



Barents Monitoring Arkhangelsk Oblast 2009

The Social-Economic Development of Arkhangelsk Oblast in 2009¹



¹ This report is written by the Arkhangelsk office of the Norwegian Barents Secretariat. Figures are based on the official report of the territorial organ of the Federal service of state statistics for Arkhangelsk oblast, the report of monitoring of the social-economic state of the subjects of federation of Russia of the Federal Service of the State Statistics, the official reports of the Federal Ministry of regional development, Federal Ministry of Finances and the Federal Ministry of economic development

TRENDS

In 2009 the economy of Arkhangelsk oblast experiences hardships. The crisis in the processing branches of industry negatively influenced the total volume of gross regional product, which in the first nine months of the year stayed on the level of 92- 95 percent to the previous year's results. By the end of the year, however, the indexes of industrial production started to grow and some positive dynamic was registered in the timber sector, construction industry and energy production. This allowed the regional industrial production index to reach a positive annual result compared to the previous year (+3,8%). This was obviously achieved mostly due to good trends in the mining industry, but one could carefully say that the lowest point of fall in the regional processing industries was left behind. Some positive developments during the year were also observed in the food industry and agriculture.

The continuing decline in the timber sector and obvious stagnation in the pulp and paper industry which for years were the backbone for the whole regional economy made the authorities to brisk up the work for search of new investors which could launch new branches of industry in the region and thus make the regional economy better balanced and diversified. In March 2009 the Government of Arkhangelsk Oblast established a commission on investments policy and development of competition whose main goal as it was announced is to build conditions and incentives for attraction of investments to the region. In June the Regional Council of Deputies adopted the Law on tax privileges in realization of investments activity on the territory of Arkhangelsk Oblast. On the federal level the Regional Government is actively trying to get support from the Federal Investment Fund to the projects of construction of the railroad Arkhangelsk-Syktvykar-Perm known as Belkomur and for the new deep water area of the Arkhangelsk Commercial Sea Port. In 2009 however these projects did not have any big progress. The regional authorities have notably intensified the activity for securing the position of the regional industry in the future development of the Shtokman project. One could mention as a good practical step in this direction the agreement with the leading Russian offshore pipeline contractor OAO "Mezhregiontruboprovodstroy" and Bredero Shaw (Canada) on establishing a pipe concrete coating facility in the port of Arkhangelsk.

The crisis has struck hard on the profitability of the regional companies and this immediately affected the situation with the regional budget revenues. The companies in the processing industry sector finished the year with 2,6 billion rubles losses and the mining companies, excluding the fuel and energy sector, had 1,3 billion rubles of losses. According to the analysis of the Russian Ministry of Finance, the consolidated budget of Arkhangelsk oblast in 2009 has lost 16,8 percent tax and non-tax revenues which is one of the worst results in the Northwest Federal Okrug. The regional budget lost 54,8 percent of the volume of the profit tax and 51,7 percent of the tax on natural resources development¹.

The deficit in the regional budget was by the end of the year 6,7 billion rubles, or 12,6 percent of the own budget revenues including federal transfers. The budget's own revenues dropped 12%. In this situation the regional authorities had to turn down many social and investments programs and postpone the increase of wages for the employees in the social sector. For example, investments in the regional program of roads construction were reduced with about 50 percent. The bad situation with regional finances was improved only thanks to the massive federal transfers. In 2009 the share of different sorts of federal transfers made up 60 percent of the total regional and local budgets in Arkhangelsk Oblast².

The year of 2010 is unlikely to improve the situation in regional finances. Federal authorities have already signaled significantly cuts in federal transfers to the regions. The profitability of

local companies is unlikely to grow. Some optimists pay attention to the positive signals on the world market of timber materials and paper, which can eventually support the regional industry. However, these trends will be more or less visible in the region only by the end of the year. What is more evident is that the budget of Arkhangelsk Oblast will lose approximately 1.5 billion rubles of revenues from the tax on mineral resources development, which from January 2010 was totally transferred to the federal center. Consequently, the 2010 regional budget was adopted with the maximum allowed deficit limit of 15%.

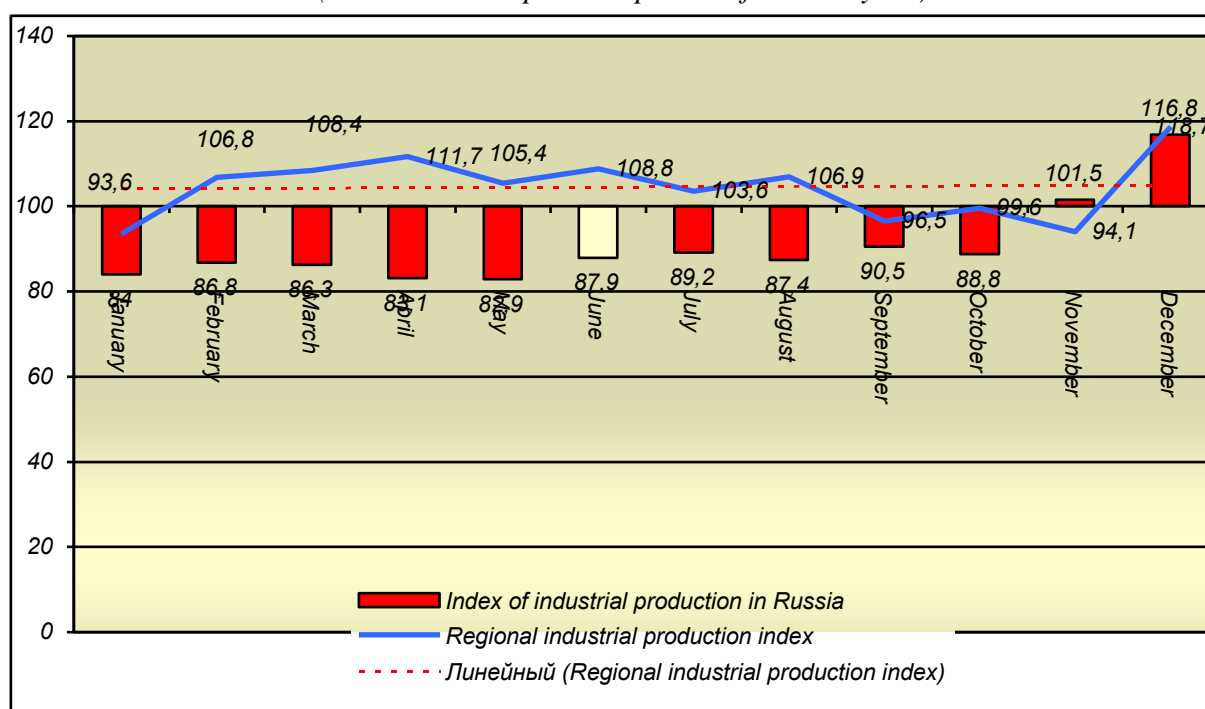
In a situation with growing social tensions and a continuing degradation of economic infrastructure, the year 2010 will very likely be very challenging for regional authorities.

