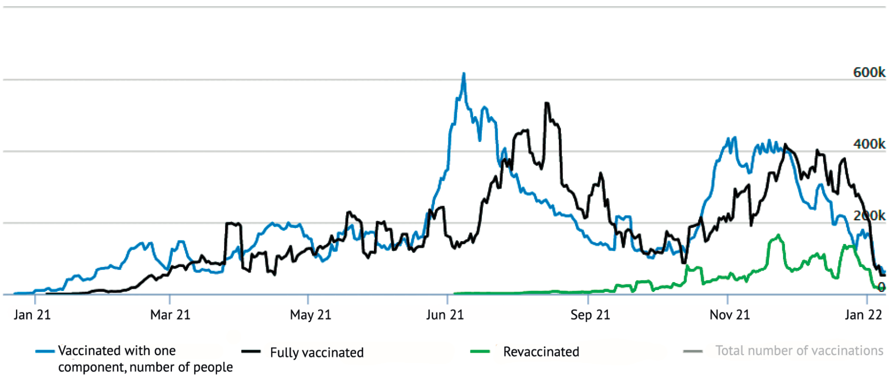


Fig. 7. Vaccination rates, persons per day, 7-day moving average

Source: vaccination statistics Gogov.ru (URL: https://gogov.ru/articles/covid-v-stats), 10.01.2022.

As of January 1, 2022, 74 mn people (50.6% of the population, 63.8% of adults) have been vaccinated with at least one injection, thus 67 mn (45.8% of the population, 57.8% of adults) are fully vaccinated and another 7.4 mn revaccinated (*Fig. 7*).[1]

Surveys show that negative attitudes toward vaccination have gradually decreased. According to the Levada-center[2], in December more than 30% of respondents[3] were still not ready to be vaccinated (at the end of July – 55% of the population[4], at the end of August – 52%[5]). However, attitudes toward compulsory vaccination have not changed compared to June: more than half of respondents do not support it.[6]

1 URL: https://tinyurl.com/5n8hbfwz
2 Recognized by the Ministry of Justice as a foreign agent.
3 URL: https://www.levada.ru/2021/12/07/koronavirus-vaktsinatsiya-qr-kody/
4 URL: https://www.levada.ru/2021/08/09/vaktsinatsiya/
5 URL: https://www.levada.ru/2021/08/09/vaktsinatsiya/
6 URL: https://tinyurl.com/7x4cm7na

2. BALANCE OF PAYMENT: 2021 RESULTS

Alexandra Bozhechkova, Candidate of Economic Sciences, Head of the Monetary Policy Department, Gaidar Institute; Senior Researcher of the Center for Central Banks Issues, IAES, RANEPA;

Alexander Knobel, Candidate of Economic Sciences, Head of the Foreign Trade Department, Gaidar Institute; Head of the Foreign Trade Studies Department, IAES, RANEPA;

Pavel Trunin, Doctor of Economic Sciences, Head of the Center for Macroeconomics and Finance, Gaidar Institute; Director of the Center for Central Banks Issues, IAES, RANEPA

In 2021, according to preliminary estimates, the current account balance was more than three times higher than the previous year. In particular, the positive balance of Russia's trade balance has increased significantly and reached record values due to the outstripping growth in the value of exports versus imports. The net outflow of private sector capital in 2021 also rose, but by less than expected based on the growth of geopolitical risks.

According to the preliminary assessment of the 2021 balance of payments published by the Bank of Russia, the current account balance hit a record high at $120.3 bn, which is 3.3 times greater (in absolute value – $84.3 bn) than the same indicator for 2020.[1]

The commodity balance amounted to $185.9 bn, which is 98% (in absolute value – $92 bn) more than the value of 2020 ($93.7 b) (*Fig. 1*). A decisive role in this growth was played by an increase in the value of exports by 47% from $333.4 bn in 2020 to $490 bn in 2021. This growth is mainly due to the stability of physical volumes of supplies and an increase in the average annual export price for all, without exception, the main positions of Russian commodity exports (*Table 1*).

The improvement of the commodity balance with growing exports was facilitated by a much more moderate (both in absolute and relative terms) increase in import supplies: an increase by 27% recorded in 2021 (from $239.6 bn in 2020 to $304 bn in 2021). This trend towards an increase in the value of supplies is explained, on one hand, by the stability of the ruble seen last year: according to the Bank of Russia, the index of the real effective exchange rate of the ruble against the dollar in 2021 decreased by only 0.6% compared to 2020. On another, the recovery growth of incomes of the Russian economy and the increase in world prices for imported goods with the ongoing need for their supplies (machinery and equipment, polymers, and medicines) played a part.

There was also a slight deterioration in the balance of trade in services, which in 2021 amounted to $19.9 bn, which in absolute terms is 17% more than the same indicator in 2020 (-$17.0 bn). Exports of services rose by 16% (by $7.6 bn from $47.0 bn to $54.6 bn on the back of the travel of foreigners to Russia and the growth of transport services), and imports – by 17% from $64.1 bn to $74.5 bn (also mainly owing to the travel of Russians abroad and the growth of transport services).

