

Southern Russia: New Area of Growth for the Russian Economy



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Russia is one of the four rapidly growing BRIC economies. Some parts of the country are developing particularly quickly, including the Southern Federal District, which covers the area of 591 thousand km² and has the population of 23 million people.

Recently, Southern Russia has enjoyed a surge of popularity thanks to the Sochi city had been selected as the host city for the 2014 Winter Olympic Games. At a more fundamental level, dynamic growth rates and other economic indicators reveal very positive trends and highlight the significance of the southern district's role in the economy of Russia as a whole.

Southern Russia is the only region to have seen its population growing in recent years, resulting from both the higher birth/lower death rates and the migration. People are attracted to southern Russia because of its fantastic climate conditions, its ecologically clean environment and its expanding economy. This is the region where parents feel confident about their children's futures.

Retail sales and residential construction are booming, driven by an increasing local households' income as well as by higher spending by visitors, who come to the region to relax and to receive treatment at the Black Sea and the Caucasus Mineral Water resorts.

In the well-diversified economy of Southern Russia, oil and gas are not all-important. This diversification and the fact that all of the region's economic sectors enjoy rapid growth reduce lenders' risks and make southern Russia even more attractive for investors. Higher levels of investment to the region are directed to well-performing sectors of agribusiness, food production, hotel construction, transport infrastructure and telecommunications.

The region's climate and environmental conditions determine the Southern Russia's special status of the country's main supplier of agricultural products – the status has been retained even despite the drought in the summer 2007. At the time of crisis on the international food markets, agribusiness in southern Russia is gaining global significance, especially given the sector's potential to increase its productivity: at present, the grain and sunflower crop yields and the productivity in livestock farming are 30-50% lower than those in European countries. The potential can be utilised through an upgrade of agricultural equipment and implementation of modern practices. The experience of financing such modernisation projects shows that the costs can be further reduced by 30%.

The industrial sector of Southern Russia is being revived by effective entrepreneurs and managers, who are introducing new technologies and methods at both the newly established industrial sites and the enterprises operating in traditional sectors (metallurgy, transport, agricultural machine building, and construction materials). All these improvements result in the Southern Russia enterprises becoming more transparent and profitable.

Together with large companies, small and medium-sized businesses (SMEs) are expanding rapidly. The SME sector is very well established in Southern Russia; the region has traditionally benefited from the entrepreneurial skills and the temperament of its people. As the administrative barriers are being reduced and the SMEs are increasingly operating in strict accordance with the law, this sector is becoming even more attractive for bank lenders.



Dr. Vysokov has published a book on the investment attractiveness of Southern Russia. For more information please visit: www.centriinvest.ru/ru/book/0701.html



Sectors that are subject to a lower VAT rate dominate the economy of Southern Russia: for example, agriculture, extraction of raw materials for construction, and production of mineral water. By improving the quality of raw materials processing, developing food production, and upgrading the infrastructure, its transport and the telecommunications systems, Southern Russia will be able to increase its contribution to the gross domestic product and to spur further its accelerated economic development.

The banking sector in Southern Russia also enjoys a rapid growth. Bank lending enhances households' wealth and contributes to boosting investments to the real sector. The banking industry also has enormous growth potential, as the level of banking services has only reached 20-25% of that in developed countries.

Many regions are trying to catch up with the leading countries, but only few succeed in achieving real results. Not only does Southern Russia have excellent growth potential that is attractive to investors, but it has already demonstrated that it is capable of sustaining its accelerated development.

When devising strategies for countries such as Russia, detailed consideration must be given to the regional aspects so as to maximise the positive effect from those particular advantages that different regions have to offer.

Southern Federal District: Economic Performance Indicators in % to the totals for the Russian Federation

	2004	2007	change +/-
population	15.91	16.08	+0.17
working population	13.07	13.36	+0.29
households income	10.08	11.18	+1.10
households expenditure	10.48	11.32	+0.84
nominal wages	9.04	9.07	+0.03
gross regional product	7.77	7.23	-0.54
fixed assets	9.30	8.72	-0.58
industrial output	5.06	6.10	+1.04
agricultural output	22.71	22.02	-0.69
total area of housing ready for occupation	14.19	15.41	+1.22
retail sales	11.05	12.28	+1.23
net financial result (profits minus losses)	2.64	3.43	+0.79
loan volumes	4.32	5.45	+1.13
investment capital, RUR million	8.74	9.96	+1.22