

## Barents Monitoring Arkhangelsk Oblast third quarter 2009

The Social-Economic Development of Arkhangelsk Oblast in July-September 2009<sup>1</sup>

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*The Arkhangelsk regional administration*

### **Trends**

The first nine months of 2009 saw a 4,2 percent growth in regional industrial production, which is rather unusual seen on the background of general economic decline in the country. This growth, however, was not met with optimism, because of a number of other factors negatively influencing the general economic development in the region.

The index growth was achieved exclusively thanks to the positive dynamics in the regional oil and gas sector, which is totally concentrated on the territory of Nenets Autonomous Okrug, but nevertheless studied by the statistical committee as a part of overall economy of Arkhangelsk Oblast. The growth figures do not lift the mood of the regional authorities, because all revenues from oil and gas production do not fill up the regional budget, but is floated directly to the federal budget and then subsequently coming partly back in the form of various federal transfers.

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<sup>1</sup> This report is written by the Arkhangelsk office of the Norwegian Barents Secretariat. Figures are taken primarily from the Arkhangelsk regional statistics service

About 2/3 of the economy of Arkhangelsk Oblast is based on the processing industries, which had a near 15 percent output drop since the beginning of the year. The gross regional product for the first half of the year fell by almost five percent. The growing deficit of the regional budget is becoming a big problem for the regional authorities. This deficit has already reached 7,5 percent (including federal transfers). A similar situation is observed in the neighboring regions and the President's Plenipotentiary in the Northwest Russian federal district Ilya Klebanov has already characterized the budgets of Arkhangelsk and Murmansk Oblasts as "budgets of survival".

The federal Ministry of Regional Development has an even more pessimistic view of the situation. According to a new study from the ministry, the budget deficit of Arkhangelsk Oblast can by the end of the year grow to almost 17 billion rubles, or around 32 percent of the total annual revenues.<sup>2</sup> This situation puts Arkhangelsk Oblast in the group of regions, which fail to meet their obligations on current disbursements. The total number of such regions in Russia is 23 and among them are all the territories of the Russian part of the Barents Region, except the Komi Republic. In other words, the budget deficit is not a unique problem for Arkhangelsk Oblast.

The main reason of the growing deficit is a continuing decrease of local companies' profits and the subsequent shrinking of the collected incomes tax, which constitutes one of the main pillars of the regional budget. The share of the income tax in the budget revenues has been between 17 and 19 percent over the last three years. Today, it amounts to only 5-7 percent of budget revenues. According to estimations made by the regional parliament, the regional budget can lose around 10 billion rubles of revenues compared to what was planned a year ago.

The year 2010 also does not promise any positive changes. The regional government has informed that the 2010 budget revenues will be even lower than in 2009, and thus lead to a deficit of up to 15 percent.<sup>3</sup>

The impact of the financial crisis is also clearly demonstrated in the credit market. The volume of crediting is continuing to decline. In September 2009 the volume of credits given to the companies and physical persons was 20 percent lower compared to last year. From January, the volume of crediting fell by 14 percent and the amount of unsettled debts of companies grew by more than 18 percent. The arrears of wages grew eight times from the beginning of the year and amounted to 86,7 million rubles. With this trend follows a threat to the social stability in the region.

Positive signals come only from the agricultural sector, where the growth continues for already 6 months. In the third quarter, the agriculture sector gave an impressive 11,1 percent surplus compared to the corresponding level of last year. Such rates of development were not observed in this sector for the last decade. The growth in agriculture was achieved due to increase of production in the live-stock breeding (+18% in the third quarter) and eggs production (1,5 times more).

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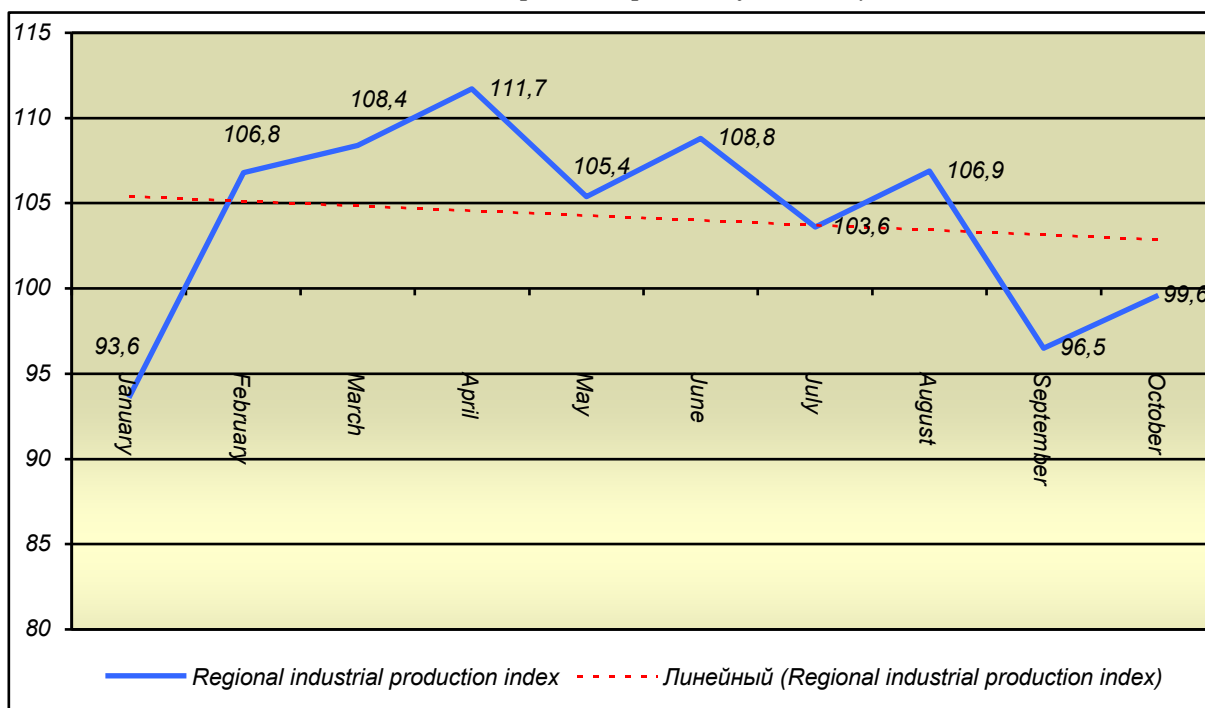
<sup>2</sup> Monitoring sotsialno-ekonomicheskogo razvitiya subyektov Rossiyskoy Federatsii. ([www.minregion.ru/WorkItems/ListNews.aspx?PageID=434](http://www.minregion.ru/WorkItems/ListNews.aspx?PageID=434))