1 See *Bozhechkova A.V., Knobel A.Yu., Trunin P.V.* Balance of Payments: 2020 results // Russian Economic Development. 2021. Vol. 28. No. 2.

Table 1

Change in prices for basic commodities of Russian exports in 2021 compared to 2020

Commodity group	Share of commodity group in exports, %	Average export sale price, USD/t		Price increase, %
		January-November 2021	January-November 2020	
Crude oil	22.9	472	302	+57
Petroleum products	14.2	475	321	+48
Natural gas*	10.8	252	124	+104
Ferrous metals	6.0	661	399	+66
Coal	3.5	80	63	+26
Mineral fertilizers	2.5	315	203	+55
Wheat and meslin	1.8	265	209	+27
Liquefied natural gas**	1.6	107	99	+8
Aluminium	1.5	1990	1573	+27
Manufactured timber	1.3	351	232	+52
Copper	0.84	8253	5780	+43
Vegetable oil	0.82	1273	743	+71
Iron ore	0.76	150	75	+101
Fresh and frozen fish	0.60	1956	1642	+19
Plywood***	0.40	635	398	+59
Rubber	0.40	1716	1262	+36

* The price is indicted in USD /bn cubic m.

** The price is indicted in USD /thousand cubic m.

*** The price is indicted in USD /cubic m.

Sources: FCS, own calculations.

In 2021, *the wage balance and the rent balance*[1] remained almost zero.

In 2021, *the balance of investment income*[2] changed very notably: it deteriorated by $7.5 bn (from -$34.1 bn to -$41.6 bn), mainly due to an increase of $35.7 bn in payable income (repatriation of investment income) simultaneously with a more moderate increase in receivable income (by $28.2 bn). It should be noted that the balance of investment income for the Russian Federation is traditionally consistently negative, since accumulated foreign investments in Russia and income from them are significantly more than accumulated Russian investments (and corresponding income) abroad. It was the growth of paid investment income on the back of the growth of profits of Russian companies that caused the deficit of this component of the current account.

The deficit of the financial account (excluding reserve assets) in 2021 reached $55.4 bn, which is comparable to 2020, when it constituted $53 bn. However, significant changes were observed in the structure of this indicator. Thus, net capital outflow was mainly caused by the growth of foreign financial assets by $81.5 bn in 2021 (in 2020, foreign financial assets increased by only by $13.1 bn). Foreign financial liabilities increased by $26.1 bn, whereas in 2020 they decreased by $39.9 bn.

As a result, the net outflow of private sector capital in 2021 increased significantly and amounted to $72 bn ($50.4 bn in 2020), which is a record value

1 According to this article, the income received by residents from the provision of land and natural resources to them by non-residents, and vice versa, is recorded.

2 This article reflects the income of residents received from owning foreign financial assets (in the form of direct, portfolio and other investments) and similar income paid to non-residents based on the results of their investment in the Russian economy. Income includes dividends, reinvested income and interest.

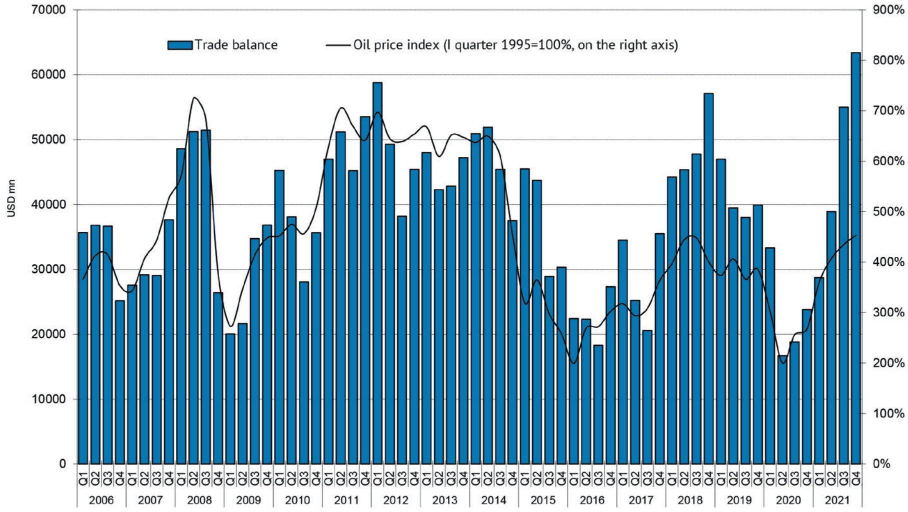


Fig. 1. Trade balance and the oil price dynamic

Sources: Bank of Russia. IMF.

over the past 7 years (*Fig. 2*). At the same time, in the banking sector in 2021, net outflow of capital was insignificant and amounted to only $2.7 bn ($21.7 bn in 2020). In the non-banking sector, net outflow reached $69.3 bn against $28.7 bn in 2020. Despite the increase in capital outflow in 2021, it turned out to be less expected: earlier in October, the Central Bank of the Russian Federation predicted it at the level of $80 bn for a year, and for 11 months, its actual value was estimated by the Bank of Russia at $ 73.9 bn, which indicates that the increase in geopolitical risks as of the end of last year did not lead to the expected capital outflow.

