

MONITORING OF RUSSIA'S ECONOMIC OUTLOOK:

TRENDS AND CHALLENGES OF SOCIO-ECONOMIC DEVELOPMENT

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Monitoring of Russia's Economic Outlook

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

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1. GLOBAL ECONOMIC OUTLOOK IMPROVED AFTER FALLING

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In 2020, the coronavirus pandemic triggered the largest drop in global output since World War II. However, it turned out to be less than expected at the beginning of the pandemic. International organizations are improving global economic outlook as the vaccination of the population accelerates and new incentive measures are adopted. However, there remains a high degree of uncertainty regarding the rate of recovery.

According to OECD estimates, the decline in global GDP in 2020 reached 3.4% compared to the previous year, which, however, is much better than the June forecast of the OECD,¹ whereby the drop will be 6% without the second wave of coronavirus, while if it takes place, the GDP will decrease by 7.6%.

In the G20 group of developed countries, the deepest drop in output in 2020 was recorded in the UK, where the drop in GDP reached 9.9%.² The US GDP in 2020 decreased by 3.5%, the Eurozone countries fell by 6.6% (Table 1). The actual dynamics of output in both the United States and the Eurozone turned out to be better than the June OECD forecast, expecting the economies to fall in the event of a second wave of the epidemic by 8.5 and 11.5%, respectively.

In the G20 group of developing countries, the Mexican economy demonstrated the deepest decline (-8.2%) in 2020, which was a record drop in output in this country since 1932. Turkey and China became an exception from the global dynamics, showing an increase in output in 2020 by 1.8% and 2.3%, respectively thanks to strong fiscal stimulus and rapid industrial and construction recovery.

The actual drop in output in many countries was not as deep as originally forecasted, in particular, due to a faster-than-expected recovery in the labor market. Thus, the OECD assumed already in June that the unemployment rate in the United States would remain above 10% until the end of the year after it increased from 4.4% in March to 14.7% in April. However, half of the lost jobs were restored by the end of October and the unemployment rate fell to 6.7% in December. In January and February of this year, the US unemployment rate continued to decline to 6.2% (remaining 2.7 p.p. above the pre-crisis level).

1 OECD. OECD Economic Outlook. Editorial: After the lockdown, a tightrope recovery. June 2021. URL: https://www.oecd-ilibrary.org/economics/oecd-economic-outlook/volume-2020/issue-1_0d1d1e2e-en (date of reference: 23.03.2021).

2 Hereinafter, OECD data are used for international comparisons. In this case, the quarterly GDP growth rates are used relative to the corresponding period of the previous year, excluding the seasonal factor. Section National Accounts, Quarterly National Accounts, Quarterly Growth Rates of real GDP, change over same quarter, previous year indicator B1_GE Gross Domestic Product – expenditure approach in the GYSA Growth rate version compared to the same quarter of previous year, seasonally adjusted. URL: <https://stats.oecd.org/>

Table 1

GDP growth rate in 2020, % to respective quarter of 2019

| | Q 1 | Q 2 | Q 3 | Q 4 | 2020* |
|----------------|------|-------|------|------|-------|
| USA | 0.3 | -9.0 | -2.8 | -2.4 | -3.5 |
| Canada | -0.3 | -12.7 | -5.3 | -3.2 | -5.4 |
| Australia | 1.4 | -6.3 | -3.7 | -1.1 | -2.5 |
| Japan | -2.1 | -10.3 | -5.8 | -1.3 | -4.8 |
| Germany | -2.2 | -11.3 | -4 | -3.6 | -4.9 |
| France | -5.6 | -18.6 | -3.7 | -4.9 | -8.1 |
| Italy | -5.8 | -18.2 | -5.2 | -6.6 | -8.9 |
| Spain | -4.2 | -21.6 | -9.0 | -9.1 | -11.0 |
| United Kingdom | -2.4 | -20.8 | -8.6 | -7.8 | -9.9 |
| Eurozone | -3.3 | -14.6 | -4.2 | -4.9 | -6.6 |
| EU | -2.7 | -13.8 | -4.1 | -4.6 | -6.2 |
| China | -6.8 | 3.2 | 4.9 | 6.5 | 2.3 |
| Brazil | -1.4 | -10.9 | -3.9 | -1.2 | -4.1 |
| Mexico | -2.2 | -18.6 | -8.5 | -4.5 | -8.2 |
| Turkey | 0.1 | 11 | 15.9 | 1.7 | 1.8 |
| India | 3.2 | -24.1 | -7.0 | 0.1 | -6.9 |
| Indonesia | 2.9 | -5.4 | -3.7 | -2.1 | -2.1 |
| Russia | 1.6 | -8.0 | -3.4 | - | -3.1 |

*Relative to 2019.

Source: OECD, Russia (Rosstat) (Federal State Statistics Service. Gross Domestic Product. Quarterly data, quantum indexes (% to respective quarter of the previous year). URL: <https://rosstat.gov.ru/accounts>).

Contrary to predictions, the EU countries also managed to avoid a significant growth in unemployment. The European labor market is supported by programs of partial state funding of employees' salaries, which have been extended in most European countries (until the end of 2021 in Germany, until May 2022 in France, until March 2021 in Italy, until September 2021 in the United Kingdom). Despite the reintroduction of strict restrictive measures in the largest European countries since November-December 2020, which are expected to be lifted no earlier than Q2 2021, the unemployment rate in the Eurozone countries fell from 8.6% in Q3 to 8.2% in Q4 2020 (Table 2).¹ However, the risks of the unemployment growth remain this year due to possible bankruptcies of enterprises in the event of curtailing the support measures.²

In the group of developing countries and emerging markets, improvements in the labor market were observed in Q4 in Mexico and Russia, where the unemployment rate fell from 4.9 and 6.3% in Q3 to 4.5 and 6.1%, respectively. In Russia, the unemployment rate maintained a downward trend this year amounting to 5.7% in February. In Mexico, on the contrary, the unemployment rate rose to 4.7% in February due to new outbreaks of the coronavirus.