Despite the number of negative developments in the regional economy and social sector, Arkhangelsk Oblast still looks a bit better than other Russian regions, including in the Northwest Federal Okrug. As a matter of fact, federal authorities in general positively assess the social-economic situation in the region. According to a report from the Federal Ministry of Regional Development, Arkhangelsk Oblast is placed in the group of 34 regions with a social-economic situation better than the national average and in the group of 14 regions with an economy “sufficiently better than average in the country”.³

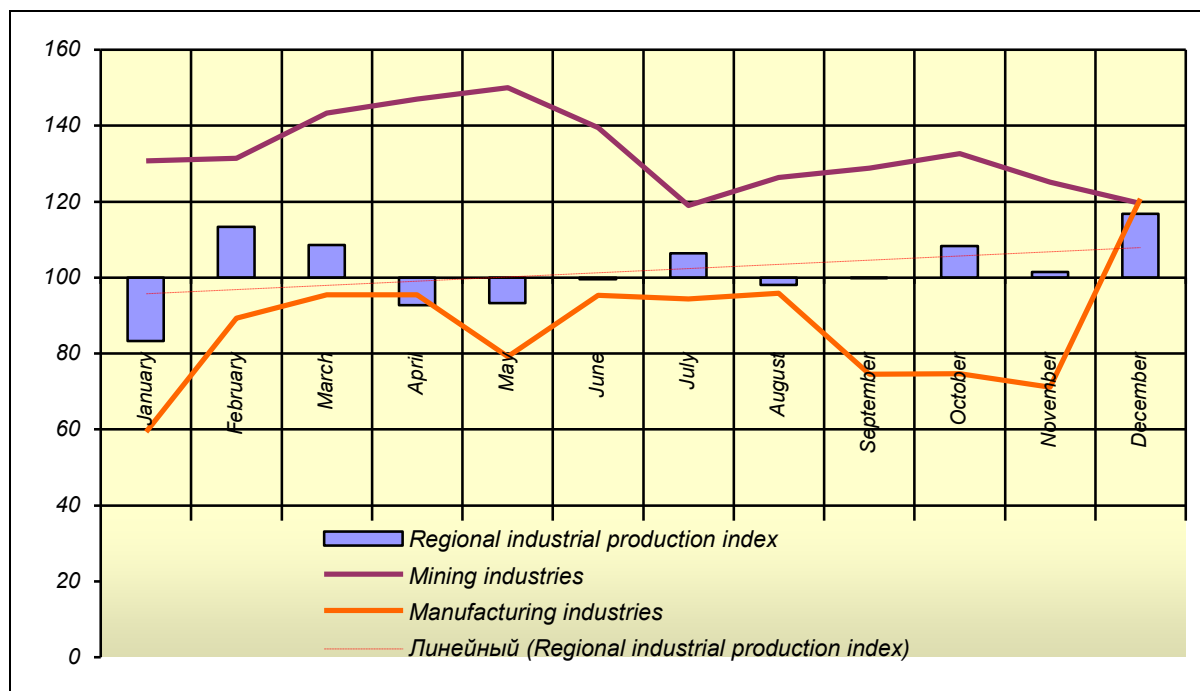
INDUSTRIAL PRODUCTION

Although the industrial indexes showed positive dynamic in the course of the year, the whole picture of the regional economy looks not very optimistic. While the mining industry was developing with impressive 30-35 percent surplus compared with 2008 levels, the branches of the processing industry were on the level of 15-17 percent behind last year. The only exception was December when the processing industry showed over 20 percent surplus compared to last year level, however this single fact only slightly improved the situation.

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)