<sup>3</sup> "Byudzhet Arkhangel'skoy oblasti na 2010 god budet pochti na chetvert menshe byudzheta 2008 goda". *Severinform.ru* ([www.severinform.ru/?page=newsfull&date=16-102009&pr=&rg=&newsid=101130](http://www.severinform.ru/?page=newsfull&date=16-102009&pr=&rg=&newsid=101130))

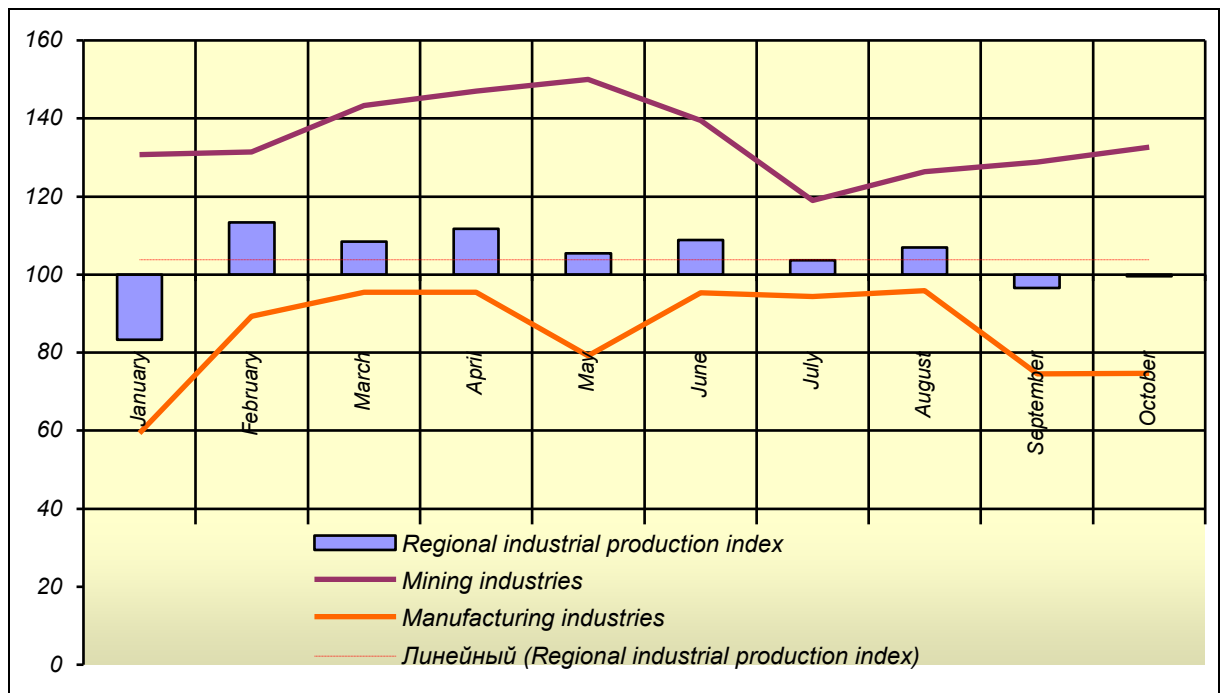
## Industrial production

The short period of growth in the regional processing industries (June and July) came to a halt in August and September. In August, the processing industries fell five percent and in August by another 13 percent. As a result, in the nine first months of the year, the processing industry has cut production by almost 15 percent and is operating on a level 25 percent lower than in the corresponding period last year. Nevertheless, the overall index of industrial production as already mentioned grew by 4,2 percent due to a positive dynamic in the hydrocarbon industry. This happened due to stirring up of the activity of oil and gas companies in the Nenets Autonomous Okrug and the investments made by them years before.