According to the International Labor Organization (ILO)³, the cumulative loss of working hours for the whole 2020 amounted to 8.8% compared to Q4

1 OECD. Labour Force Statistics, Short-Term Labour Market Statistics, Monthly Unemployment Rates. URL: <https://stats.oecd.org/index.aspx?queryid=36324>

2 ING Bank. Eurozone: a labor market in surprisingly good shape ahead of the second wave. URL: <https://think.ing.com/articles/eurozone-a-labour-market-in-surprisingly-good-shape-ahead-of-the-second-wave>

3 ILO Monitor: COVID-19 and the world of work. Seventh edition. Updated estimates and analysis. 25.01.2021. URL: https://www.ilo.org/wcmsp5/groups/public/--dgreports/--dcomm/documents/briefingnote/wcms_767028.pdf

1. Global economic outlook improved after falling

2019, being 4 times higher than their decrease during the global financial crisis in 2009. However, the ILO expects that thanks to vaccination there will be a recovery in the global labor market in 2021, and reduction in working hours will constitute 3% compared to Q4 2019.

Table 2

Unemployment rate in Russia and OECD countries in 2020, % of labor force

| | Q 1 | Q 2 | Q 3 | Q 4 |
|----------------|------|------|------|-----|
| USA | 3.8 | 13.1 | 8.8 | 6.8 |
| Canada | 6.4 | 13.1 | 10.1 | 8.8 |
| Australia | 5.2 | 7.0 | 7.1 | 6.8 |
| Japan | 2.4 | 2.7 | 3.0 | 3.0 |
| Germany | 3.6 | 4.2 | 4.5 | 4.6 |
| France | 7.7 | 7.1 | 9.1 | 8.1 |
| Italy | 9.2 | 8.5 | 9.6 | 9.1 |
| United Kingdom | 4.0 | 4.1 | 4.8 | 5.1 |
| Eurozone | 7.3 | 7.6 | 8.6 | 8.2 |
| EU | 6.5 | 6.9 | 7.7 | 7.4 |
| South Korea | 3.7 | 4.1 | 3.8 | 4.3 |
| Mexico | 3.5 | 4.9 | 4.9 | 4.5 |
| Russia | 4.6 | 6.0 | 6.3 | 6.1 |
| Turkey | 12.7 | 14 | 13.3 | - |

Source: OECD, Russia (Rosstat) (Federal State Statistics Service. Labor force. Unemployment rate by subjects of the Russian Federation. URL: https://rosstat.gov.ru/labour_force).

The damage caused by the pandemic to global merchandise trade in 2020 was not as painful as it was for economic activity as a whole. According to the latest UN estimates,¹ the decline in global merchandise trade in 2020 reached 5.6% against the previous year, compared with a 22% fall after the global financial crisis in 2009 (previously, the UN predicted a decline of 9%). However, the decline in trade in services due to reduction in transport and tourism turned out to be a record: the decline is estimated at 15.4%, which is the largest drop since 1990 (since the date the corresponding statistics was introduced).

The recovery of global trade since mid-2020 was accompanied by an increase in industrial production. The global purchasing manager's index (PMI) has been in the growth zone (above 50 points) over the past 8 months. In February of this year, it reached its maximum value over the past 10 years: 53.9 p.p.

The growth of industrial business activity is facilitated, in particular, by an improvement in business sentiment owing to launch of vaccination and forecasts for the increase in consumer demand. A significant recovery in industrial production in the group of developed countries in February was observed in Germany and the United States (the industrial PMI reached 60.7 and 58.6 p.p. respectively), and in the group of developing countries, Brazil and India (the industrial PMI was 58.4 and 57.5 p.p. respectively).

In contrast, business activity in the service sector is still experiencing the negative impact of repeated lockdowns. The PMI for services in the Eurozone fell from 46.4 p.p. in December to 45.7 points in February.

¹ UNCTAD. COVID-19 drives large international trade declines in 2020. URL: <https://unctad.org/news/covid-19-drives-large-international-trade-declines-2020>

Table 3

World Economic Outlook for 2021 (GDP growth rate, %)