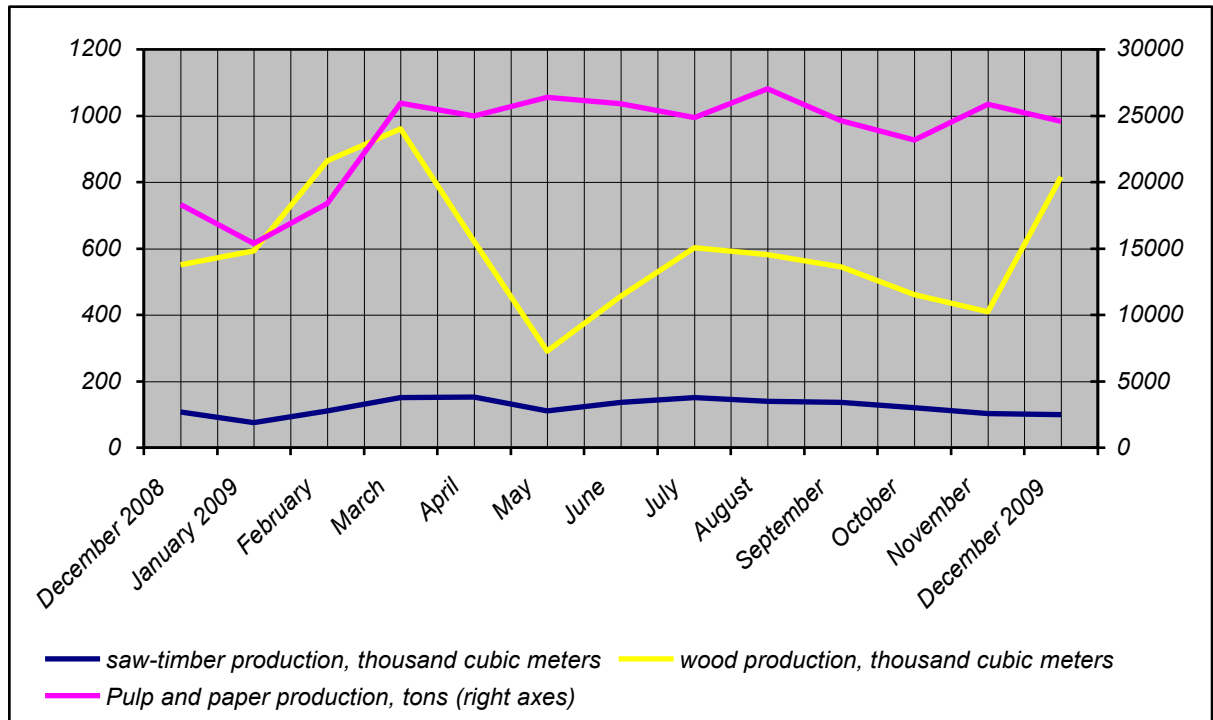


Timber Industry. The timber industry still is a basic pillar in the regional economy. It gives 50% of the total volume of industrial production in the region and provides half of all jobs in the industrial sector. The regional timber industry is heavily export-oriented and the negative situation on the world market of timber products has seriously influenced this sector of regional economy. Another negative factor was the very big slump of demand for timber products from the construction industry. In the course of 2009, the production of timber dropped by more than seven percent. This drop was however rather lower than in 2008, when figures fell 15%.

However, even with these negative results, the timber industry in Arkhangelsk Oblast seems to develop slightly better than average in the country. In the whole of Russia, the index of wood manufacturing was 82,3 percent of the 2008 level. This drop is explained by the major slump in demands for wood products in the construction industry, as well as on the world markets. The export of wood products, cellulose and paper from Russia in value terms declined by 15,4 percent in 2009.

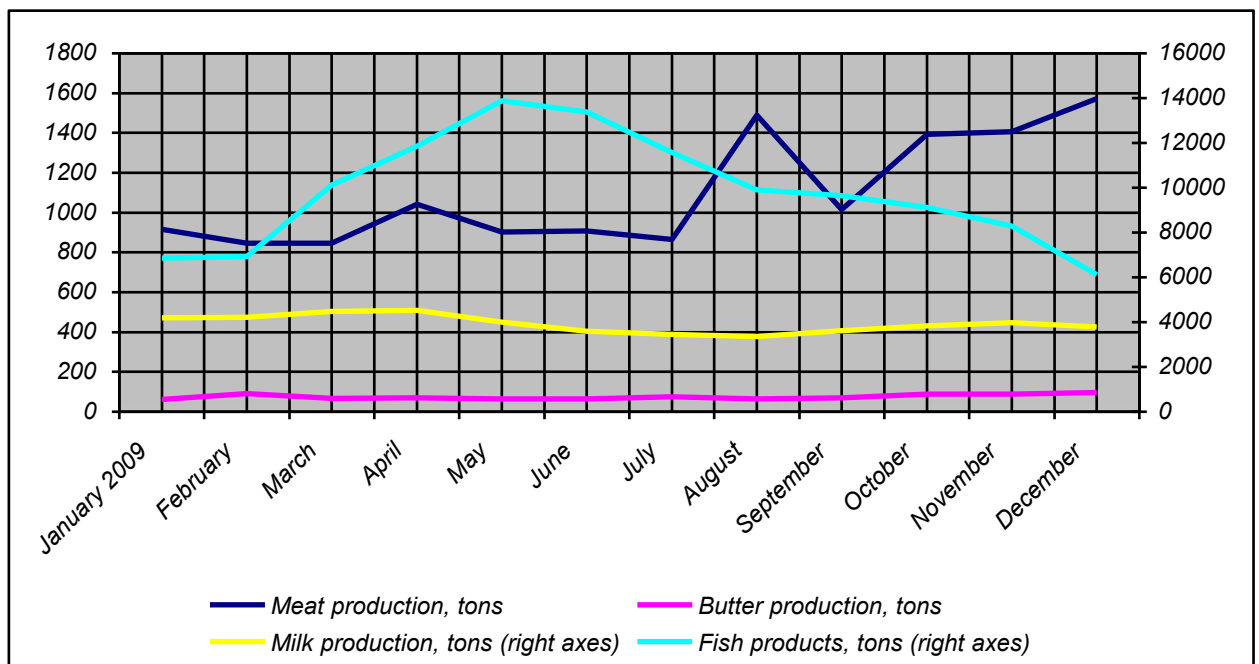
Nowadays, experts see some revival of demands and a considerable growth in prices on timber products on the world market. The authoritative magazine “Lesnaya Industrija” in January forecasted the revival of the Russian timber industry in 2010. But most probably, says the journal, this revival will start from the eastern areas of the country and will approach its European parts only by the end of the year.

Diagram 3. Timber sector



Food industry. The situation in the food industry still seems relatively good. Most segments of food industry followed the positive trends in the agricultural sector and showed in general higher levels than in the same period in 2008. Production of meat and meat products increased by over 34 percent in 2009. Milk production was relatively stable, while butter production jumped by over 22 percent. Fish production grew by 12 percent despite a major decline in the end of the year.

