

Southern Russia: 2018

Center-invest Bank presents the 2018 results for the regions in which its branches are located: the Rostov region (RR), Krasnodar Krai (KK), the Volgograd region (VR), Stavropol Krai (SK) and the Nizhny Novgorod region (NN), measured against data for the Russian Federation (RF), the Southern Federal District (SFD) and the North Caucasus Federal District (NCDF), based on information from the Federal State Statistics Service (www.gks.ru). Center-invest Bank opened a branch in Nizhny Novgorod (Volga Federal District) in 2017 to promote the transformation economy model which it is using successfully in southern Russia.

Transformation economy – managing constant change amid continual crises, on the basis of creative, socially responsible solutions that are in the interests of current and future generations.

Growth rates, 2018 compared to 2017, %		RF	SFD	NCDF	RR	KK	VR	SK	NN
Industry	Output	2.9	5.7	1.0	9.7	4.2	1.7	3.5	2.7
	Producers' prices	11.7	7.0	11.5	5.4	5.6	8.2	16.8	7.2
Agriculture	Output	-0.6	-5.4	-2.0	-9.6	-4.0	-3.2	-7.3	-0.4
	Producers' prices	12.9	14.7	15.8	15.6	13.7	18.0	17.6	20.2
Construction	Output	5.3	-3.2	1.8	-33.5	-11.5	-35.8	2.5	-15.0
	Producers' prices	7.3	9.5	16.9	5.6	8.7	11.4	13.1	7.3
Trade	Output	2.6	3.5	-2.6	3.1	2.6	2.5	3.8	3.8
	Producers' prices	-0.2	-0.1	1.7	-1.3	0.4	-10.6	0.6	-0.9

Industry. In the regions where the bank operates, compared to the rest of the country as a whole, industrial output is growing more quickly, while producers' prices are rising more slowly. This increases the competitiveness of the goods produced. It was only in the Nizhny Novgorod region that growth in industrial output was below the Russian average (-0.2%), but so too was price growth (-4.5%). This anti-crisis trajectory shows that **the regions in which Center-invest Bank operates are adapting successfully to the transformation economy.**

At the same time, manufacturing in the regions is growing at a faster pace. This trend is to a large extent due **to import substitution, as well as programmes to modernise production and increase energy efficiency that are being implemented with support from Center-invest Bank.**

Growth rates, 2018 compared to 2017, %	RF	SFD	NCFD	RR	KK	VR	SK	NN
Extractive industry	4.1	13.7	-3.1	-5.9	5.0	6.2	-5.7	-8.2
Manufacturing	2.6	4.9	2.9	10.1	4.2	1.3	7.2	3.2
Supply of electricity, gas and steam; air conditioning	1.6	5.9	-5.0	10.8	3.6	1.3	-9.2	-2.3
Water supply; waste water disposal; waste collection and recycling; activities to eliminate pollution	2.0	4.8	-1.7	9.1	10.4	-7.1	-1.5	3.7
Electricity generation	1.4	8.3	-6.3	14.1	4.9	-2.3	-11.2	-6.0

Agriculture. After the record harvests of the preceding years, weather-related risks and a fall in output were highly likely. Reduced expenditure did not compensate for the lower output, and this influenced price growth for agricultural production, especially in the regions that specialise in this sector. Crop production was hit the hardest by the dry weather. In the Rostov region, avian influenza was a significant factor in the reduced supply of meat and eggs.

Growth rates, 2018 compared to 2017, %	RF	SFD	NCFD	RR	KK	VR	SK	NN
Grain	-16.7	-18.6	-9.8	-18.9	-9.7	-34.4	-11.7	-13.1
Sunflowers	-20.6	-22.5	-25.8	-20.2	-22.7	—	-21.6	-14.2
Potatoes	20.2	1.9	-13.2	-6.3	-12.5	64.0	-12.5	-35.5
Vegetables	3.3	5.0	0.2	9.5	5.7	-3.9	1.3	2.3
Cattle and poultry for slaughter (live weight)	-0.1	0.9	-2.9	-12.6	-0.3	-9.0	-9.4	-6.6
Milk	2.5	0.7	4.7	0.2	0.1	-1.7	7.6	-0.6
Eggs	1.5	2.2	-0.1	0.4	5.0	1.0	-8.1	0.5

Construction. Construction output declined in southern Russia following completion of the main infrastructure projects for the 2018 FIFA World Cup (including the Platov airport), and the construction sector turned its attention to the housing market. There is increased demand for new housing, reflected in the higher price growth in the new build market.

