

2.2. SECTORAL FORECAST FOR 2021–2023 (BASED ON DATA FROM THE MINISTRY OF ECONOMIC DEVELOPMENT OF RUSSIA AND THE MINISTRY OF ENERGY OF RUSSIA)

Macroeconomic Indicators of the Russian Federation

The spread of coronavirus infection became a major challenge for both global and Russian economies. The development pathway in the short and medium term will be determined not only by economic, but also by epidemiological contexts.

The projected growth pathway in 2021 remains highly uncertain.

The expected GDP growth in 2021 is 3.3%.

By Q3 2021, the Russian economy will reach the pre-crisis level and by the end of the year will enter the pathway of sustainable growth. In 2022–2023, economic growth will continue at a rate of at least 3%. At the same time, in 2022, the GDP dynamics will be

affected by the end of the OPEC+ deal in accordance with its current parameters: it will lead to an increase in oil production.

Inflation rates at the end of 2021 are projected at 3.7%. In 2022–2023, inflation is projected to return to the target level of 4%. At the same time, it is expected that export-oriented industries (chemical sector, food industry, wood processing) will become the growth leaders.

However, under the influence of weak external demand and the current terms of the OPEC+ deal until 2022, the growth rate of the extractive industry will be moderate at 1.2% in 2021 (decrease of 8.4% in 2020). In 2022, in the context of projected growth in oil production, the growth rate of the extractive industry will accelerate to a peak of 4.7%, followed by stabilisation.

World Raw Materials Market

Commodity prices have declined significantly since March 2020. The reason for this was both financial and fundamental factors: a decrease in the risk appetite of global investors and a decrease in demand due to restrictive measures aimed at combating the spread of the COVID-19 coronavirus infection. Nevertheless, a fairly active recovery is also underway. Thus, copper, nickel and zinc at the end of August 2020 were trading 7-9% higher than at the beginning of the year.

The situation was different on the oil market, where an additional negative factor was the decision to terminate the arrangements on limiting production under the OPEC+ agreement. In April 2020, when there was the most significant decline in global oil demand, the largest producers increased their supply. As a result, the price of Urals oil in April fell below USD 15 per barrel.

New arrangements of the OPEC+ countries on a record production cut from 1 May, as well as voluntary

production cuts by other large producers (Norway and the United States) helped to stabilise the situation on the oil market. In mid-May, the price of Urals oil again exceeded the level of USD 30 per barrel, and in early June it reached USD 40 per barrel. The average annual price for Urals oil in 2020 was USD 41.8 per barrel.

The global economy is expected to recover this year by 4.5–5.0%, after which global growth will return to around 3% in the medium term.

The most probable forecast for 2021 assumes the price of Urals oil at USD 45.3 per barrel. In 2022–2023, oil prices will be in the range of USD 46–48 per barrel. This pathway generally corresponds to the current values of forward contracts for the respective periods.

Oil Production in the Russian Federation

In the medium term, the development of the oil industry will continue to be influenced by the agreements under the OPEC+ deal. At the same time, the domestic market remains the priority direction for the supply of crude oil (for further refining). As global economic activity recovers and restrictions under OPEC+ deal are scheduled to ease, oil export will rebound.

Western Siberia and the Urals-Volga region remain the key oil production regions where the production will be stabilised due to new drilling and geological and technical measures at the existing fields.

In the medium term, oil and gas companies will continue to develop new and already commissioned fields. Gazprom Neft will continue to develop the Prirazlomnoye, Novoportovskoye and Messoyakhskoye fields. LUKOIL will continue to develop fields in the Northern Caspian (the Vladimir Filanovsky, Yury Korchagin, Valery Grayfer fields) and the Baltic Sea shelf. Rosneft plans to develop a number of fields in the Erginsky cluster, as well as the Severo-Komsomolskoye, Lodochnoye and Severo-Danilovskoye fields.

The increase in oil production will come from drilling new development wells, increasing the efficiency

of geological and technical measures, and developing hard-to-recover reserves in low-permeability formations and high-viscosity oil, with the main increase expected due to the commissioning of new fields. The increase in production will also depend on macroeconomic conditions, developments in the global commodity markets and the development of domestic production in related industries.

In the current economic situation, and with the OPEC+ agreements in force until April 2022, the most likely increase in oil production by 2023 would be 560 million tonnes per year. In the context of the development of primary oil refining with a gradual modernisation of refineries and an increase in the refinery yield, oil export by 2023 will amount to 266.2 million tonnes. Oil export to non-CIS markets is projected to grow to 242.2 million tonnes by 2023, mainly due to increased deliveries to Asia and the Pacific countries. Export to the CIS markets will stand at the level of 24.0 million tonnes per year during 2021–2023.

Production of Petroleum Products in the Russian Federation

The refinery yield in the Russian Federation amounted to 82.8% in 2019, which is still lagging behind the world level (89–99%).

In 2021, jet fuel production is projected to stabilise at 12.5 million tonnes (+14.3%), fuel oil production is projected to drop to 41.0 million tonnes due to the commissioning in 2020 of advanced oil refining units with 1.7 million tonnes capacity and lower consumption due to the requirements of the MARPOL Convention.

In 2023, the forecasted volume of primary oil refining will amount to 286.0 million tonnes, which will

be ensured by the commissioning of new facilities for primary oil refining at domestic refineries.

By 2023, compared to 2019, the following is projected:

- an increase in motor petrol production to 42.3 million tonnes (+5.1%);
- an increase in diesel fuel production to 83.1 million tonnes (+6.0%)
- a reduction of fuel oil production to 42.0 million tonnes (-11.0%).

Tariff Formation at Companies of Infrastructure Sector

It is planned to maintain the tariff policy restricting the growth of regulated tariffs and prices at infrastructure companies, not allowing them to go beyond the anticipated inflation level. In order to provide a legislative framework for the approaches and methods of regulation, systemic changes in state regulation of prices and tariffs are being developed; the changes are to establish unified principles of pricing.

Outlook for Pipeline Transport (Based on Market Trends)

- Maintaining the volume of transportation of oil and petroleum products via the oil and petroleum products trunk pipeline system at a level equal to or exceeding the 2020 values.
- Maintaining Transneft's revenue from the transportation of oil and petroleum products via the trunk pipeline system at a level equal to or exceeding the 2020 values.