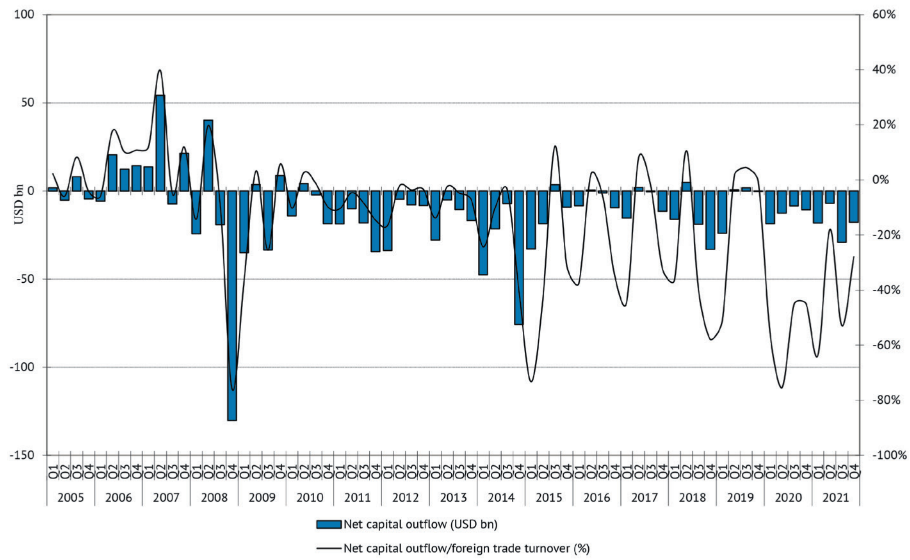


Fig. 2. Net private capital outflow in 2005–2021

Sources: Bank of Russia, own calculations.

The increase in foreign assets was due to the operations of other sectors, amounting to $84 bn in 2021, which is a record value over the past 8 years.

The increase in capital outflows from other sectors was mainly caused by an increase in foreign direct investment aimed at reinvesting the income of foreign subsidiaries, as well as an increase in investments in the capital of related foreign corporations. Thus, the value of outgoing foreign direct investment in other sectors amounted to $53.6 bn ($5.7 bn in 2020). The size of portfolio investments sent abroad turned out to be equal to $13 bn ($11.9 bn in 2020); the value of other assets hit $10.3 bn (-$6.4 bn); trade loans and advances provided to non-residents amounted to $8.5 bn ($6.6 bn in 2020). Foreign assets of the banking sector in 2021, on the contrary, declined by $5.6 bn (-$4.5 bn in 2020).

The growth of financial liabilities of Russian residents also occurred mainly due to the operations of the non-banking sector. Thus, in 2021, foreign liabilities of other sectors rose by $15.8 bn (in 2020 they decreased by $16.4 bn). The growth of foreign liabilities of other sectors was provided by an increase in incoming direct investments ($30.7 bn in 2021 against $8 bn in 2020) and other liabilities ($6.9 bn in 2021 against $0.2 bn in 2020). Portfolio investments decreased by $11.3 bn (-$15.3 bn in 2020), loans and borrowings decreased by $10.5 bn (-$9.3 bn in 2020). Liabilities of the banking sector dropped by $8.3 bn (-$26.1 bn in 2020).

It should be noted that the volume of obligations of government bodies to non-residents decreased by $3.3 bn by the end of 2021 (+$3.7 bn in 2020). According to data at the beginning of December 2021, the share of non-residents in the OFZ market declined to 20.5%, whereas at the beginning of the year it stood at 23.3%. The reduction of foreign obligations of public administration bodies is primarily due to sanctions rhetoric, domestic political and geopolitical risks, expectations of tightening of the monetary policy of the US Federal Reserve, high uncertainty about the prospects for the development of the global and Russian economy, in which the attraction of non-resident funds in Russian assets becomes less attractive for both Russian and foreign economic agents.

The excess of the current account surplus over the amount of capital outflow on the financial account was offset by an increase in international reserve assets by $63.5 bn (-$13.8 bn in 2020). The accumulation of foreign exchange reserves is explained by the purchase of foreign currency by the Russian Finance Ministry under the fiscal rule as a result of the oil price exceeding the cut-off price (about $40.5 bn for 2021) and Russia obtaining special drawing rights in the amount of $17.5 bn as part of the IMF decision on the new distribution of special drawing rights SDR among the member countries.

In 2021, the ruble exchange rate against the dollar changed slightly, decreasing by 0.6% to 74.3 rubles/USD. At the same time, its dynamic during the year was uneven. After strengthening in the first half of the year to 72.4 rubles/USD in Q4, the ruble dropped by 2.2% to 74.3 rubles/USD, which was caused by an increase in geopolitical risks. At the end of 2021, the fundamentally sound exchange rate of the ruble against the dollar was still about 70 rubles, which meant an underestimation of the Russian national currency by 6%. The weakening of the ruble in early 2022 led to an even greater separation of the actual exchange rate from the fundamental one, which is primarily due to a sharp increase in geopolitical risks and accelerated capital outflow from ruble assets. In such a situation, the ruble's prospects for 2022 will continue largely to be determined by geopolitical factors.