**Diagram 1. Index of industrial production 2009**  
(% to the correspondent period of the last year)



**Diagram 2. Index of industrial production  
in the mining and manufacturing industries in 2009**  
(% to the correspondent period of the previous year)

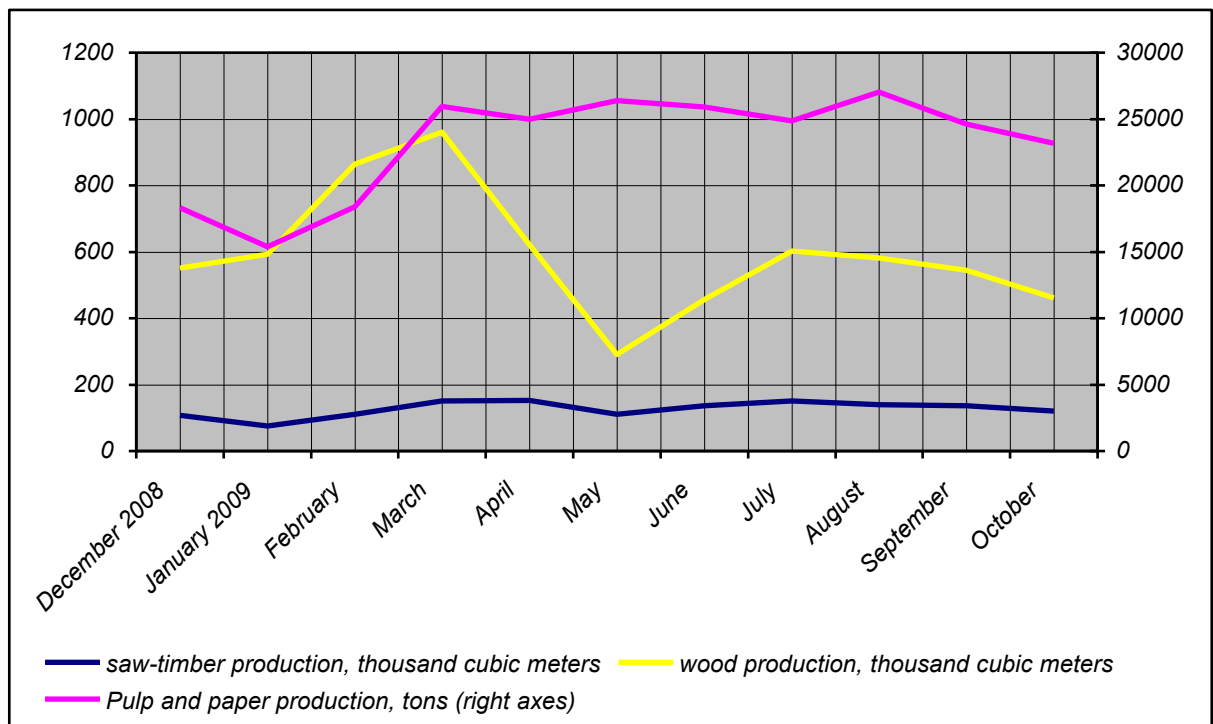


**Timber Industry.** The timber industry provides 50 percent of the total volume of industrial production in the region and provides half of all jobs in the industrial sector. The timber industry in Arkhangelsk Oblast was developing a bit better than in the other Northwest Russian regions. In July, the wood production experienced growth which compensated for the fall of the previous months. However, in August and September the fall in this key sector of the regional economy recommenced and the third quarter of the year showed an almost ten percent drop compared to the same period of the previous year.

Almost the same situation was observed in the saw-timber production. However, here the fluctuations of the production level were not so distinctive. Although the timber production in July-September was down almost 15 percent lower year-on-year, the total output of this sector was almost seven percent higher than in the second quarter of the year and more than 25 percent higher than in January-March 2009. The paper production in the third quarter of the year stayed almost on the same level as in the previous three months and was only five percent lower than in the same period of the last year.

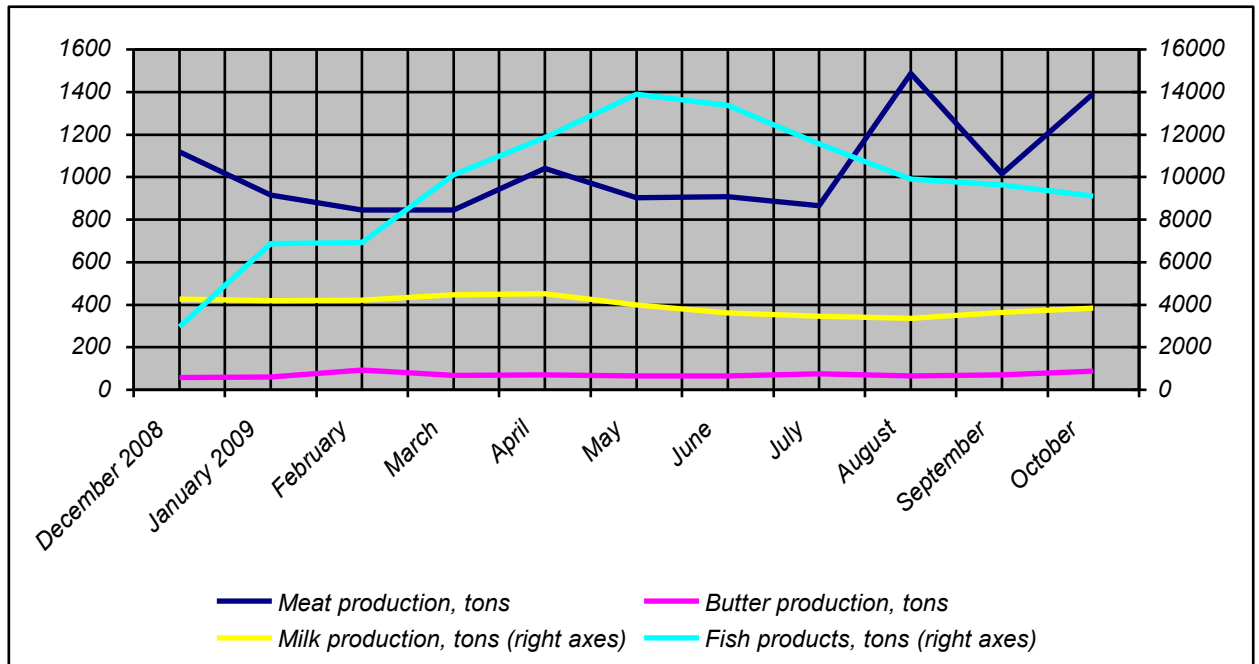
Probably, this fact allowed the regional authorities to announce that the critical phase of the crisis in this sector is over. This optimism is also supported by the recent decision of the federal government to introduce credit subsidies for the companies in the timber industrial sector and by the considerable growth of paper prices on the world markets.