| | Forecast for 2021 | | | | | | | |
|----------------------|-------------------|----------------|-----------------------------|----------------|----------------|----------------|----------------|----------------|
| | World Bank | | International Monetary Fund | | OECD | | Fitch | |
| | as of 08.06.20 | as of 05.01.21 | as of 13.10.20 | as of 25.01.21 | as of 01.12.20 | as of 09.03.21 | as of 07.09.20 | as of 07.12.20 |
| World | 4.2 | 4.0 | 5.2 | 5.4 | 4.2 | 5.6 | 5.2 | 5.3 |
| USA | 4.0 | 3.5 | 3.1 | 5.1 | 3.2 | 6.5 | 4.0 | 4.5 |
| Japan | 2.5 | 2.5 | 2.3 | 3.1 | 2.3 | 2.7 | 3.3 | 3.5 |
| Germany | – | – | 4.2 | 3.5 | 2.8 | 3 | 5.4 | 5.0 |
| France | – | – | 6.0 | 5.5 | 6 | 5.9 | 5.4 | 4.8 |
| Italy | – | – | 5.2 | 3.0 | 4.3 | 4.1 | 5.4 | 4.5 |
| United Kingdom | – | – | 5.9 | 4.5 | 4.2 | 5.1 | 4.0 | 4.1 |
| Eurozone | 4.5 | 3.6 | 5.2 | 4.2 | 3.6 | 3.9 | 5.5 | 4.7 |
| Developed countries | 3.9 | 3.3 | 3.9 | 4.3 | – | – | 4.3 | 4.4 |
| China | 6.9 | 7.9 | 8.2 | 8.1 | 8 | 7.8 | 7.7 | 8.0 |
| Brazil | 2.2 | 3.0 | 2.8 | 3.6 | 2.6 | 3.7 | 3.2 | 3.1 |
| Mexico | 3.0 | 3.7 | 3.5 | 4.3 | 3.6 | 4.5 | 4.4 | 4.2 |
| India | 3.1 | 5.4 | 8.8 | 11.5 | 7.9 | 12.6 | – | 11.0 |
| Russia | 2.7 | 2.6 | 2.8 | 3.6 | 2.8 | 2.7 | 3.6 | 3.0 |
| Turkey | 5.0 | 5.0 | 5.0 | 6.0 | 2.9 | 5.9 | 5.0 | 3.5 |
| Saudi Arabia | 2.5 | 2.0 | 3.1 | 2.6 | 3.2 | 2.6 | – | – |
| South Africa | 2.9 | 3.3 | 3.0 | 2.8 | 3.1 | 3 | 4.3 | 3.6 |
| Developing countries | 4.6 | 5.0 | 6.0 | 6.3 | – | – | 6.6 | 6.6 |

Sources: World Bank, IMF, OECD, Fitch.

Despite the resumption of lockdowns in the largest European countries, international organizations continue to improve their estimates of the global economy dynamics for this year in connection with the recent announcement of additional fiscal stimulus in the United States, Japan, Germany, Canada and India, as well as with the expansion of vaccination.

According to World Bank,¹ the growth rate in the global economy will constitute 4% in 2021, while IMF² predicts 5.4%. OECD³ forecasts growth of global economy by 5.6% in 2021 resulting in the recovery of the global output volume by mid of this year to the levels observed prior to the pandemic. (Table 3).

The global economic outlook in 2021 rests upon a number of similar assumptions in its baseline scenario. The epidemiological situation in many countries is expected to improve by the end of this year due to mass vaccination resulting in a reduced uncertainty, improved consumer sentiment, and a recovery in consumption and investment. Therewith, it is expected that the vaccination rate will be higher in the largest developed countries compared to developing countries, and in H2 2021, a significant proportion of the 50+ population will develop immunity to the virus which will allow to lift most of the restrictive measures.

According to World Bank, the recovery output rate in the group of developed countries will constitute 3.3 and 3.5% in 2021 and 2022 respectively (according to Fitch forecast, it will be 4.4 and 3.4%, while IMF predicts 4.3 and 3.1%). According to Fitch, fiscal stimulus in the EU in terms of grants for investments in “green” technologies and digital transformation will help to restore the output

1 World Bank Group. Global Economic Prospects. Subdued Global Economic Recovery. January 2021. URL: <https://www.worldbank.org/en/publication/global-economic-prospects>

2 IMF World Economic Outlook Update, Policy Support and Vaccines Expected to Lift Activity January 2021. URL: <https://www.imf.org/en/Publications/WEO/Issues/2021/01/26/2021-world-economic-outlook-update>

3 OECD Economic Outlook Interim Report. Strengthening the recovery: The need for speed. March 2021. URL: <http://www.oecd.org/economic-outlook/>

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during 2021, and the growth rate of the Eurozone economies will reach 4.7 and 4.4% in 2021 and 2022 respectively

The rate of the US economic recovery is estimated by the OECD at 6.5 and 4.0% in 2021 and 2022 respectively (Fitch predicts 4.5% in 2021, 3.5% in 2022). The US recovery in early 2021 will be supported by the second package of fiscal stimulus (\$900 bn) approved in December 2020, and the third fiscal package (\$1.9 trillion) approved in March 2021.

The World Bank predicts the recovery in the group of developing countries in 2021 and 2022 at 5 and 4.2% respectively (the IMF forecast is 6.3 and 5.0% and the Fitch is 6.6 and 4.7% respectively). The recovery rate in countries evidencing a significant share of services in the output will be lower, i.e. on average, 3.2% in 2021–2022. In addition, countries exporting oil and industrial raw materials are also forecast to have a slower recovery (according to World Bank estimates, on average, by 2.8% in 2021–2022) due to less opportunity to receive further fiscal stimulus amid cuts of budget export earnings.

Table 4

Global economy outlook for 2022 (GDP growth rate, %)

| | Forecast for 2022 | | | |
|----------------------|-------------------|----------------|----------------|----------------|
| | World Bank | IMF | OECD | Fitch |
| | as of 05.01.21 | as of 25.01.21 | as of 09.03.21 | as of 07.12.20 |
| World | 3.8 | 4.2 | 4 | 4.0 |
| USA | 3.3 | 2.5 | 4 | 3.5 |
| Japan | 2.3 | 2.4 | 1.8 | 1.5 |
| Germany | – | 3.1 | 3.7 | 3.7 |
| France | – | 4.1 | 3.8 | 3.8 |
| Italy | – | 3.6 | 4 | 4.3 |
| United Kingdom | – | 5.0 | 4.7 | 3.6 |
| Eurozone | 4.0 | 3.6 | 3.8 | 4.4 |
| Developed countries | 3.5 | 3.1 | – | 3.4 |
| China | 5.2 | 5.6 | 4.9 | 5.5 |
| Brazil | 2.5 | 2.6 | 2.7 | 2.5 |
| Mexico | 2.6 | 2.5 | 3 | 2.5 |
| India | 5.2 | 6.8 | 5.4 | 6.3 |
| Russia | 3.0 | 3.9 | 2.6 | 2.7 |
| Turkey | 5.0 | 3.5 | 3 | 4.5 |
| Saudi Arabia | 2.2 | 4.0 | 3.9 | – |
| South Africa | 1.7 | 1.4 | 2 | 2.5 |
| Developing countries | 4.2 | 5.0 | – | 4.7 |

Sources: World Bank, IMF, OECD, Fitch.