3. RUSSIAN EQUITY MARKET IN 2021 AND EARLY IN 2022

Alexander Abramov, Candidate of Economic Sciences, Head of the Financial Institution and Market Research Department, IAES, RANEPA;

Andrei Kosyrev, Junior Researcher, the Financial Institution and Market Research Department, IAES, RANEPA;

Alexander Radygin, Doctor of Economic Sciences, Professor, Head of the Center for Institutional Development, Ownership and Corporate Governance, Gaidar Institute; Director of IAES, RANEPA;

Maria Chernova, Researcher of the Financial Institution and Market Research Department, IAES, RANEPA

As seen from the trend of 2021 and early 2022, the Russian equity market has lived up to its reputation as one of the most lucrative and volatile markets in the world. A new trend in its development has become participation of millions of private investors who play currently a leading role in terms of the stock market' liquidity and sustainability.

The main outcomes

The year 2021 was favorable for the Russian equity market. In 2021, Brent oil prices picked up by 51.5% and prices for gas in Europe in terms of TTF contract at the London Intercontinental Exchange increased 3.9-fold. As per Rosstat's data for January-October 2021, the profit of nonfinancial institutions increased 2.6-fold as compared to the relative period of the previous year. The outflow of foreign portfolio investors' funds was made up for by the influx of Rb532bn worth of new private investments to the Moscow Exchange equity market.[1]

As shown in *Fig. 1*, the Russian RTS index rose by 15% within a year, lagging behind stock market indices of only 11 countries. Based on results for 2021, stock market indices of Argentina, Taiwan, Canada and India, as well as American S&P500 and NASDAQ saw the highest growth.

In January 2022, the global market underwent serious changes caused by expectations of the US Federal Reserve's new monetary policy tightening measures to fight inflation. In compliance with the decisions of December 14–15, 2021, the US Federal Reserve is planning to stop buying treasury and mortgage-backed securities within the quantitative easing program in March, thus opening the way for raising centralized interest rates.[2] The US Federal Reserve's decision brought about the adjustment of the global equity market, primarily, tech stocks.[3]

Additional geopolitical risks related to Ukraine emerged on the Russian market because of expectations of new sanctions which might impose restrictions on nonresidents' investments in Russian financial instruments and undermine the banking sector's stability.

As seen in *Fig. 2*, from the very beginning of the year till January 19 the US Nasdaq Composite Index of tech companies fell by 8.3%; other key US stock market indices, as well as those of developed countries and China decreased, too,

1 URL: https://www.moex.com/n39552/?nt=106
2 Federal Reserve Press-release. December 15, 2021. URL: https://www.federalreserve.gov/monetarypolicy/files/monetary20211215a1.pdf
3 *Lauricella T.* Why Have Stocks Been So Volatile? // Morningstar – on-line, Jan. 11, 2022. URL: https://www.morningstar.com/articles/1074530/why-have-stocks-been-so-volatile