**Diagram 3. Timber sector**



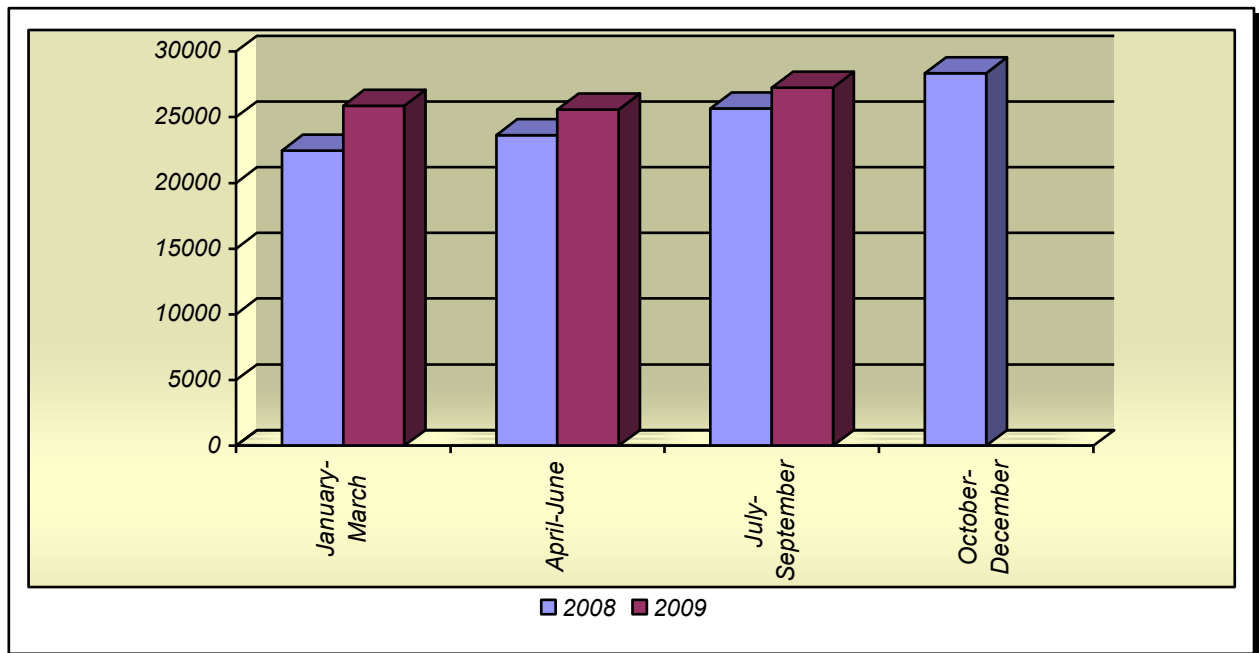
**Food industry.** The situation in the food industry still appears relatively good. With a considerable growth of meat production (+18%), production of fish products showed an almost 20 percent drop, milk products dropped 14 percent. But most of the segments of food industry are developing on levels higher than in the same period of the last year, or close to that. This fact could be interpreted as an import substitution effect, similar to the one experienced in Russia during the crisis of the late 1990s.

**Diagram 4. Food industry**



**Retail trade.** The trade turnover showed moderate growth in absolute figures in the third quarter of the year and added three percent to the previous three months. But in comparable prices the retail trade turnover showed the opposite result - minus three percent to last year's level. The sales of non-food goods in absolute figures increased significantly – by 9,7 percent, the food products sales grew up by over 3 percent. But the catering turnover stayed stable keeping the level approximately 10% lower to the last year period.