Growth rates, 2018 compared to 2017, %	RF	SFD	NCFD	RR	KK	VR	SK	NN
Construction (volume of work)	5.3	-3.2	1.8	-33.5	-11.5	-35.8	2.5	-15.0
Housing construction	-4.9	-6.7	-32.7	0.6	-7.1	-20.5	1.9	3.3
of which, self-builds	-1.6	-11.4	-35.6	-9.8	-12.4	-13.6	12.5	26.3
Price indexes on the housing markets:								
New build market	6.3	7.0	6.1	3.0	9.9	9.5	10.3	1.0
Resale market	4.1	0.9	-0.1	-1.2	1.1	0.7	0.1	2.2

Trade. Retail sales and spending on services are growing faster in southern Russia than in the rest of the country as a whole. In particular, southern Russia is seeing higher growth in sales of food items and the prices of these goods. Income lags behind the national average, and when income growth is modest, the main growth in demand is for food items. Purchases of non-food items lag slightly behind the national average, but prices are lower: workers from expanding manufacturing sectors are buying cheaper non-food items and services which were previously unaffordable.

Growth rates, 2018 compared to 2017, %	RF	SFD	NCFD	RR	KK	VR	SK	NN
Retail sales	2.6	3.5	-2.6	3.1	2.6	2.5	3.8	3.8
Food items	1.7	3.0	-4.6	2.8	2.6	0.6	3.5	1.4
Non-food items	3.4	3.8	-0.3	3.3	2.6	4.1	3.9	4.6
Consumer spending on services	2.5	0.5	1.2	2.8	1.3	-1.0	0.8	2.6
Consumer prices								
Goods and services	4.3	4.5	3.7	4.5	4.3	4.3	4.5	4.7
Food items	4.7	5.4	3.5	5.4	5.3	5.2	4.6	4.8
Non-food items	4.1	3.7	3.7	3.3	3.9	4.2	4.3	4.6
Prices for services	3.9	4.0	4.1	4.9	3.3	3.4	4.5	4.7
Housing and utilities services (heating, water supply, waste water disposal)	4.4	3.7	4.3	3.8	3.2	4.0	3.3	4.0

Household income and expenditure. Growth in income and accelerated wage growth has been outstripped by expenditure and high prices, resulting in a fall in real household income in southern Russia. The more rapid growth in income and expenditure in the Rostov region and Krasnodar Krai is connected to local entrepreneurial activity

and expenditure by visitors from other regions. **The population is increasingly using loans to meet its needs, primarily mortgage loans to improve living conditions.**

Growth rates, 2018 compared to 2017, %	RF	SFD	NCFD	RR	KK	VR	SK	NN
Real income	0.9	1.5	-2.1	2.0	0.1	-0.2	-0.8	-0.9
Income	6.5	5.4	1.2	4.9	3.5	6.4	11.1	9.3
Consumer spending	5.6	5.0	-3.5	6.5	3.0	8.7	5.9	9.5
Average monthly wage	6.5	5.4	1.2	4.9	3.5	6.4	11.1	9.3

Company finances and investment. The weak financial performance of companies in southern Russia has not impacted on the attractiveness of investment in fixed capital, **as it is to a large extent based on government investment and determined by parent companies.**

Growth rates, 2018 compared to 2017, %	RF	SFD	NCFD	RR	KK	VR	SK	NN
Financial results	66.4	6.0	11.3	16.4	-14.8	108.1	44.5	11.3
Capital investments	4.3	-8.9	2.4	-23.6	-8.6	-11.9	2.4	2.8

Foreign trade. The regions in which Center-invest Bank operates are not involved in energy exports, but they are **actively using the export potential of various sectors and also importing machinery and equipment, raw materials and other materials**, despite the slowdown in imports in Russia as a whole.