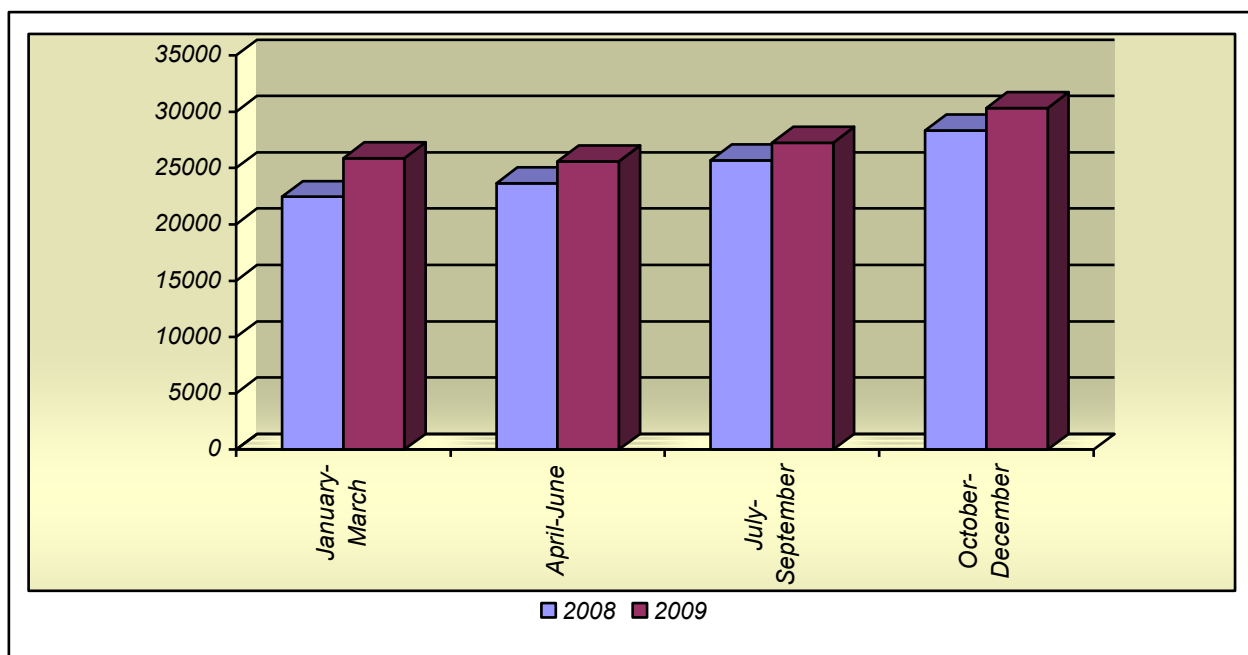
Diagram 4. Food industry



Retail trade. The retail trade turnover showed slight growth in absolute figures. But in comparable prices this sector declined by almost 2 percent compared with 2008 levels. The

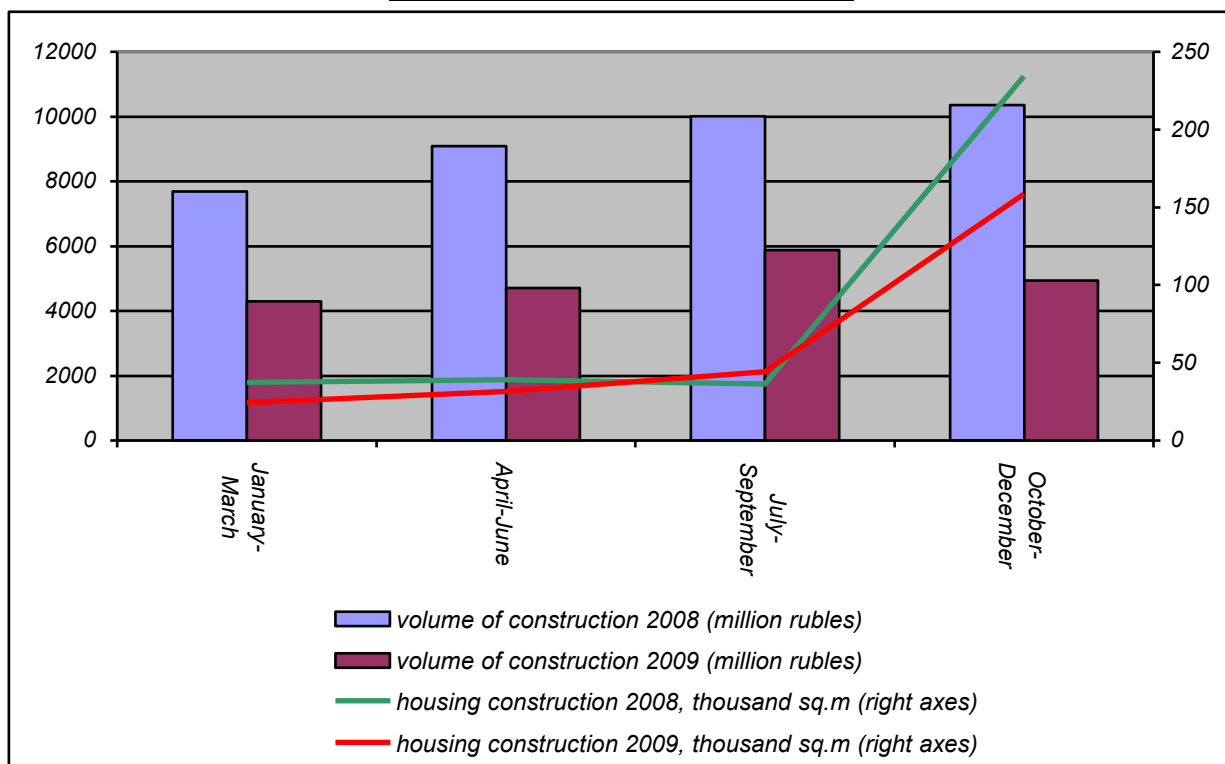
biggest decline was registered in catering – over 8 percent. The sales of food products dropped by 2,5 percent. Non-food products sales decreased by 1,2 percent.

Diagram 5. Retail trade turnover
(million rubles)



Construction industry. The total volume of construction in 2009 dropped to its lowest level in five years. Compared to the year 2008, work volumes dropped almost by fifty percent. This is a significantly more dramatic drop compared to the average figures for the whole Russia. According to the Federal Statistical Service the drop in this sector in Russia amounted to 16% in 2009. The housing construction in the country shrank by 6,7% while a 25,6% drop was registered in Arkhangelsk Oblast.

Diagram 6. Construction industry



Oil and gas production. The oil production in 2009 increased by more than 4,5 million tons, or more than by 24%. However after a long period of growth, the oil production stabilized by the middle of the year and now stays at approximately same levels - around 1,6 million tons per month. The natural gas production experienced a slight drop in the middle of the year and then started a stable 6 months growth. By the end of the year, the gas production almost reached the level of 100 million cubic meters per month. In the course of the year, the natural gas production increased by 144 million cubic meters, or by almost 15%. The monthly levels of gas production increased by the end of the year with nearly 9% compared to the beginning of the year. The oil and gas production is made in the Nenets Autonomous Okrug, an associated part of Arkhangelsk Oblast.