However, significant risks of a protracted crisis remain if the vaccination is delayed due to logistical difficulties related to its rollout and distribution, reluctance of the population to get vaccinated or the ineffectiveness of vaccination due to emerging new strains of coronavirus. In this case, the prolongation of restrictive measures will be required resulting in growing uncertainty, cooling consumer demand and reduced investment.

Due to the accumulated budget deficit, many countries will not be able to provide additional support to the unemployed and businesses comparable in volume to the stimulus packages adopted in 2020. Moreover, the increased debt burden on enterprises in 2020 in addition to partial cutting of support measures, i.e. deferred tax liabilities or interest payments, could trigger a wave of bankruptcies. 

2. THE INDUSTRIAL PRODUCTION DYNAMIC IN JANUARY-FEBRUARY 2021¹

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The OPEC+ deal and the coronavirus pandemic remain key factors affecting the state of the manufacturing and extractive industries. Some easing of the terms of the OPEC+ deal in 2021 in case of Russia and the possibility of containing the pandemic through mass vaccination suggest that there is a potential for growth in the short term. Nevertheless, according to the results of the first two months of 2021, manufacturing industry as a whole continues to show near-zero growth rates.¹

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. 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 component 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* demonstrates the result for the aggregate 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*.

Earlier,³ we noted that the decline in Russian industry resulting from the introduction of measures to face the spread of coronavirus infection was relatively small, a positive role was played by the ownership structure of

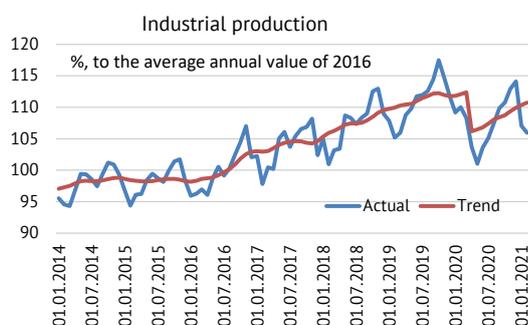


Fig. 1. Dynamic of the industrial production index in 2003–2020 (actual data and the trend component), in % average annual value 2016

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 Kaukin A.S., Miller E.M. The Industrial Production Dynamic in Q4 2020 // Russian Economic Developments. 2021. No. 2 (28). P. 23–27.

2. The Industrial Production Dynamic in January-February 2021

industry-forming enterprises,¹ the weak involvement of Russian industries in global value chains and a significant share of industrial production in the economy.

In January-February 2021, the dynamic of the trend component of the extractive sector continued to be influenced by the factor associated with the implementation of the terms of the OPEC+ deal aimed to cut daily oil production. On December 3, 2020, during a meeting of OPEC+ member countries, it was decided to gradually ease restrictions on oil production in 2021, which allowed Russia to ramp up production by about 125,000 bpd. Moreover, on January 5, 2021, an additional easing of these conditions was stipulated for Russia until the end of March 2021 inclusive, which allows increasing production by another 65,000 bpd.

External demand for Russian coal from Europe and China continued to have a positive impact on the dynamic of the trend component of the mining sector: firstly, due to the current ban imposed by China in November 2020 on coal imports from Australia; secondly, due to a sharp increase in natural gas prices and a reduction in domestic production in Europe. An additional impact was triggered by the cold winter, which contributed to an increase in natural gas exports in January-February 2021.

The analysis of trend components of the manufacturing sector showed that a number of industries in the first two months of 2021 demonstrated a slight positive trend (despite the fact that manufacturing as a whole continues to stagnate):

- light industry on the back of the import substitution, including due to the shift in consumer demand to a lower price segment;
- chemical industry on the back of continued growth in production of medicines and sanitary materials amidst the second wave of coronavirus infection; as well as owing to increased demand for chemical and mineral fertilizers in the domestic and foreign markets;
- mechanical engineering, including from the manufacture of passenger cars, the demand for which began to grow.

The negative dynamic in the paid services segment rendered to the population remained due to the fall in the real disposable income of the population. The dynamic of the trend component of freight turnover continued to exhibit a slight decline, despite the growth in exports of fuel and energy minerals and fertilizers. Wholesale and retail trade grew slowly in the first two months of 2021, mainly due to increased sales of medicines, chemical fertilizers, and motor vehicles.