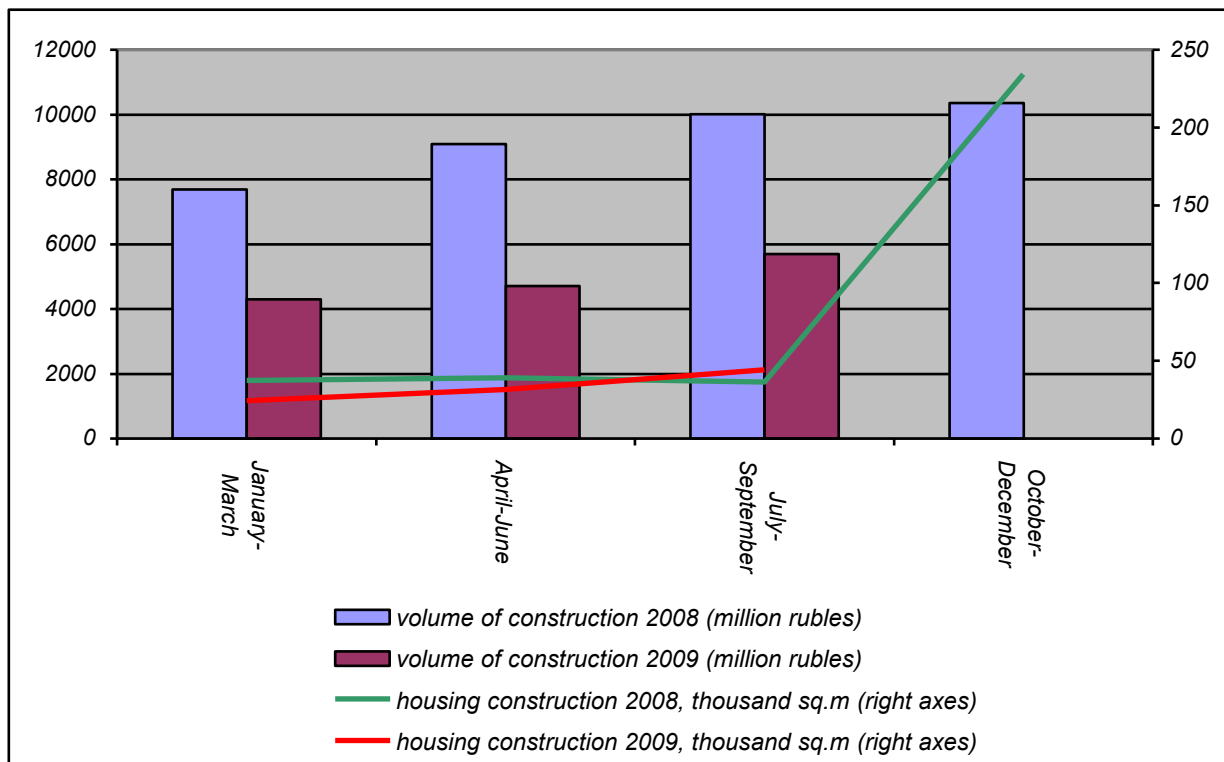
**Diagram 5. Retail trade turnover**  
(million rubles)



**Construction industry.** According to data from the Ministry of Regional Development, Arkhangelsk Oblast belongs to the group of regions with the biggest decline in the construction

industry. Over the nine first months of 2009, the volume of construction fell by almost 47 percent compared to the corresponding period last year, while in average in the country the decline in this sector was only 18 percent. At the same time, the volume of housing construction stays on the levels close to last year and even demonstrates a slight growth. The volume of house-building in Arkhangelsk Oblast is among the biggest in the Russian part of the Barents Region. So far this year, the regional construction industry produced almost twice more square meters than in the Komi Republic and almost seven times more than in Murmansk Oblast. This fact however could not save the regional production of construction materials from a major drop. The production of ferroconcrete items fell almost twice to last year's level, production of construction bricks –by almost 78 percent.