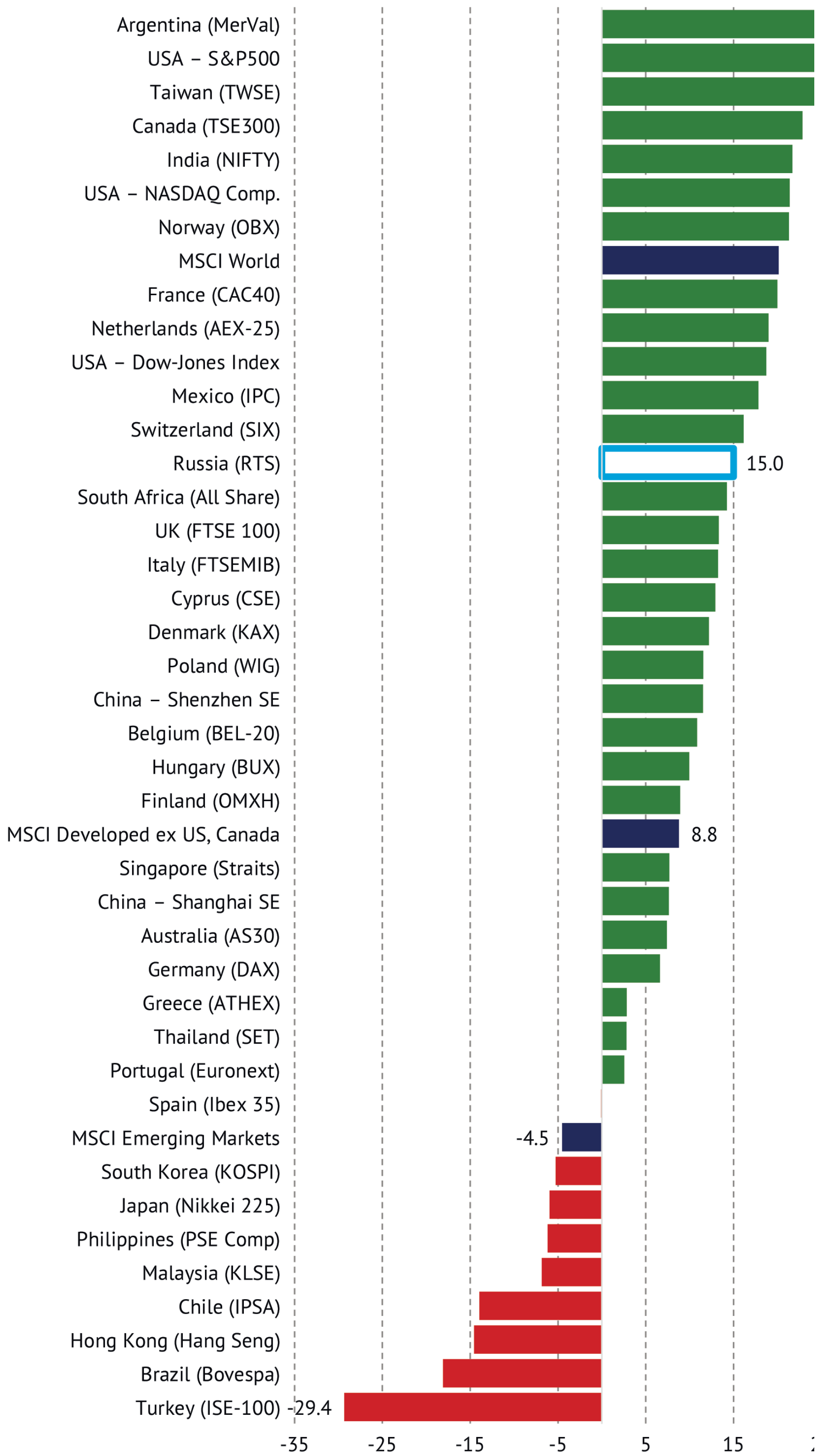


Fig. 1. Dynamics of national stock exchange indices in US Dollars in 2021, %

Source: own calculations based on Bloomberg data.