Growth rates, 2018 compared to 2017, %	RF	SFD	NCFD	RR	KK	VR	SK	NN
Exports	25.6	26.0	11.2	32.4	19.8	24.6	6.9	41.4
With non-CIS countries	27.5	27.2	17.7	35.5	20.0	29.2	15.3	57.7
With CIS countries	13.5	20.0	0.8	20.1	17.2	18.1	-7.8	20.4
Imports	4.7	11.1	-7.2	5.9	1.5	26.1	-2.7	12.8
With non-CIS countries	4.6	9.8	-8.0	-3.6	2.8	25.7	-6.2	20.9
With CIS countries	5.3	16.3	-4.1	28.8	-5.7	27.2	9.1	-36.4

Retail lending*. The population has long resisted foreign currency loans, and demand is falling rapidly. The population of southern Russia take out fewer loans, but mortgage lending programmes, including government-subsidised programmes, are in high demand.

Growth rates, 2018 compared to 2017, %	RF	SFD	NCFD	RR	KK	VR	SK	NN
In rubles	22.6	23.6	24.1	21.2	24.1	22.3	22.7	20.7
Including consumer loans for house purchases	23.6	27.3	24.9	25.8	28.4	23.0	23.2	19.1
Of which, mortgage loans	23.9	27.8	25.5	26.3	28.9	23.2	23.7	19.8
In foreign currency	4.3	-16.0	-9.0	-13.7	-24.8	-7.1	-14.4	-34.7
Including consumer loans for house purchases	-20.3	-15.2	-5.2	-0.6	-21.5	-28.8	-19.9	-24.7
Of which, mortgage loans	-21.1	-15.8	-3.4	-1.1	-21.8	-28.8	-19.7	-24.1

* Outstanding debt on loans provided by credit institutions to individuals (based on the location of the borrower).

Business lending*. The rate of growth in lending to the real economy in southern Russia is below the national average. However, in the Rostov region the scale of lending to companies and organisations is almost 75% above the national average. While SME lending is becoming increasingly popular in Russia, regions in which Center-invest Bank operates surpass the average rates, for SME lending (the Volgograd and Nizhny Novgorod regions) or for lending to individual entrepreneurs. Foreign currency lending to business is increasing, despite efforts to “dedollarize” the economy. However, in the regions, foreign currency loans are linked to very specific projects, which again shows that rates of SME lending are highly volatile.

Growth rates, 2018 compared to 2017, %	RF	SFD	NCFD	RR	KK	VR	SK	NN
In rubles	14.9	7.4	6.3	24.1	-0.8	14.7	13.4	12.7
Including to SMEs	10.7	-2.7	-0.8	5.5	-15.9	26.8	-1.5	16.0
Of which, individual entrepreneurs	6.4	14.4	1.4	14.1	16.1	15.8	5.2	-7.7
In foreign currency	37.3	16.1	-29.2	41.5	-9.0	434.6	16.6	53.1
Including to SMEs	43.0	193.5	-82.4	130.8	319.1	262.0	-100.0	-85.0
Of which, individual entrepreneurs	-17.0	—	—	—	—	—	—	—

* Outstanding debt on loans provided by credit institutions to companies and individual entrepreneurs (based on the location of the borrower).

Institutional structure. 2018 marked a turning point for the structure of the economy: **the number of companies began to fall, while the number of individual entrepreneurs began to increase.**

Growth rates, 2018 compared to 2017, %	RF	SFD	NCFD	RR	KK	VR	SK	NN
Number of companies	-7,6	-3,3	-5,4	-1,5	-3,9	-7,0	-8,0	-6,1
Number of individual entrepreneurs	3,2	0,8	-3,7	-0,3	1,1	1,3	1,0	2,5

Population. The Russian population fell in 2018, and this same trend was seen in the regions of southern Russia, with the exception of the North Caucasus republics. **Southern Russia is highly attractive for migrants, but the influx of migrants does not compensate everywhere for the natural population decline.**

Population increase/decrease in 2018, by 1000 residents	RF	SFD	NCFD	RR	KK	VR	SK	NN
Natural population increase (+), decrease (-)	-1.5	-2.4	6.8	-3.6	-0.9	-3.9	-0.7	-1.5
Population increase (+), decrease (-) due to migration	0.9	3.0	-2.6	-0.6	8.5	-1.5	-2.5	-1.5