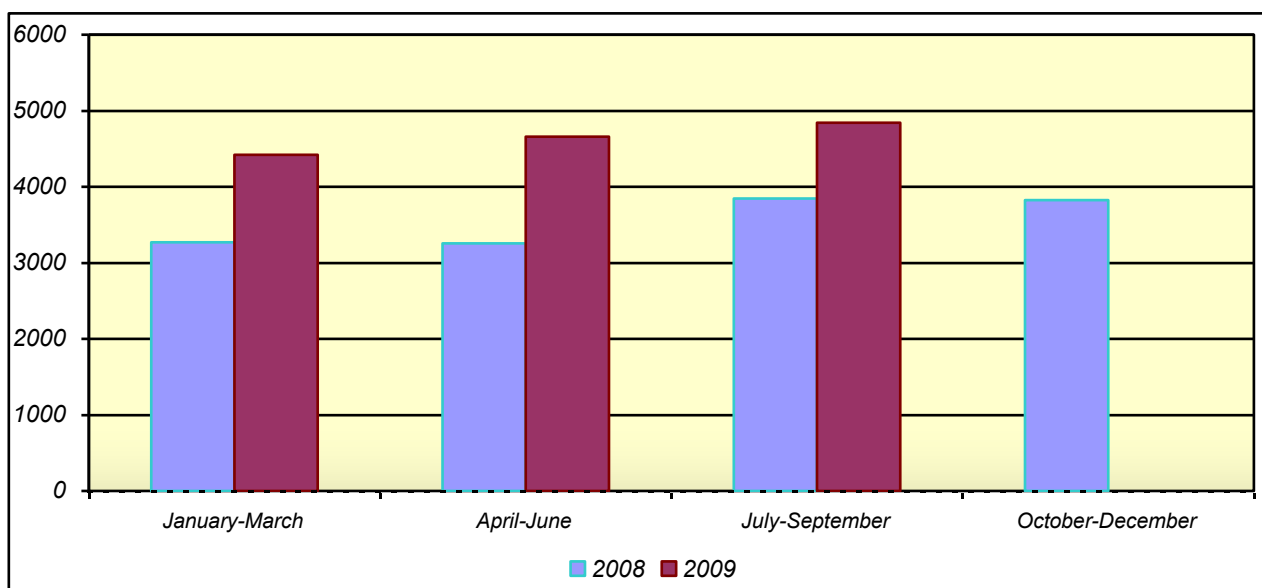
**Diagram 6. Construction industry**



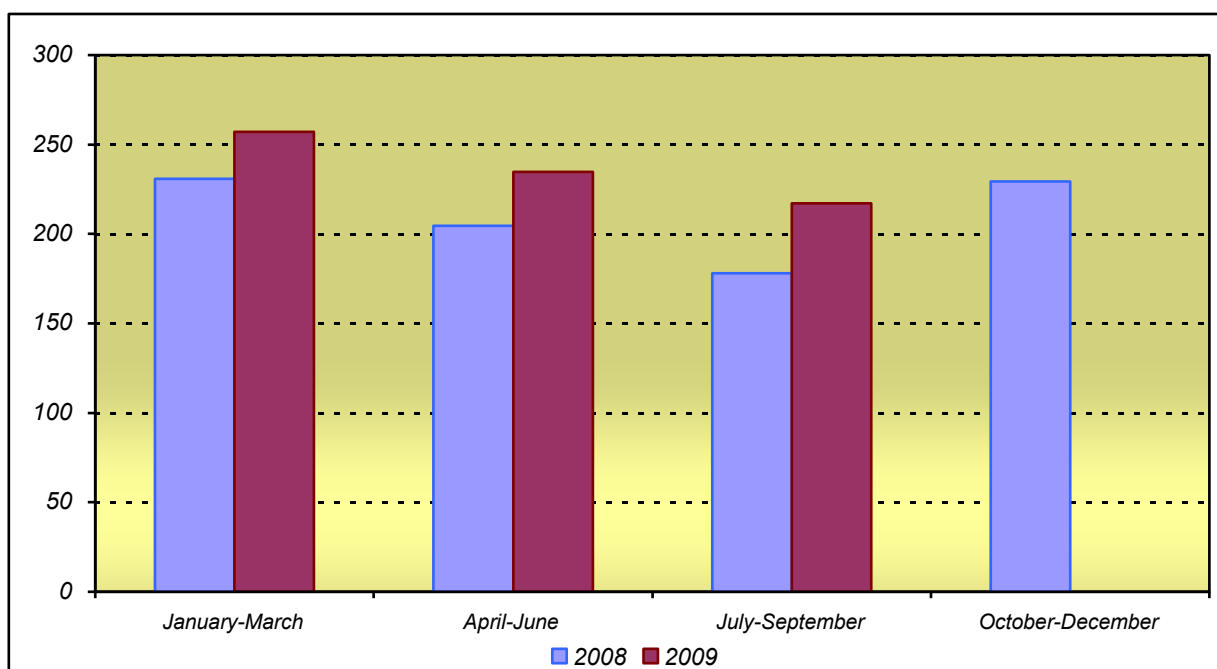
**Oil and gas production.** The oil production, which was impressively growing the last seven months of the year experienced a sudden decline in August and this trend continued in September. From July to September, the oil production dropped by nearly five percent. Nevertheless, the total production of oil in the third quarter of the year was higher than in the previous three months.

The corrected figures published by the regional statistical committee in October showed that the development of natural gas was not as positive as reported before. After a stable six-months growth from August 2008 till January 2009 its production started to fall in the second quarter of the year and continued to decline in the third one. The gas production in July-September 2009 was 7,4 percent less than in April-June and more than 16 percent less than in January-March. The overall and monthly gas production is still higher than in the last year.