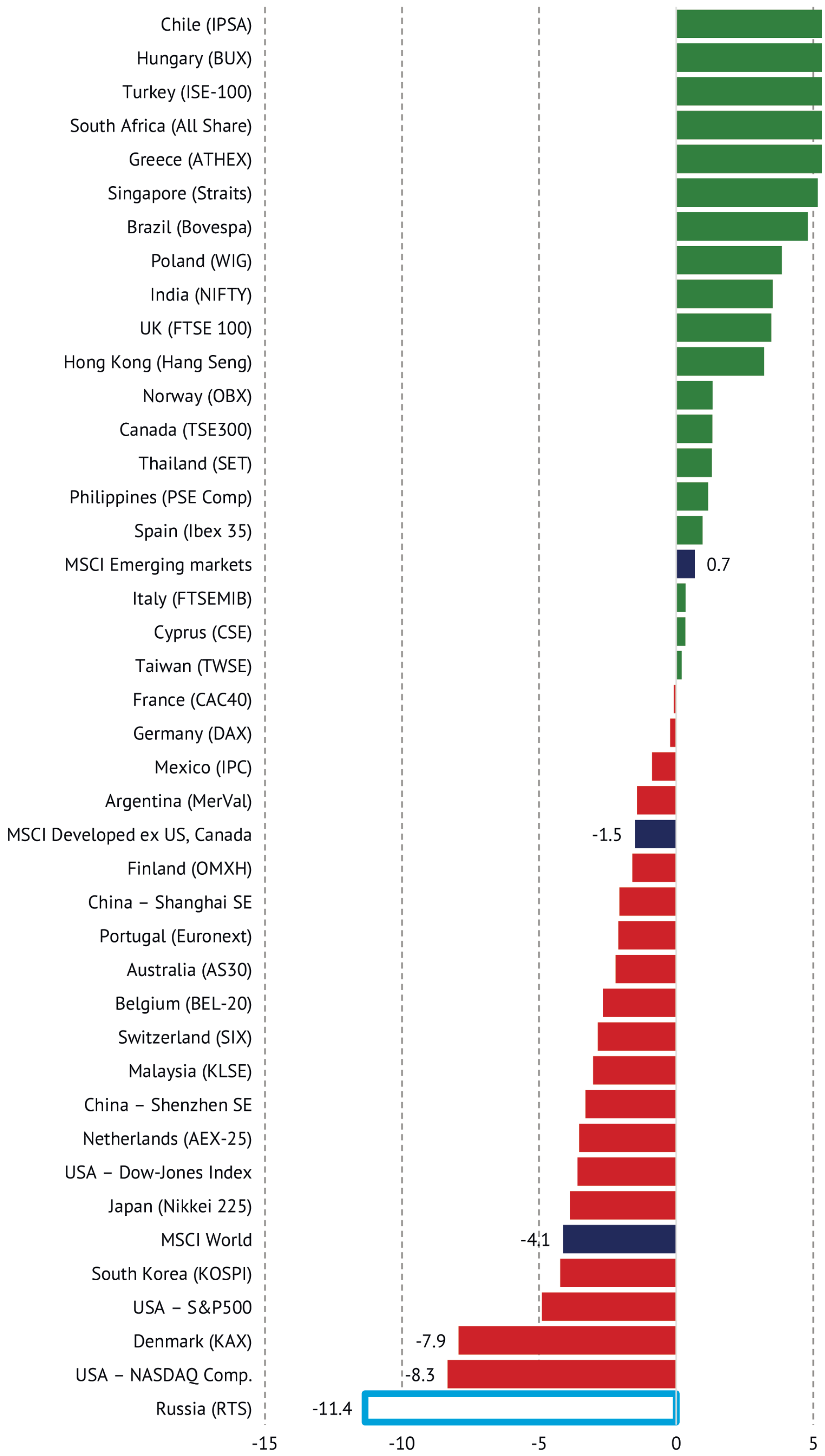


Fig. 2. Dynamics of national stock exchange indices in US Dollars since the beginning of 2022 (as of January 19, 2022), %

Source: own calculations based on Bloomberg data.

but less dramatically. The adjustment of developed countries' stock exchange indices created favorable conditions for global capital flight to developing countries. During the period under review in 2022, foreign-exchange yield of stock market indices of Chile, Hungary and Turkey was equal to 9.2%, 8.9% and 8.6%, respectively. However, the Russian RTS index fell most dramatically (11.4%) by contrast with other 40 stock exchange indices reviewed.

We believe that under the new conditions the bolstering of the Russian equity market stability is as an important goal as ensuring the banking sector's sustainability, macroeconomic parameters, inflation targeting and projected exchange rate.

Russian market long-term trends

In 2021, the Russian equity market lived up to its reputation of the world's most volatile one. Investors often perceive risks of dramatic changes in financial asset prices as a "black swan".[1] However, in our view over the 25-year time horizon starting from 1997 the Russian equity market is more precisely characterized by the alternative "dark turkey" theory by Laurence Siegel (2010)[2] and Paul Kaplan (2020).[3] According to this theory, financial crises are viewed as ongoing events starting from a fall in equity prices till full recovery thereof to the pre-crisis level. For a substantial part of their history, capital markets can operate during a crisis.

As shown in *Table 1*, on the 25-year horizon from 1997 till 2021 the Russian equity market encountered four waves of financial crises in 1997, 2008, 2014 and 2020. The first crisis broke out in August 1997 and lasted till August 2003. After it was over, the five-year period from August 2003 till May 2008 was the only one in the past 25 years of the Russian equity market history when it functioned amid no financial crisis.

After the equity market collapsed by 78.2% in June 2008, the RTS index has never returned to the pre-crisis level.

In January 2022, the Russian equity market saw a new fall in terms of a 11.4% decrease in the RTS index as of January 19, 2022, however, it cannot be regarded yet as a new financial crisis if one proceeds from the criterion of a 25% stock market index fall that is recognized by renowned experts.

Table 1

The parameters of the most severe and lengthy Russian equity crises in 1997–2021

Year of crisis	Depth of the RTS index fall, %	Beginning – end of the crisis	Length of the crisis from fall till recovery of the RTS index, months
1997	-91.3	August 1997 – August 2003	73
2008	-78.2	June 2008 – December 2021	163*
2014	-48.9	March 2014 – February 2020	72
2020	-31.1	January 2020 – May 2021	17

* The RTS index has not recovered yet to the pre-crisis level of May 2008.

1 For more details, see: N. Taleb. The Black Swan. The Impact of Highly Improbable. 2nd Edition. Translated from English. Moscow: KoLibri, Azbuka – Atticus, 2015.

2 *Siegel Laurence B.* Black Swan or Black Turkey? The State of Economic Knowledge and the Crash of 2007–2009. Financial Analysts Journal. Volume 66, Issue 4, July/August, 2010. P. 6–10.

3 *Kaplan Paul D.* What Prior Market Crashes Taught Us in 2020 // Morningstar on-line. Jul. 23, 2020. URL: https://www.morningstar.com/features/what-prior-market-crashes-can-teach-us-in-2020

3. Russian Equity Market in 2021 and Early in 2022

The existence of the equity market's propensity for lengthy crisis situations when it starts accumulating funds of millions of private investors requires this factor to be taken into account in elaborating the Strategy of the Russian Financial Market Development till 2030. This suggests taking measures aimed at disclosing more comprehensive information on the parameters of risks of investing in Russian equities, as well as in respect of advanced growth in pooled investment companies making it feasible to diversify private investors' portfolios and promote availability of alternative financial instruments with fixed income.

The specifics of private investors' behavior

In 2021, the number of private investors and the cost of their assets kept growing for a second year running in Russia. The number of brokers' unique customers increased from 8.8 mn in 2020 to 16.8 mn in 2021, or 1.9-fold. Within the same period, the number of brokers' active customers making at least one deal a month picked up from 1.4 mn to 2.6 mn or, also, 1.9-fold. The number of personal investment accounts (PIA) grew from 3.5 mn to 4.9mn or 1.4-fold.

In 2020–2021, the behavior of private investors in Russia differed considerably from that of private investors in the EU and was more in line with trends prevailing on financial markets of the USA and China.