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

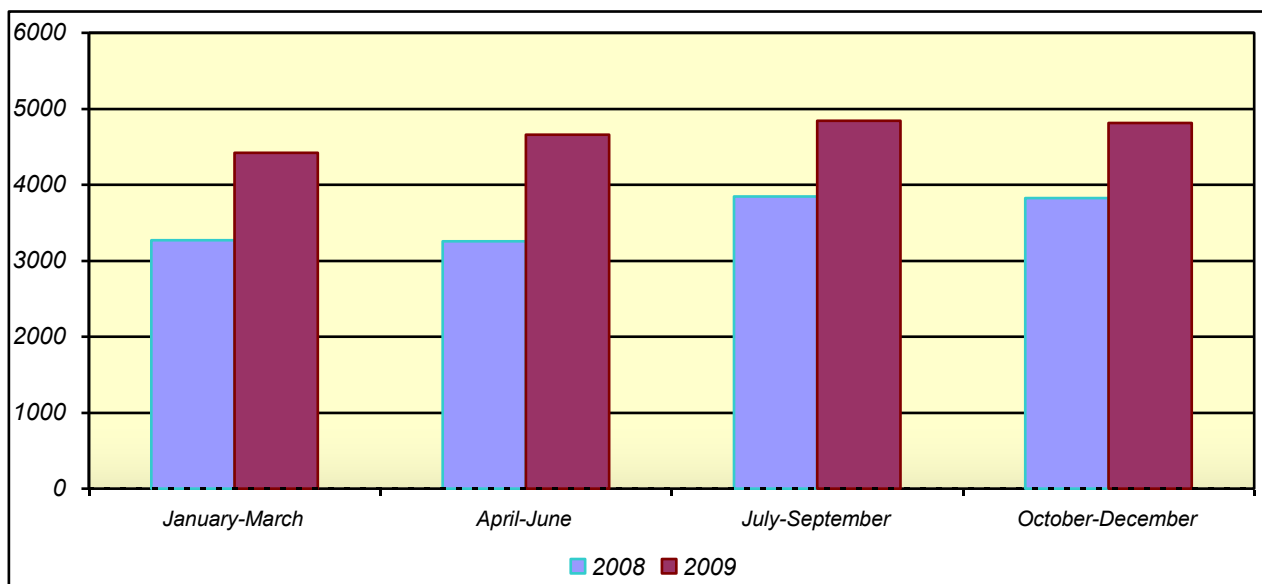
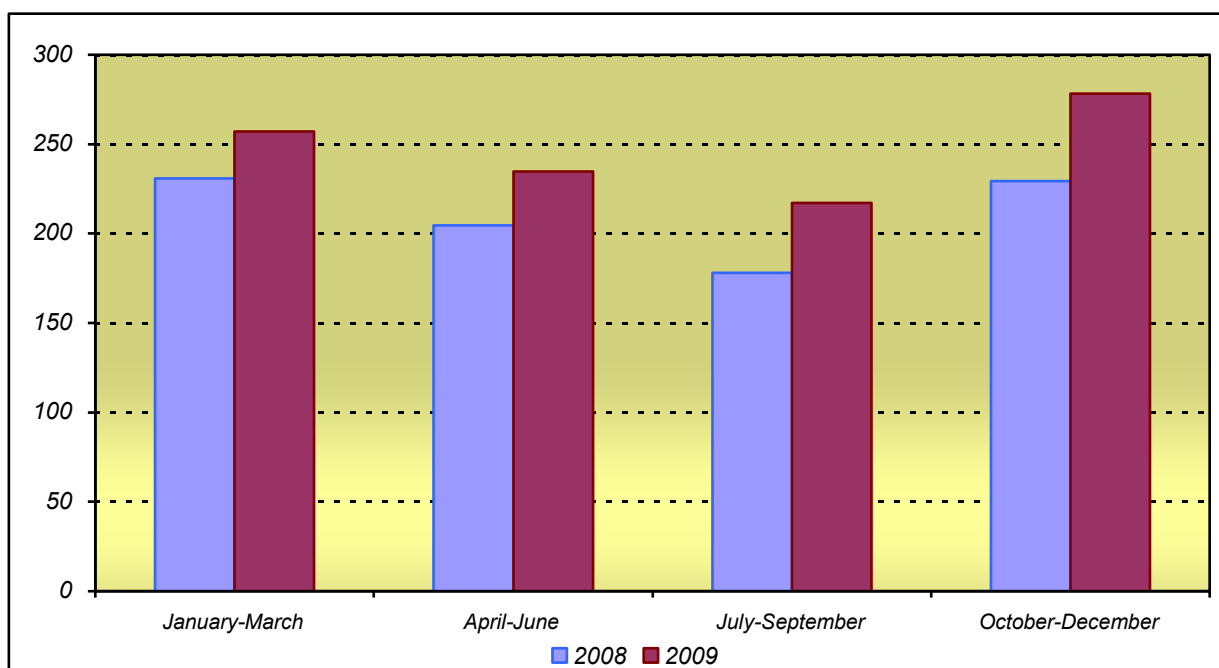
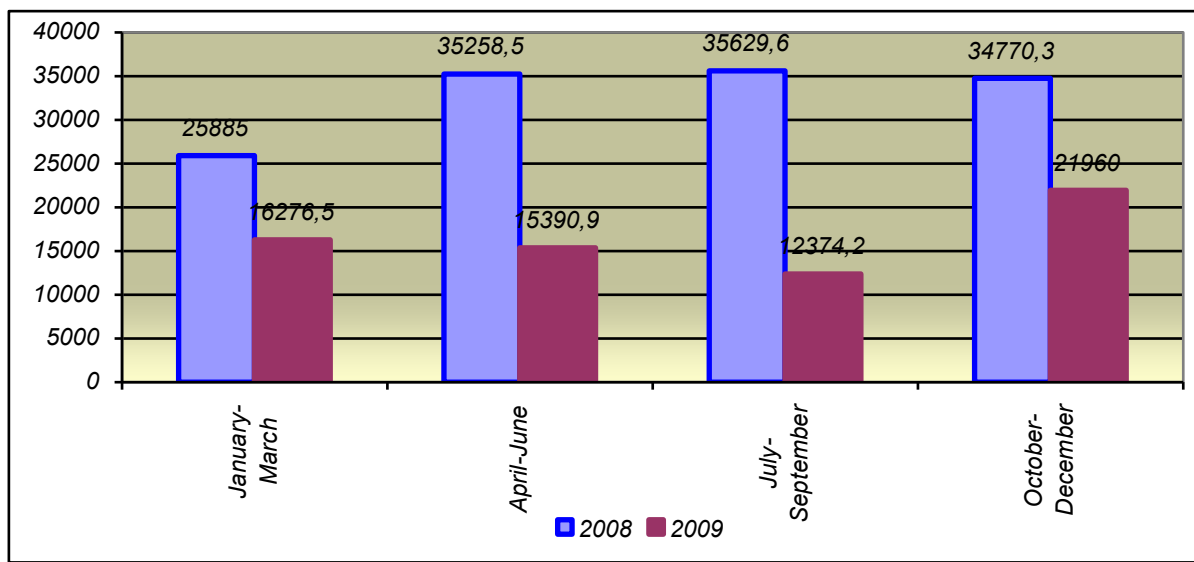