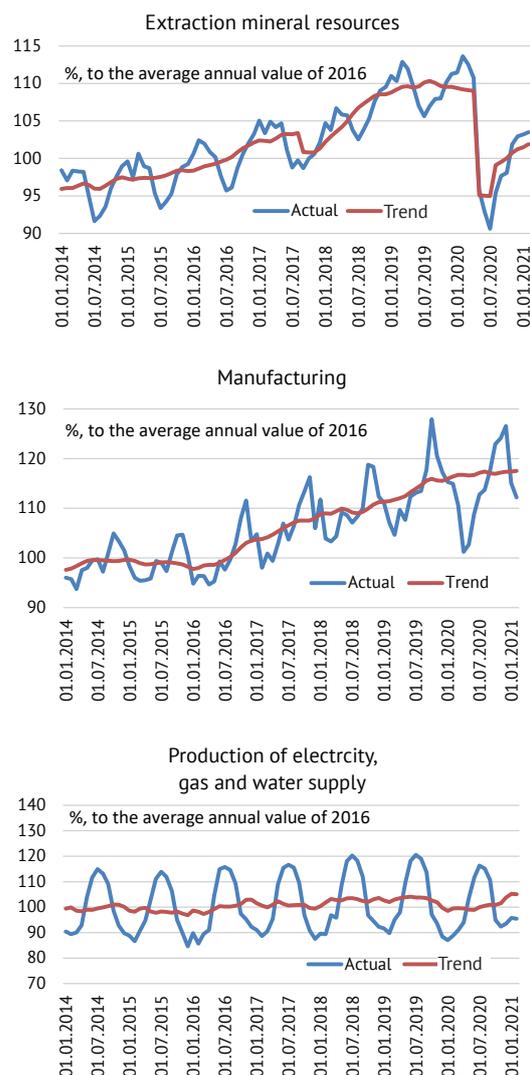


Fig. 2. Dynamic of industrial production index by industry in 2003–2020 (actual data and the trend component), in % to annual average value 2016

Sources: Rosstat, own calculations.

¹ A significant part of large system-forming and strategically important enterprises are connected with the state either through the state order system or by virtue of the ownership structure, as a result of which the issue of falling consumer demand for such enterprises is less acute than for private small and medium-sized businesses.

Table 1

Change in the output index by industry, %

| Industry | Share in industrial production index, % | February 2021 on December 2020 | February 2021 on February 2020 | Change within past few months |
|---|---|--------------------------------|--------------------------------|-------------------------------|
| Industrial production index | | 100.76 | 98.80 | Slow growth |
| Extraction of natural resources | 34.54 | 100.67 | 93.32 | Slow growth |
| Manufacturing industry, including | 54.91 | 100.14 | 100.94 | Stagnation |
| Production of food, including beverages and tobacco | 16.34 | 101.87 | 110.75 | Growth |
| Textile and sewing industry | 1.14 | 100.37 | 115.61 | Growth |
| Manufacture of leather, leather products and footwear | 0.27 | 99.13 | 94.81 | Slow recession |
| Woodworking and manufacture of wood articles | 2.02 | 99.05 | 104.55 | Stagnation |
| Pulp and paper industry | 3.35 | 96.79 | 79.45 | Recession |
| Coke and petrochemicals production | 17.25 | 100.39 | 92.52 | Slow growth |
| Chemical production | 7.56 | 102.18 | 114.93 | Growth |
| Manufacture of rubber and plastic articles | 2.14 | 98.97 | 108.91 | Stagnation |
| Manufacture of other non-metal mineral products | 4.02 | 95.76 | 97.60 | Recession |
| Metallurgical production and manufacture of fabricated metal products | 17.42 | 101.78 | 115.50 | Growth |
| Manufacturing of machinery and equipment | 6.97 | 101.05 | 108.26 | Slow growth |
| Manufacture of electrical and optical equipment | 6.27 | 101.22 | 111.65 | Growth |
| Manufacture of transport vehicles and equipment | 6.75 | 102.81 | 128.98 | Growth |
| Other industries | 2.42 | 101.19 | 116.26 | Slow growth |
| Electricity, gas and water | 13.51 | 101.23 | 105.61 | Growth |
| Wholesale trade | | 100.08 | 102.05 | Slow growth |
| Retail sales | | 100.60 | 101.86 | Slow growth |
| Freight turnover | | 99.08 | 98.39 | Slow recession |
| Construction | | 100.08 | 100.44 | Stagnation |
| Volumes of paid services for the population | | 99.88 | 92.19 | Slow recession |

Sources: Rosstat, own calculations. 

3. REGIONAL ECONOMY IN 2020: THE PANDEMIC HAS CREATED PROBLEMS IN RESOURCE-PRODUCING REGIONS AND LARGE CITIES

Natalia Zubarevich, Main Researcher, Demography, Migration and Labor Market Studies, INSAP, RANEPА

The COVID-19 crisis has had the greatest impact on resource-producing regions and large cities boasting a developed service sector. The decline in investment was coupled by their concentration in the capital and in the leading regions of hydrocarbon production. The increase in registered unemployment was universal, and the subsequent decline in its level varied greatly by region. A large-scale increase in federal transfers helped increase regional budget revenues, but increased spending led to budget deficits in most regions and increased debt.

In 2020, industrial production increased only in the Central and North Caucasus Federal Districts (5–6%), and decreased the most in Siberia and the Far East (-4%). In 51 subjects of the Russian Federation, the dynamics are negative, regional differences are mainly due to specialization: the decline in the extractive industry was significant (7%), and in the manufacturing industry production recovered to the level of 2019, although not in all sectors. A strong decline was observed in the oil and gas producing regions (Nenets and Khanty-Mansi Autonomous Okrugs, Tomsk Region, Komi and Udmurt Republics, Krasnoyarsk Krai down by 7-11%) and parts of the territories with manufacturing industry, including the automotive industry (Primorsky Krai – a drop of 21%, Kostroma region – 11%, Kaliningrad and Nizhny Novgorod regions – 7%). Despite the pandemic, industrial production increased markedly in a number of industrial regions (Tyumen and Vladimir regions – by 19–21%, Tula and Moscow – by 9–12%) due to the addition of new capacities or the growth of state defense order.