According to the data of the China Securities Depository and the Clearing Corporation Limited (CSDC), from January through November 2021 the number of private investors at the Shanghai Stock Exchange and the Shenzhen Stock Exchange increased by 8.3 mn from 177.8 mn accounts to 196 mn accounts. In 2020, 18.0 mn new private investors came to the stock market.[1] By estimates of the JMP Securities, in 2020 10 mn new private investors opened accounts with brokers in the US, while in 2021 another 15 mn new investors joined them.[2] As in the US and China, retail investing on the Russian stock market was largely facilitated by new technologies and low brokerage service tariffs which made it much easier for private investors to gain access to the stock market.

According to the CNBC review, households in the EU did not take so much interest in stock market deals with equities and bonds during the pandemic.[3] Unlike the US where retail investing accounts for about 25% of the trading volume of stocks and China where this indicator is equal to 60%, in the EU this indicator amounts to the mere 5–7%.[4] In Europe, individuals rely more on their investments in pension schemes and insurance companies rather than on stock market deals. Also, by contrast with stock markets in the US and China, Europe has failed to implement ease-of-access and competitive brokerage service technologies for private investors to carry out stock market transactions.

As households in China and the US engage more actively in retail investing, this inevitably suggests the specifics of these countries' financial regulation as regards promotion of competition between various financial intermediaries, creation of alternative channels for the sale of financial products and motivation of individuals to open personal savings accounts.

1 URL: http://www.chinaclear.cn/zdjs/tjyb1/center_tjbg.shtml
2 *McCabe Caitlin*. Day Traders as 'Dumb Money'? The Pros Are Now Paying Attention // The Wall Street Journal on-line. Jan. 16, 2022. URL: https://www.wsj.com/articles/fund-managers-pay-attention-to-retail-day-traders-11642132135?mod=hp_lead_pos7
3 *Tatelbaum Julianna* (2022). Why retail investing has taken off in the U.S. – but not Europe // CNBC – on-line. Jan. 14. URL: https://www.cnbc.com/video/2022/01/14/why-retail-investing-has-taken-off-in-the-us-but-not-europe.html
4 As per the data of the Moscow Stock Exchange, in 2021 the share of retail investing in stock market deals with equities was equal to 40% (URL: https://www.moex.com/n39552/?nt=106).

In the current situation on the Russian stock market, it is necessary to take into account more comprehensively foreign stock markets' best practices in ensuring the transparency of financial information for investors, creating a competitive environment for financial intermediaries, stimulating independent fintech growth and cutting transaction costs for private investors.

4. RETAIL DEPOSITS IN JANUARY-NOVEMBER 2021

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

In January-November 2021, retail bank deposits increased slightly and their share in bank liabilities decreased. The factors of the slowdown were: the outflow of funds into the purchase of real estate due to the availability of mortgages; attractive conditions on the stock market; the growth of cash savings in the overall structure of savings; the introduction of a tax on interest on large deposits. Starting from Q2 2021, the tightening of the monetary policy of the Central Bank of the Russian Federation contributes to an increase in deposit rates, which in the near future can restore the attractiveness of bank deposits.

Retail funds[1] still remain one of the most significant banks' resources. As of December 1, 2021, they accounted for 27.9% of the total volume of bank liabilities. For comparison: funds of corporate clients accounted for 32.1%, funds of banks accounted for 10%, public funds – 7.6%, loans from the Bank of Russia – 2.7%. The share of equity stood at 9.9%. At the same time, at the beginning of 2021, the share of retail funds in bank liabilities was higher and amounted to 31.6%.

As of December 1, 2021, the total amount of retail funds hit Rb33.2 trillion, an increase of Rb382.1 bn over 11 months in absolute terms, or 1.2% (as of December 1, 2020, an increase of Rb1.1 trillion, or 3.5%, was recorded for the same period).

Funds denominated in rubles amounted to Rb26.3 trillion dropping by 0.9% for 8 months of 2021 (an increase of 1.2% recorded for the same period in 2020). Foreign currency deposits amounted to Rb6.9 trillion (an increase of 2.1% from 2021, in 2020 an increase of 12.9% was due to the ruble depreciation).

Despite extremely low interest rates on foreign currency deposits, the level of dollarization[2] of retail deposits remains unchanged – as of December 1, 2021, the share of foreign currency deposits in the total amount of retail funds constituted 20.9% (as of the corresponding date last year – 20.5%). This ratio between ruble and foreign currency deposits has remained virtually unchanged for several years (since 2012, with the exception of the period of late 2014 – early 2015), while over the past 9 years, the ruble has depreciated by more than 2-fold against the dollar. In recent years, there has been a positive balance of retail transactions with foreign currency in cash in Russia, and net imports into the country exceed the indicators of 2020.[3] At the same time, the policy of the Central Bank does not facilitate the placement of cash on bank deposits – the standards of mandatory reserves for foreign currency deposits are set at

1 Including deposits and funds in accounts minus escrow accounts.
2 All deposits in foreign currencies are taken into account.
3 URL: https://cbr.ru/Collection/Collection/File/39640/Exp21_10.pdf

8%, which significantly exceeds the level of the standard for ruble deposits (for banks with a universal currency license – 4.75%, for banks with a basic license – 1.0%).