Diagram 8. Natural gas production in Arkhangelsk oblast in 2008-2009
(mln. cubic meters)



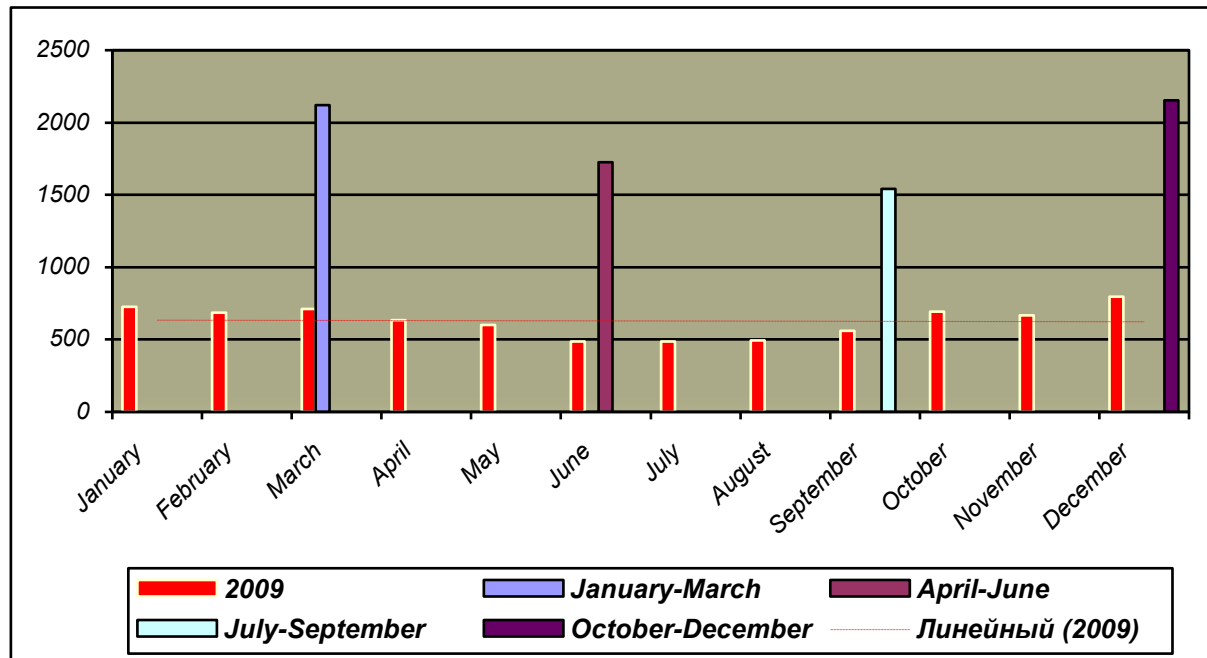
Investments. Arkhangelsk Oblast and Nenets Autonomous Okrug saw the biggest drop in investments in the main capital among all regions of the Northwest Federal Okrug. The level of investments dropped almost 50 percent and this is absolutely the worst records for the last four years. However, after a long period of fall the investments activity started a moderate growth in the end of the year. The volume of the region’s own investments in the main capital made by large and medium-sized companies in the last quarter of 2009 had already reached the pre-crisis levels. This gives a slight hope that the bottom of negative period now has passed and that the investment level now will start to increase.

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



Power generation. The electric power generation which for several months of the year stayed on a level lower than in 2008 started to grow in the third quarter. By the end of the year, the energy generation had exceeded not only the level of 2008, but also the 2007 records which were the highest in the decade. Taking into account the fact of absence of any serious industrial growth this phenomenon can obviously be explained by the extremely cold winter.