The decline in investment was small (1.4%), but geographically wide – a decline was posted in 51 regions of the Russian Federation. Regional dynamics for 2020 are more informative when compared to 2019 (*Fig. 1*). Over the past two years, investment has grown only in Moscow and the North Caucasus, largely on the back of budget funds, as well as in Siberia, where new projects for the production and transportation of hydrocarbons are being implemented. In the capital, the share of budgets of different levels accounts for almost 30% of all investments, mainly from the Moscow budget (25%). In the republics of the North Caucasus, budget investment dominates, they accounted for 51–85% of all investments in individual republics in 2020. For two years in a row, investments declined in the North-Western Federal District, mainly due to their decline in St. Petersburg, and in the Southern Federal District, where the construction of the Crimean Bridge is being completed. Among the regions with a significant volume of investment, the decline was observed for 2 consecutive years not only in St. Petersburg, but also in the Republic of Tatarstan and the Krasnodar

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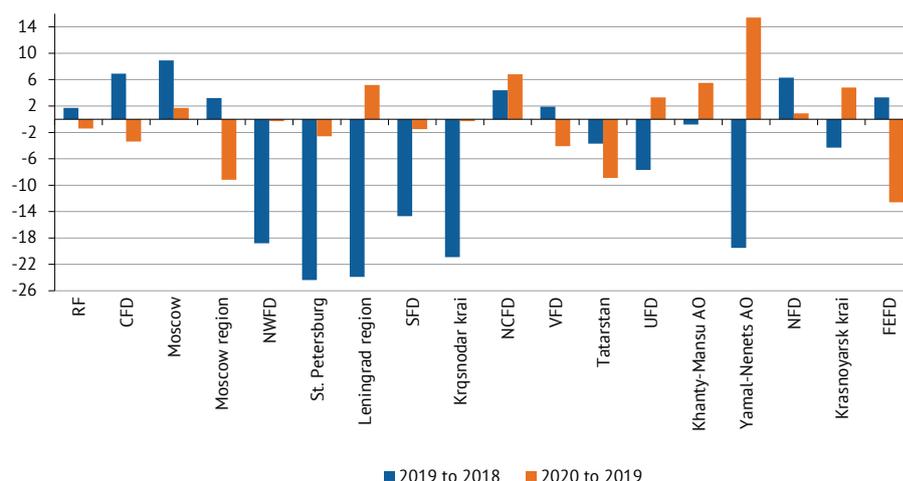


Fig. 1. Dynamic of investment in fixed capital by Federal Districts and RF with 2% + share of all investments in the country, in % to the previous year

Source: Rosstat.

Krai. In the oil and gas producing autonomous okrugs of the Tyumen region, the unstable investment dynamic is due to the decisions of large businesses. In 2020, investments in the Yamal-Nenets Autonomous Okrug increased on the back of the construction of a new gas liquefaction plant by Novatek.

In 2020, the concentration of investments in the largest metropolitan agglomeration and in the main oil and gas producing region continued to grow: Moscow accounts for almost 18% of all investments in the country, together with the Moscow region – 23%, and the Tyumen region – 12%, including its autonomous okrugs – 10.5%.

The decline continued in the service sector even at the end of 2020. According to Rosstat, the retail sales turnover decreased by 4% in the whole country. Only in 13 regions has it recovered or exceeded the 2019 level. The strongest decline is in public catering – by 21% against 2019 – with negative dynamics in the vast majority of regions. The volume of paid services in 2020 decreased by 17%, all subjects of the Russian Federation had a downward trend, the strongest decline was observed in Moscow (by 29%) due to a stringent lockdown.

During the crisis the unemployment rate according to the ILO methodology demonstrated a slight uptick (from 4.6% in January-March to 6.3% in August-October), and by November 2020 – January 2021 it fell to 5.9%. As prior to the pandemic, at the end of 2020 the highest unemployment rate according to the ILO methodology was observed in the republics of the North Caucasus and southern Siberia (15–32%), and the lowest – in the largest federal cities and autonomous okrugs of the Tyumen region (2–3%).

The registered unemployment rate, after a 5-fold increase from March to September 2020 (from 1 to 4.9%), fell to 3.4% by the end of January 2021. The regions with elevated and high levels of registered unemployment in January 2021 are basically the same as at the peak in September 2020. The labor markets of Kabardino-Balkaria, parts of Siberia, Yakutia, Sverdlovsk and Kurgan regions are recovering more slowly from the crisis, which may partly be due to the amount of subsidies allocated from the federal budget for the payment of unemployment benefits.

In 70% of the regions, the drop in real incomes of the households was less than 5%. In 10 regions, real incomes recovered or increased (by less

3. Regional Economy in 2020: the Pandemic has created Problems

than 1%), in 5 regions they went up by 2–5% (the Republic of Tyva, Altai and Kalmykia, Yamal-Nenets and Chukotka Autonomous Okrugs). In 2020, the plunge in income was observed in the Sverdlovsk (-8%) and Tambov (-6%) regions. The maximum and minimum household incomes indexes are poorly related to the movement of the economy and employment, with the exception of the Chukotka and Yamal-Nenets Autonomous Okrugs.

The losses of the consolidated budgets of the regions in the first 3 months of the pandemic (April-June) were huge: all revenues decreased by 5%, tax-generated and non-tax revenues (without transfers) – by 20%, including income tax – by 27%, personal income tax – by 10%. In general, in 2020, the dynamics are much better: all budget revenues increased by 10%, tax-generated and non-tax revenues decreased by 2%, only income tax decreased significantly – by 13%, and personal income tax – by 7%. The income tax is most important for the budget revenues of resource-producing regions, especially oil and gas, and the city of Moscow. In 2020, Yamal-Nenets and Nenets Autonomous Okrugs, the Republics of Tatarstan, Komi and Bashkortostan, Perm Krai, Tyumen, Kemerovo and Astrakhan regions posted the plunge in income tax receipts by 38–52%.