A significant increase was recorded in the balances on retail escrow accounts under contracts of participation in shared-equity construction. For 11 months, the increase amounted to Rb1,766.6 bn, or 150.6%. Interest in investing in real estate largely constrains investment in traditional savings deposits. This indicator growth is largely owing to the stimulation of demand for mortgage loans in connection with the extension of state support for mortgage lending.

As of October 1, 2021, according to the Deposit Insurance Agency,[1] the average size of a retail deposit constituted Rb278,000 (excluding small deposits of less than Rb1,000). The average amount of depositors' funds in escrow accounts amounts to Rb5.7 mn. Retail deposits are insured for a total of Rb32,807 bn, or 98.8% of their total volume.

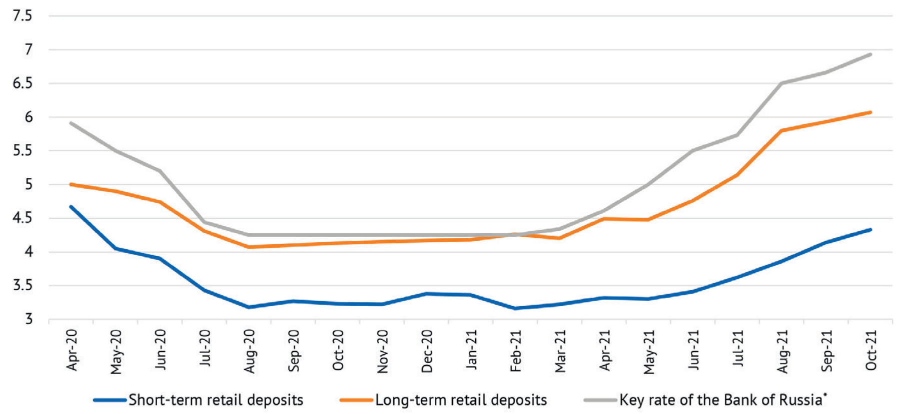
During the pandemic, there has been a significant shift in the structure of savings towards more liquid ones. Taking into account the emerging trend of withdrawal of funds from banks by the population, as well as a reduction in rates with the then relatively soft monetary policy of the Bank of Russia, banks commenced to actively promote savings accounts, the advantages of which are relatively high interest rates and the possibility of flexible account management (the number of transactions in the form of deposits and withdrawals in the absence or low level of the maintenance margin is practically unlimited). As of December 1, 2021 funds on accounts and short-term deposits of up to 30 days (38.1% of the total deposits) were in the greatest demand, with an increase of 8.7% over the 11 months of 2021. Before the pandemic outbreak (the end of 2019), this type of deposits was at most 25%. Despite the emerging outflow of funds from long-term deposits, banks managed to reverse the trend on the back of an increase in interest rates in H1 2021 (*Fig. 1*). The share of long-term deposits with a term over one year accounts for 34.2%, the decrease in 11 months of 2021 was 3.8%. The growth of long-term funding sources may lead to a slight increase in banks' interest costs, but the stability of the long-term resource base will increase the balance of assets and liabilities in terms of urgency and minimize interest rate risk and liquidity risk.

The Bank of Russia has proposed to create a special deposit for low-income citizens:[2] the interest rate on it will be tied to the inflation rate or the key rate. A citizen will be able to open only one such deposit, its amount will be limited (presumably at the level of Rb100,000). It is proposed to identify such depositors through the unified state information system of social security. Currently, due to the increase in interest rates, the probability of such deposits is low. However, even in the case of subsidizing interest on deposits from banks' profits, their impact on the overall financial result of the sector will be insignificant: the estimated expected volume of "social" deposits may amount to about Rb200 bn, i.e. less than 1% of all retail deposits and accounts in the banking system.[3]

As the economy recovers and citizens' incomes grow, we should expect a gradual inflow of funds into deposits. The stability of the banking system, manifested during the crisis, should support the level of confidence in credit institutions on the part of the population, which will facilitate the flow of cash savings into bank deposits. The decline in the attractiveness of investments in

1 URL: https://www.asv.org.ru/news/496046
2 URL: https://www.interfax.ru/business/804702
3 URL: https://www.vedomosti.ru/finance/articles/2021/12/21/901917-vkladi-maloimuschih

4. Retail deposits in January-November 2021



* Key rate of the Bank of Russia is calculated as an arithmetic average for the month.

Fig. 1. Dynamic of interest rates on retail short-term and long-term deposits and the key rate of the Bank of Russia in 2020–2021

Source: Interest rates on credit and deposits operations of credit organizations in rubles / Bank of Russia. URL: https://www.cbr.ru/statistics/bank_sector/int_rat/1021/

securities observed in recent months on the stock market, as well as a possible decline in mortgage issuance due to the reduction of preferential mortgage programs will also increase the volume of savings on deposits due to a decrease in interest in investments in securities and real estate. The increase in interest rates will help to balance the structure of bank deposits and increase the share of long-term deposits.