**Diagram 7. Oil production in 2008-2009**  
*(Thousand tons)*

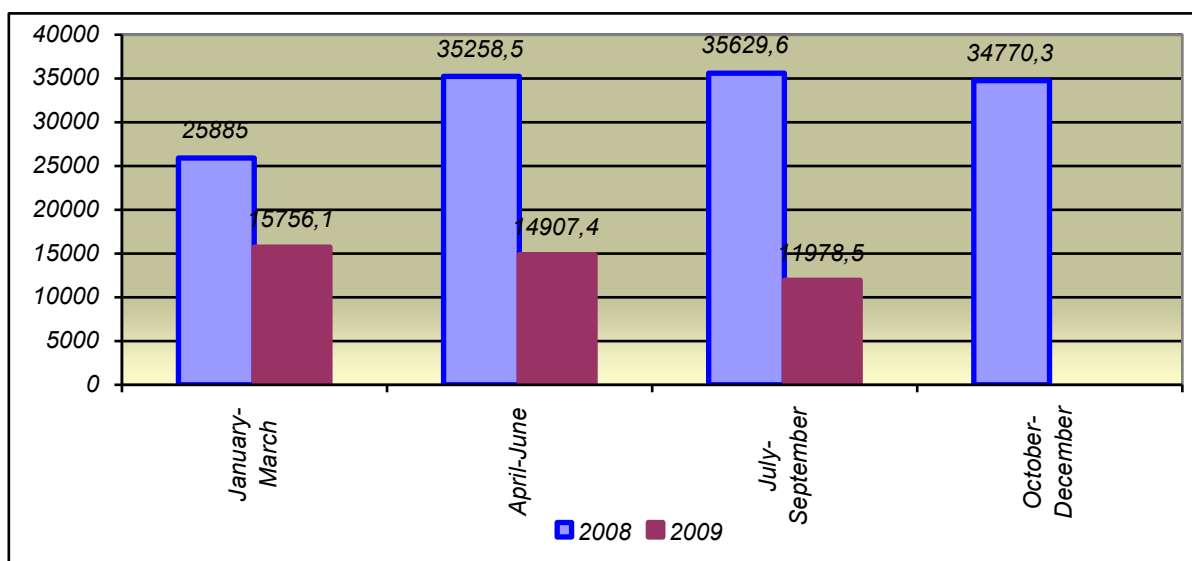


**Diagram 8. Natural gas production in Arkhangelsk oblast in 2008-2009**  
*(mln. cubic meters)*



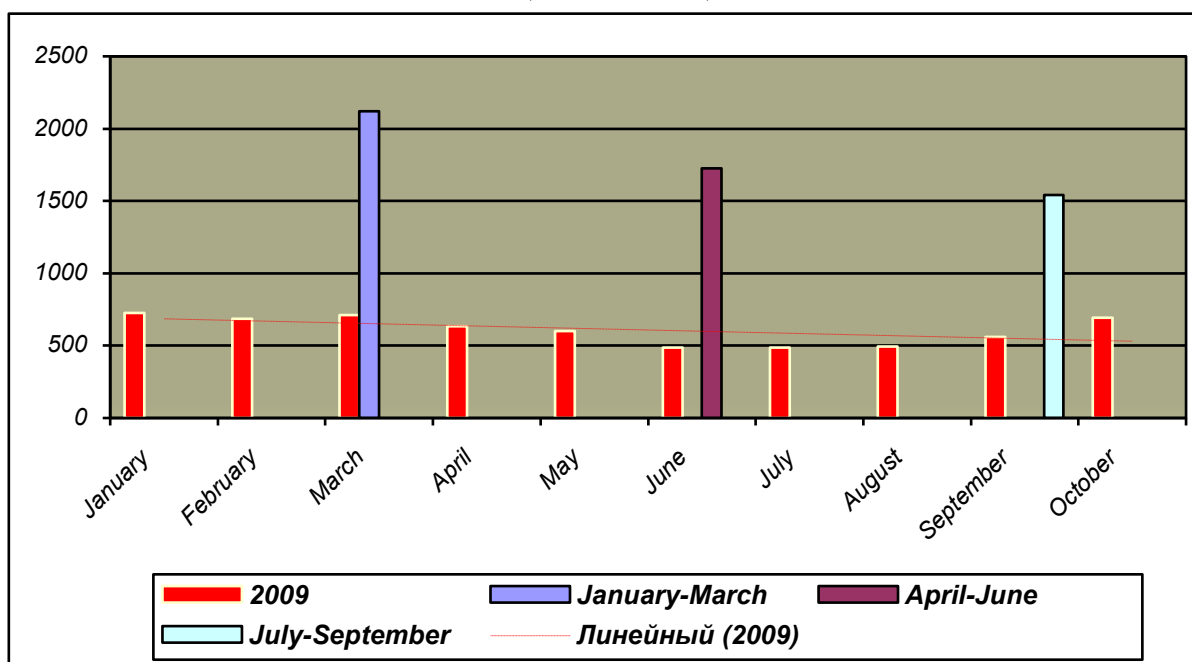
**Investments.** The level of investments in the main capital is close to a five-year minimum. Such a level of investments was not been registered since 2004. Most likely, the bottom of investments activity has not yet reached and in the fourth quarter of the year the fall of investments will be even more substantial.

**Diagram 9. Investments in the main capital**  
(million rubles)



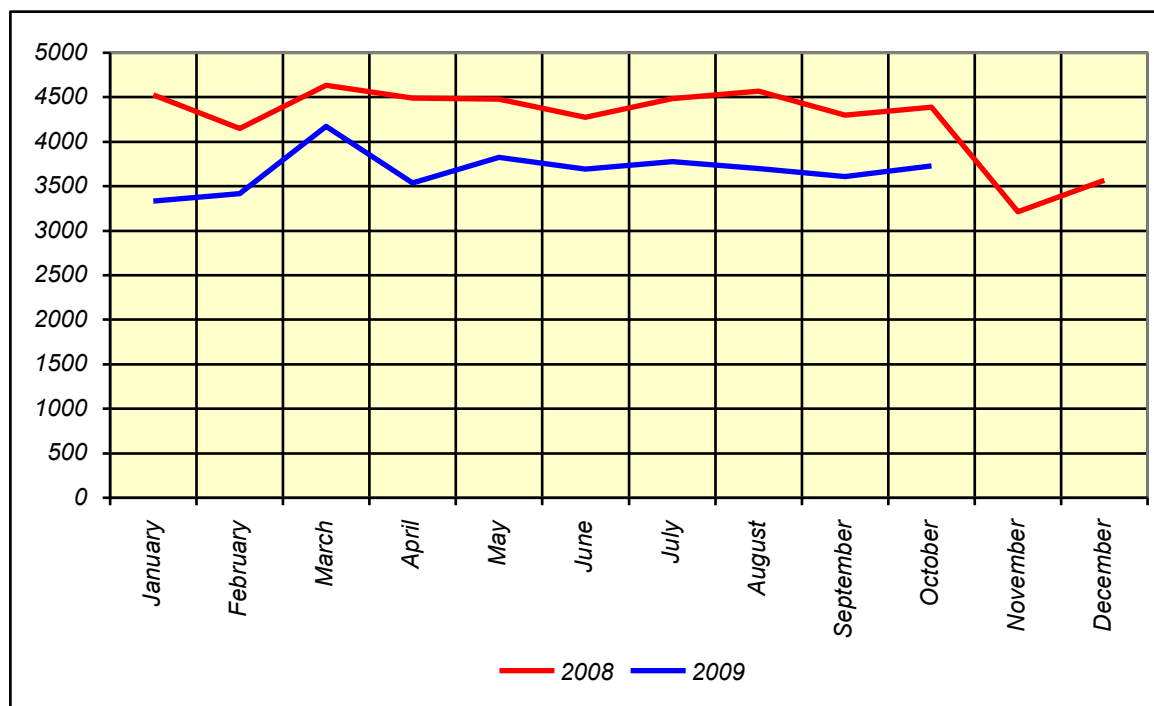
**Power generation.** The power generation stayed on a level approximately five percent lower than in the same period last year. However, in the end of the third quarter of the year this sector showed a considerable growth. In September, production of electric power and heat generation grew by almost 19 percent and this trend was prolonged in October. This fact can not be explained only by the seasonal effect, because in October the volume of power generation exceeded last year's level and was even the most successful in several years. The growth of energy generation is poorly correlated with the general negative tendencies in the industry and might indicate a low energy efficiency level in the regional economy.