The main reason for the improvement of regional budgets in 2020 was a 54% increase in intergovernmental fiscal transfers (up by Rb1.32 trillion compared to 2019). Extra assistance from the federal budget was unprecedented in scope and significantly more than the dynamic of the crisis in 2009 (an increase of 1/3). The consequence was the increase in the level of subsidies to regions' budgets from 19% in 2019 to 26% in 2020, almost as during the 2009 crisis.

With the large-scale increase in assistance to the regions, its transparency during the pandemic has decreased due to uncoordinated policies of federal agencies. This is evidenced by a comparison of the shortfall in regional budget revenues, i.e. the difference in tax-generated and non-tax revenues in 2020 and 2019, and the volume of additional transfers in 2020 compared to 2019 (Table 1). Not only three to four oil and gas producing regions with high fiscal capacity that are able to cope with the crisis independently, but also a number of regions with low budget revenues were helped least of all. Having received minimal assistance, they ended the year with a large budget deficit. Even less understandable is the list of regions that received the maximum amount of additional assistance, more than half of them did not record a decline in their own revenues.

Consolidated budget expenditures grew faster than revenues in 2020 (15% and 10%, respectively). Public health was at the top of the priority list. On average, regional spending on public health increased by 72%, including in Moscow – more than 2-fold, and in regions excluding Moscow – by 64%. Social protection of the population was second on the priority list. These expenses gained 24% on the back of transfers from the federal budget for child and unemployment benefits.

A regional budget deficit recorded in 57 regions stemmed from a faster increase in expenditures compared to revenues. In 2019, there were 35 regions with a budget deficit, in 2018 there were only 15 regions. The total deficit amounted to less than 5% of the revenues of the regions' consolidated budgets, which is comparable to the 2009 crisis and less than the deficit posted during the implementation of the “salary” executive orders (7–8% in 2013–2015). In 2020, the budget deficit was highest in regions with large shortfall in their own revenues and weak or insufficient federal assistance – in the Tyumen and

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Kemerovo regions (20–21% in 2020), Yamal-Nenets Autonomous Okrug, the Republics of Bashkortostan, Komi, Udmurtia and Khakassia, Perm Krai, Arkhangelsk and Tomsk regions (12–16%).

Table 1

The disparity of proper (tax-generated and non-tax) revenues of regions' consolidated budgets and additional transfers (2020 and 2019), Rb bn

| | Minimal assistance | | | Maximum assistance | |
|--------------------------------|------------------------|----------------------|-----------------------------|------------------------|----------------------|
| | Change of own revenues | Additional transfers | | Change of own revenues | Additional transfers |
| Tyumen region | -56.1 | 7.1 | Moscow region | 15.9 | 50.2 |
| Yaal-Nenets AO | -39.1 | 8.6 | Krasnodar krai | -26.3 | 46.8 |
| Sakhalin region | -14.5 | -6.8 | Republic of Bashkortostan | -22.9 | 45.1 |
| Nenets AO | -4.9 | 4.4 | Republic of Dagestan | 3.0 | 43.5 |
| Republic of Tatarstan | -43.3 | 47.4 | Sverdlovsk region | -3.9 | 39.5 |
| Kemerovo region | -24.1 | 31.1 | Samara region | -3.9 | 38.8 |
| Perm krai | -21.7 | 27.2 | Novosibirsk region | 1.8 | 33.7 |
| Komi Republic | -14.5 | 17.8 | Republic of Crimea | -1.2 | 33.6 |
| Arkhangelsk region | -8.2 | 13.6 | Republic of Sakha (Yakutia) | -6.1 | 32.3 |
| Astrakhan region | -6.8 | 12.1 | Rostov region | 5.0 | 30.9 |
| Karachaevo-Cherkassia Republic | 0.2 | 4.0 | Chechen Republic | 1.4 | 28.1 |
| Kurgan region | 1.9 | 3.9 | St. Petersburg | 6.0 | 24.5 |
| Khanty-Mansi AO | 6.7 | -0.8 | Voronezh region | 11.3 | 14.8 |

Source: calculated on data released by the Federal Treasury.

The budget deficit led to an increase in the debt of regions and municipalities from Rb2.4 to Rb2.8 trillion in 2020. The debt burden in most regions was high even before the pandemic, most of it was accumulated during the implementation of the “salary” executive orders of May 2012. However, in 2018–2019, the debt decreased. During the pandemic, the debt began to increase again, and many regions did not have enough additional assistance due to outstripping spending growth. 

4. YOUNG PEOPLE FAVOR HIGHER EDUCATION

Elena Semionova, Leading researcher, Center of Economy of Continuous Education, IAES, RANEPА

The results of a sociological study conducted by the Center of Economy of Continuing Education (CENO), RANEPА, confirm the trend, whereby an increasing share of young people wish to get higher education. This is due to better follow-up opportunities for finding high-paying jobs. Specialties related to medicine, engineering, information technology and economics are considered the most promising for professional education.

In many countries around the world, the sector of higher education is expanding, and an increasing proportion of young people aim to enter the university. Russia is no exception. According to a sociological survey conducted by the CENO IAES RANEPА among parents of schoolchildren,¹ 71.3% of respondents claim that higher education is critical for their children. Another 22.3% still prefer that their children get it, although they do not consider higher education compulsory.