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

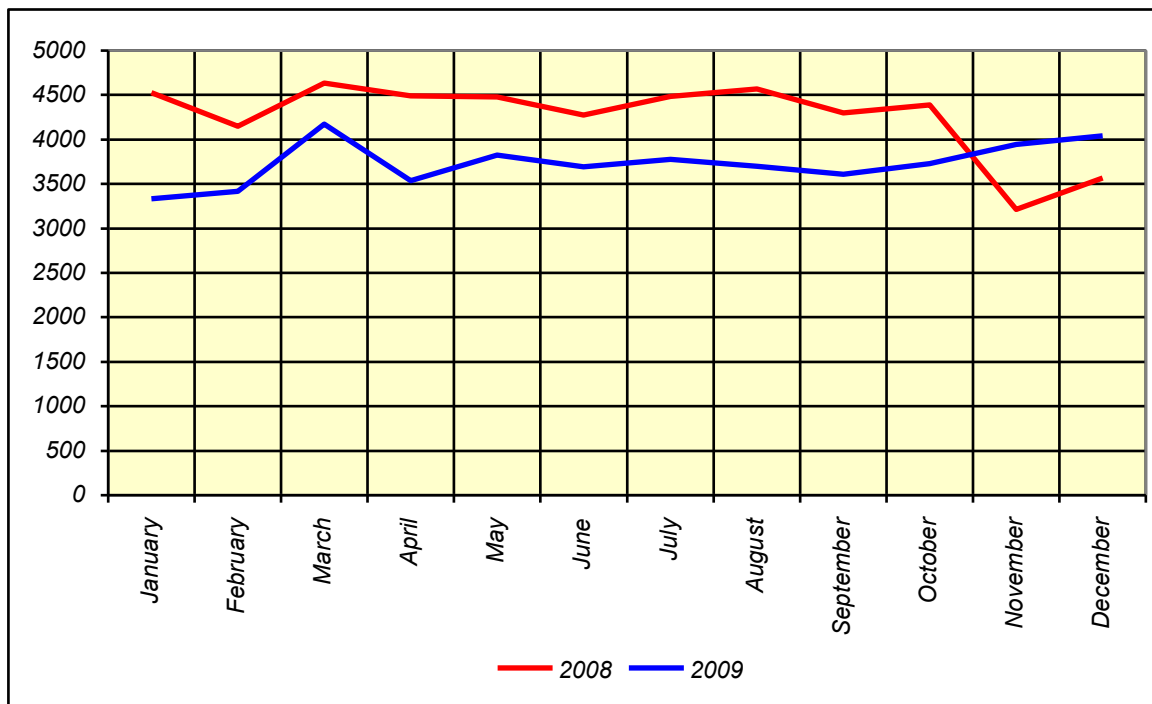


Cargo turnover. The last quarter of the year showed considerable increase in the transport turnover. Its volume in the period October-December exceeded 2008 levels by almost 6 percent. However, the railroad cargo transportation still stays on a very low level. In the course of the year, the railroads transported 20% less cargo than in 2008. Nevertheless, the decline in railroad cargo transportation started long before the economic crisis and the negative dynamic in this sector is observed since 2005.

The cargo turnover of the Arkhangelsk Sea Commercial Port has also declined and in 2009 showed the worst results in 5 years. In 2009 the sea port transported 24% less cargos than a year before. The coal transportation via the Arkhangelsk sea port showed the biggest drop – more than 50 percent. Also a more than 50 percent drop was registered in the transportation of pulp and paper production. The transportation of saw timber and wood decreased not so much – by 22,4%. Container shipping dropped by only 3,5 percent. In 2009 the Arkhangelsk Sea Commercial Port transported only 1,3 million tons of cargos while its capacity allows shipping of up to 4,5 million tons annually⁴.

Diagram 11. Cargo transportation turnover in Arkhangelsk oblast in 2008-2009.

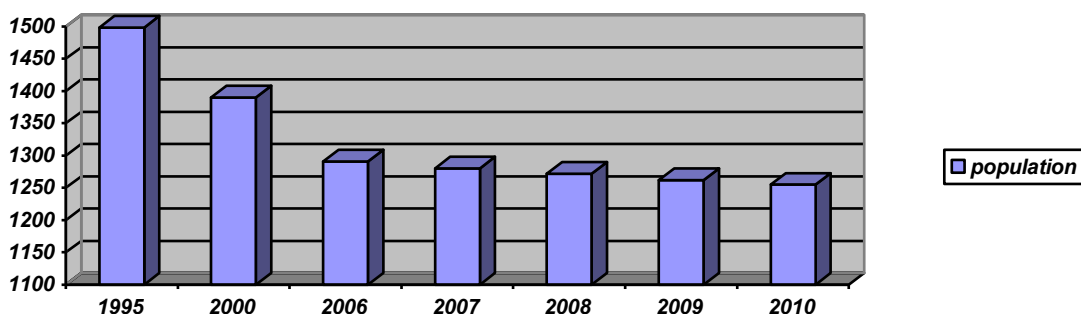
(Million ton/km)



POPULATION

Demography. Arkhangelsk Oblast has a population of almost 1,25 million people. Over the last year, a slight improvement was seen in the demographic situation. The number of newborns increased by almost 2 percent and this is the second best result in the Northwest Russia, only after Saint Petersburg. Meanwhile, the number of deaths dropped by 2,4 percent. The number of marriages increased 5,5 percent, while the number of divorces dropped 1,7 percent. However, the population growth rate is still negative. In 2009 it was minus 2 against minus 2,6 in 2008. The overall population decrease was about 7000 people.