**Diagram 10. Electric power generation in 2009**  
(million KWH)



**Cargo turnover.** The cargo turnover in the region continued stagnation on a level approximately 15 percent lower than last year. Even worse than average decline is demonstrated in the railroad sector. The volume of railroad cargo transportation was 18 percent lower than in the corresponding period last year.

**Diagram 11. Cargo transportation turnover in Arkhangelsk oblast in 2008-2009.**  
(Million ton/km)

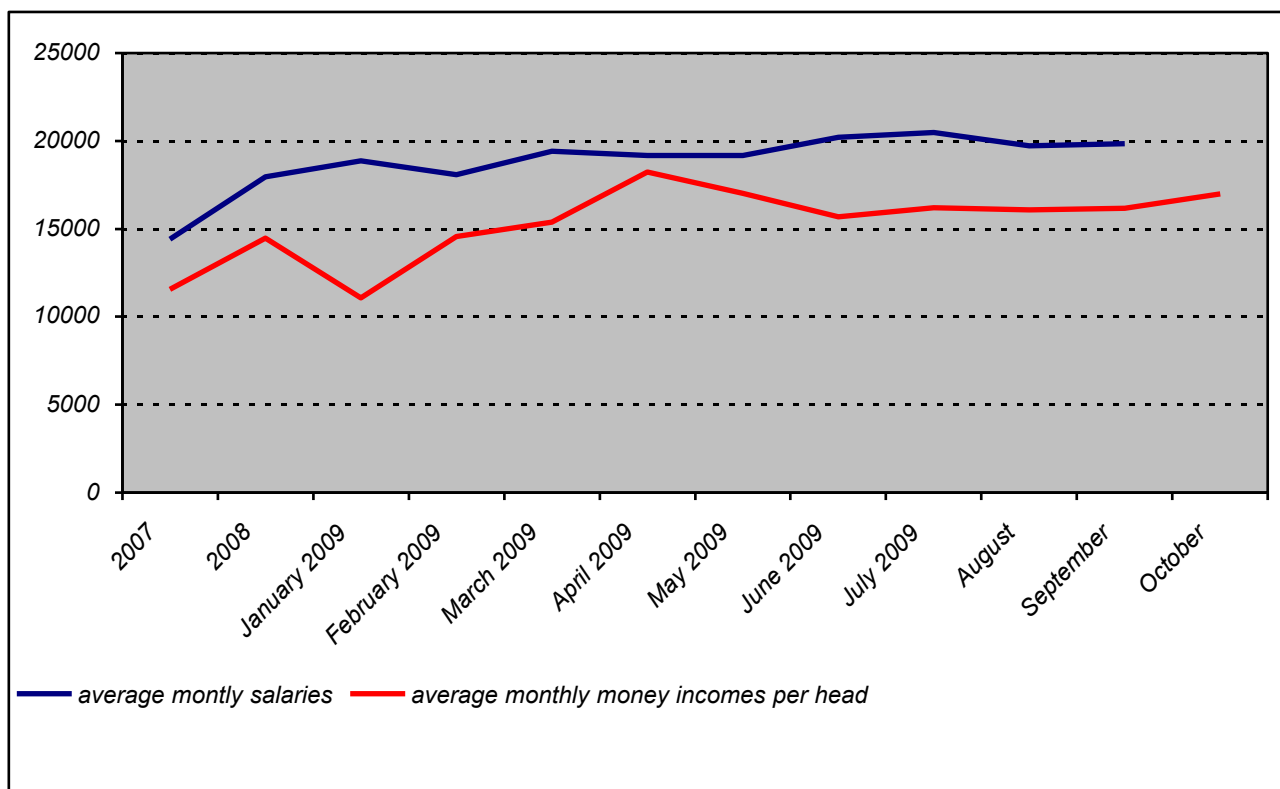


## POPULATION

**Demography.** The 9-months data showed that the trend with a slight improvement of the demographic situation in the region continues. The number of newborns in the period was 11616 against 11551 in the same last year period. The number of people who died was decreasing: 13523 in January-September this year against 14113 in the nine first months of 2008. The birth rate totaled 12,3 per thousand inhabitant, which is better than in the previous years. The death rate for the nine month period totaled 14,2 per thousand against 14,6 in the first half of the year and 14,8 in 2008.

**Incomes.** The statistics do not show any serious changes of the population's level of life. The real money incomes of the population were growing, but the rates of growth were not so big as in the previous years. In 2004-2008 the average monthly salaries were growing approximately by 22-26 percent per year. This year will show an average growth in monthly salaries about 10-11 percent.

**Diagram 12. Incomes of population**  
(rubles)



**Unemployment.** The unemployment level is declining from May. By the end of September, the number of officially registered jobless people dropped by 11 percent compared to June. But the total level of unemployment still stays on a significantly higher level than last year: in July-September this year the number of jobless was more than 42 percent higher than the same period last year. The level of registered unemployment totaled 2,5 percent of the number of economically active population. The State Employment Service foresees an increase of the unemployment level in the region in the fourth quarter. By the end of 2009 it can amount to 18,7 thousand or 2,7 percent of the economically active population.

**Diagram 13. Level of unemployment in Arkhangelsk oblast**  
*(thousand people).*