The main reason why parents recommend their children to get higher education is the opportunity to find a high-paying job (74.5% of households shared this opinion). Households, where children plan to continue studying in the system of secondary vocational education (SVE) after the 9th school grade, noted among other principal reasons for choosing such an educational path that SVE is a good platform for further admission to a university.

The financial household security plays a significant role in shaping of educational plans: the higher this is according to the parents, the greater their confidence in the need to continue the education of their child in high school and then at a university. The same applies to the student achievement: those parents whose children master the program as “good” and “excellent” are focused on continuing education of their child in the 10th grade and subsequent admission to a higher educational institution. About 37% of households are prepared to pay for education of their child at the university if required. Moreover, another 28.3% will most likely be able to pay for education of their child at the university, however, it should not be very expensive.

Slightly more than 16% of parents wish their children study at one of the best universities in their region, and 21.9% of respondents are focused on any university in the region. Only 6.1% of households consider study at a university

¹ The main information array includes results of a sociological study conducted by CENO IAES RANEPА in 2020 in the Novgorod, Nizhny Novgorod and Tula regions. The total sample size constituted 2236 household representatives. Head of sociological study is Dmitry M. Loginov, Candidate of Economic Sciences, Senior researcher, Institute for Social Analysis and Forecasting, RANEPА.

in another subject of the Russian Federation, and, finally, 19.1% have plans to educate their children in universities in Moscow and St. Petersburg.

According to parents, the most promising specialties for professional education today relate to medicine, engineering, as well as information technology and economics.

Nowadays, those working young people that have already received higher education, agree with opinion of schoolchildren parents.¹ For majority of these young people (86.1% boys and girls) the financial situation of their families was average or good when they studied in senior school. Most of these young people have also estimated the social status of their family as average or high (88.7%) at the time of their school graduation. Over 80% of young people having higher education noted that they had “good” and “excellent” marks at school. Respondents emphasized that they attended pre-academic programs (44.1%) when preparing to enter the university in addition to active self-education; 49.2% studied with tutors individually and another 17.2% participated in tutorial groups; 12% of young people noted that they used useful contacts of their parents when entering the university.

By the time they graduated from school, about 76% of young people had a good or general idea of what they wanted to do professionally. Consequently, the majority of young boys and girls chose a specialty that they purposefully wanted to acquire at the time they entered the university.

Making their choice, young people focused primarily on their own interests (43.6%), parents' advice (23.6%) and the opportunity to find later a suitable job (14.9%). The majority of these young people (77.1%) consider prestigious the specialty they studied at the university. Selection of a less prestigious specialty may be due to personal preferences and interests of these young people. This was reported by 32.3% of respondents. They noted that their specialty was not considered very prestigious in the society when they took part in the higher education program.

However, about a third of young people who received a less prestigious specialty, reported that their family lacked the opportunity (in particular, parents could not pay for preparation for the unified state examination, for university education, etc.), so that they could get higher education in prestigious areas. Separately, it should be noted that among young people who made their choice of their future profession accidentally, the share of those considering their higher education not prestigious is more than twice as high as compared with youth choosing their future goal-oriented profession (38.1 and 14%, respectively).

As already mentioned above, today, parents of schoolchildren consider prestigious specialties related to medicine, engineering, information technology and economics. Among young people aged 22 to 35 with higher education, 19.5% studied economics and finance; 16% studied engineering specialties, and these are the largest groups of young people.

However, it should be noted that among young people who chose a specialty for admission to a university rather accidentally than purposefully, 27.6% of boys and girls studied in economics, finance, management and 22.3% in

¹ According to the sociological survey by CENO IAES RANEPa, conducted in 2020 among working youth aged 22 to 35 years inclusive, having higher education. Sample size represents 1014 respondents. Monitoring regions are Sverdlovsk, Samara, Volgograd regions. Head of Sociological Research is Dmitry M. Loginov, Candidate of Economic Sciences, Senior researcher, Institute for Social Analysis and Forecasting, RANEPa.

4. Young People Favor Higher Education

engineering. In the sphere of medicine, 5.4% of boys and girls received higher education and 6.9% in ICT.

The least number of “accidental” university entrants was in medicine (94.5% of young people who received medical higher education made their choice goal-oriented), as well as in such spheres of activity as sports (88.9%), culture and leisure (86.4%), law enforcement (82.4%) and education (80.4%).

Most of the working youth with higher education studied at a university in the same region of Russia where they graduated from school. Slightly more than half of the respondents (55%) received higher education in the same city where they graduated from school, 36.9% of young people in another city of the same region and 8.1% of boys and girls in another region of Russia. Most young people studied at the university for free (60.7%) according to full-time education mode (83.9%).

Young people noted that due to their university education, they enjoyed several years of interesting studies (91.9%); useful knowledge in the chosen specialty (91.3%); proof of their correct choice of specialty (81.1%); a diploma appreciated in the labor market (80.5%); contacts with classmates that could be useful in future employment and life (67.3%). Young people are pleased with the quality of their higher education, while only 3.3% indicated that it was poor. According to own youth estimates, the university diploma is highly valued by employers nowadays (46.3% share this view) or it has a moderate value (according to 44.4% of boys and girls).

Young people who have already received higher education and found their place in the labor market agree with the opinion of schoolchildren parents about higher education: half of them consider studying at a university as a vital prerequisite for success and career. 10.6% of young people confidently state that higher education is not required, but nevertheless they have already received it. The opinions of young people differed regarding the required level of higher education: 43.1% believe that it is sufficient to complete a bachelor's degree; 36.6% assume that a master's degree is compulsory; 20.3% of young boys and girls found it difficult to make a choice. 