Diagram 12. Number of population on 1st of January

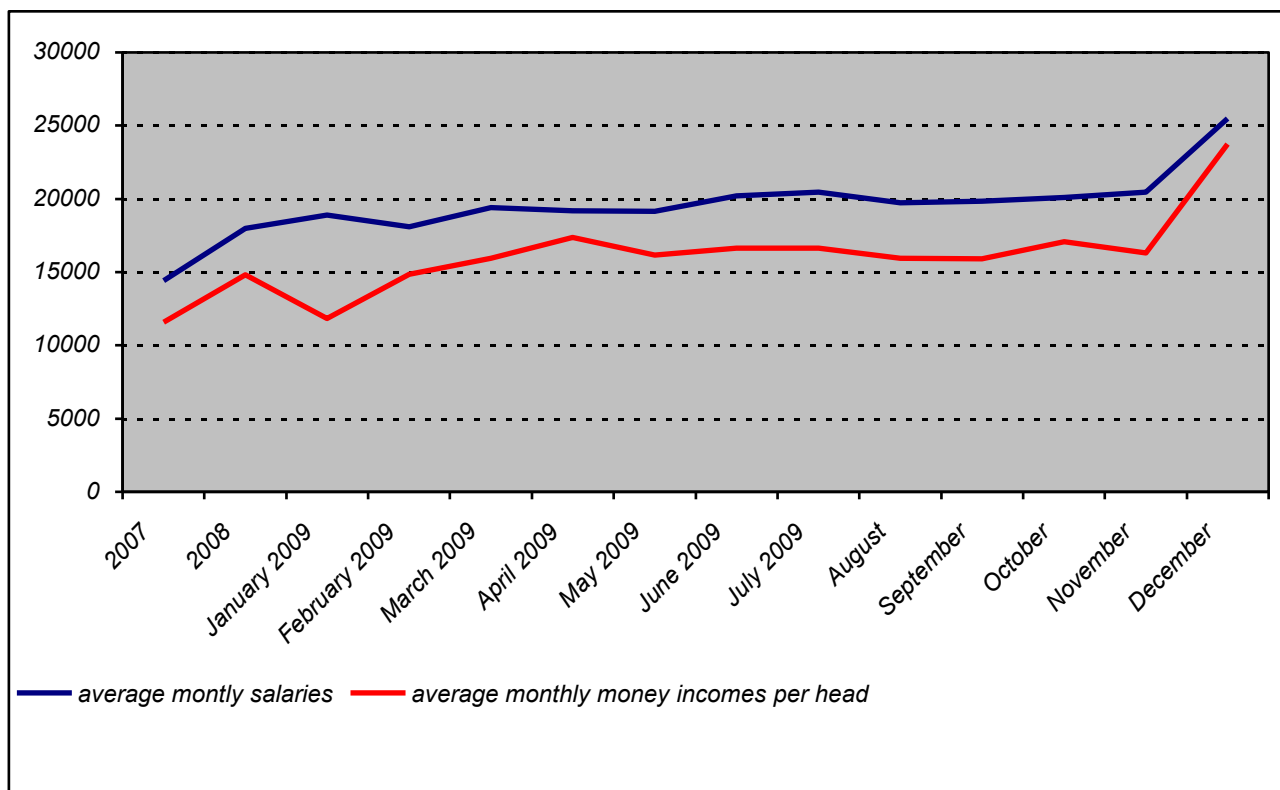


Incomes. The year 2009 did not bring any dramatic changes in the population's living standards. However, it was the first year in a decade when the real incomes of the population did not grow. The money incomes of the population in absolute figures increased 11,6 percent but the real money incomes remained almost on last year's level with a 0,6 percent drop. The real average monthly salary per head dropped 1,7 percent. In 2004-2008 the average monthly salaries were growing approximately by 22-26 percent annually. In a situation with stagnating, or even

decreasing, incomes, the recent decision of the regional authorities to sharply increase tariffs on public services from January 1, 2010 may bring growing discontent and also social tension. The protest meetings and manifestations which took place early 2010 in Arkhangelsk and Severodvinsk show that the population has started to feel the consequences of the crisis and is not going to accept a further worsening of their well-being.

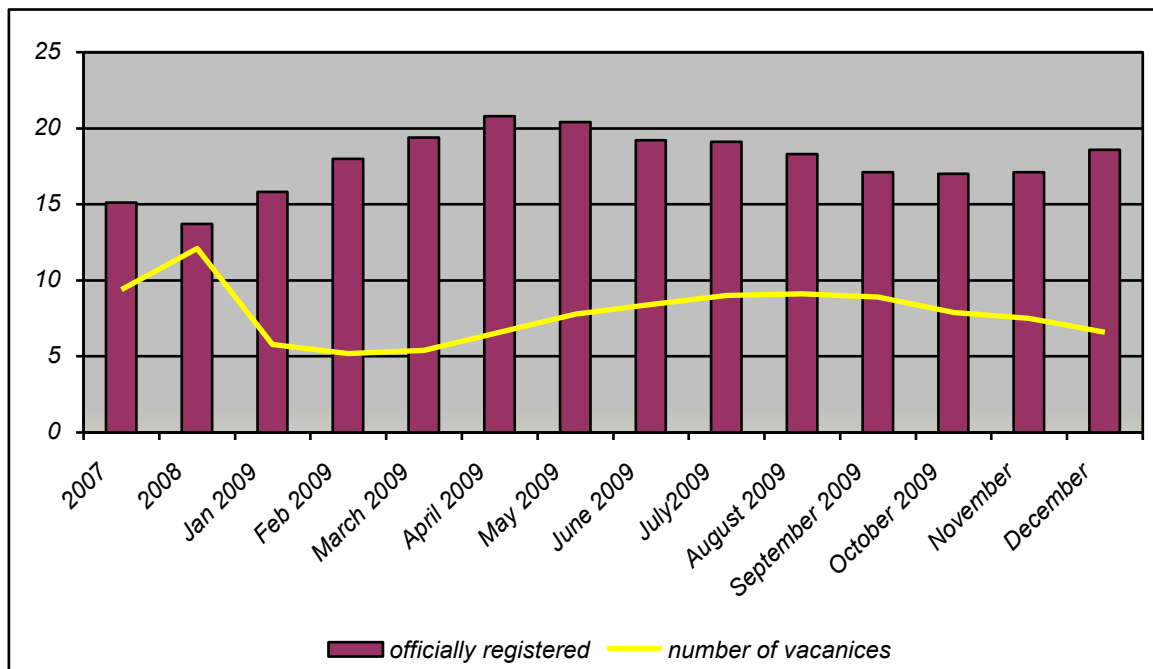
Diagram 13. Incomes of population

(rubles)



Unemployment. By the end of the year, the number of officially registered unemployed people again started to grow after a long period of declining unemployment. Compared to the year 2008 the number of unemployed people grew by 4700, or by almost 25%. The situation on the labor market remains tense, as the number of vacancies announced by the regional employment offices is declining.

Diagram 14. Level of unemployment in Arkhangel'sk oblast
(thousand people).



General information.

Territory: 587,4 thousand sq. km. (including Nenets Autonomous okrug, Novaya Zemlya and Franz Jozef Land archipelagos)

Population: 1 255 000 people

Population density: 2, 15 per sq. km.

Level of urbanization: 74,7%

Ethnic structure: 94,2% Russians
2,1% Ukrainians
0,8% Byelorussians
0,6% Nenetz
0,4% Komi

GRP: 230 billion rubles (average estimation)

Main cities: Arkhangel'sk - 354, 6 thousand people
Severodvinsk – 195, 1 thousand people
Kotlas – 72, 6 thousand people
Koryazhma – 42, 7 thousand people
Novodvinsk – 42, 4 thousand people

Main industries: timber industry, fishery, shipbuilding, mineral resources development, transport complex, military-industrial complex

¹ Analiz ispolnenia konsolidirovannykh byudgetov subjektov Rossijskoy Federatzii vkhodyaschikh v sostav Severo-Zapadnogo federalnogo okruga v janvare-dekatre 2009 goda. www.minfin.ru

² Informatzia o kassovom obsluzhivanii ispolnenia federalnogo byudgeta, byudgeta Arkhangel'skoy oblasti I mestnykh byudgetov na territorii Arkhangel'skoy oblasti po sostoyaniyu na 01.01.2010 <http://arhangel'sk.roskazna.ru>

³ "Doklad o situatzii v ekonomike, finansovo-bankobskoy sotzialnoy sferah subjektov Rossijskoy Federatzii v 2009 godu" – www.minregion.ru/activities/monitor/region_dev_monitor/

⁴ www.ascp.ru