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ECONOMIC DEVELOPMENT OF THE NORTH CAUCASUS
FEDERAL DISTRICT IN 2009–2020

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Abstract

The paper addresses the analysis of the processes of socio-economic development of the subjects of the North Caucasus Federal District in the period of crisis in the Russian Federation in 2009–2020. Financial and economic stability in the North Caucasus regions during the 2009 crisis was ensured by the growth of gratuitous receipts from the federal center, despite the reduction in annual budget revenues in Russia. Analysis of the dynamics of the main socio-economic indicators of the subjects of the North Caucasus Federal District in January–March 2020 showed that manifestations of the crisis in the economy of the subjects of the North Caucasus Federal District were stronger as compared with the average crisis severity in the regions of the country. The only positive trend in the economy of the macroregion is the growth in the industrial production index, in contrast to its decline in the Russian Federation as a whole. The growth of industrial production in the North Caucasus Federal District was primarily due to the growth in the production of alcoholic beverages and generation of electricity. The instability of the production model, which is dominated by ‘one-sided’ highly profitable industry specialization and is patronized by the administrative resource, is obvious. The state regional policy needs revising at the federal level with focus on balanced development of regions and more active use of the mechanism for redistributing funds in interbudgetary relations, and potential use of the economic instrument such as a state order during periods of crisis.

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1. Introduction

Identification of the factors that determine a relatively sustainable economic development of the country's regions is crucial for the development of an adequate regional policy. Moreover, the analysis of critical factors that affect the state of the region's economy helps to timely identify and prevent possible negative consequences and minimize the degree of their impact on the system of the national economic complex as a whole.

Therefore, regional economic sustainability should be treated as a multidimensional adaptive concept, which not only assess the potential risk of crisis or the vulnerability of regions, companies industries and workers, but also the development of the institutions and financial and economic mechanisms that can increase the resilience of these entities to the crisis impact.

In our opinion, regional economic sustainability can be defined as the ability of regional or local (municipal) economy to withstand various economic and environmental shocks in its development.

Multidimensionality of the concept of regional economic sustainability can be illustrated by the example of researchers' assessments of a high degree of systemic balance in the Chechen Republic and Republic of Ingushetia, i.e. the balance of production, communication, logistics and information subsystems of the republics, despite the fact that there are regions with a stronger economy in Russia. The authors of the study attribute this paradox to high level of subsidies in the republics and centralization of their public administration (Kleiner & Rybachuk, 2019).

We agree with researchers (Bristow & Healy, 2018) that regional economic stability is a complex and multidimensional theoretical concept difficult for practical implementation, nevertheless, this fundamental judgment should be corrected. Namely, regional stability in the context of the market economy model is difficult to implement in the condition when the state minimizes its regulatory impact on macroeconomic processes and market institutions. However, active intervention of the state and its numerous institutions in formation of regional economy with due regard to features of the territories, economic stability is achievable, although, some macroeconomic factors cannot be changed at the regional level, for example, high inflation, etc.

2. Problem Statement

It is well known that regional crisis may or may not coincide in depth, time interval and duration with one or another dynamics of indicators in the country as a whole (Gvozdetskaya, 2012). The instability of the regional economy typically correlates with the unstable dynamics of the main macroeconomic indicators. When relating the economic instability of the region to the violation of the positive growth tracks of macroeconomic indicators only (Frantseva-Kostenko, 2016), there are risks of misapprehension of the ongoing processes in the economy.

Understanding of the causal relationship between the factors that caused and aggravated the negative state of the regional economy and its subjects can help overcome negative effects of the crisis in the regional economy and elaborate directions of its development. Therefore, it is important to study the current situation in the period of crisis in various sectors of the regional economy, especially those geographically located in the same federal district or economic region with relatively similar climatic and economic conditions of

management. For this purpose, we study two periods: 2008–2009 and 2019–2020. The crisis of 2008–2009 was chosen for comparison due to the fact that Russia did not return to its previously high growth rates after this crisis (Dabrowski, 2016). The crisis of 2020 is of research interest as the latest in time and possibly significant for the future history of the country and its regions.

3. Research Questions

The subject of the research concerns the processes of socio-economic development of the subjects of the North Caucasus Federal District during the crisis in the Russian Federation in 2009 and 2020. The research is of applied character since the assessment and identification of the features of the development of the North Caucasus Federal District during the crisis will allow more accurate forecasting of the outcomes of the Strategy for spatial development of the North Caucasus in order to perform further adjustments to the Strategy.

The main objectives of the research are as follows: to analyze the crisis phenomena in the economies of the North Caucasus Federal District and suggest measures for increasing the economic stability of the macroregion and its constituent entities.

4. Purpose of the Study

The purpose of this study is to analyze and critically interpret the crisis phenomena in the economy of the subjects of the North Caucasus Federal District in the periods of 2008–2009 and 2019–2020. The most important target function is to develop measures for increasing regional economic stability in the macroregion.

5. Research Methods

The research employed traditional methods of studying economic phenomena and processes such as: monographic, analytical, economic and statistical, computational and constructive methods and others. In some cases, the author considered right to use a benchmarking method as one of the promising tools for building an evidence base for argumentation.

6. Findings

Analysis of the dynamics of economic development of the subjects of the North Caucasus Federal District takes the following main criteria for a depressed macroregion: GRP, and the decline in industrial and agricultural production, the level of unemployment and its growth rate, real incomes of the population and the rate of their change (Gesheva & Nagev, 2016).

Russia's GDP in 2009 dropped to 92.4 %, and out of 8 only in 2 federal districts with economies depressed rather than developed, positive dynamics of GRP growth could be observed: in the North Caucasus Federal District (101.2 %) and the Far Eastern Federal District (100.8 %). In 2008 and 2010, after the crisis of 2009, all federal districts achieved quite high growth of GRP rates.

The dynamics of GRP in the subjects of the North Caucasus Federal District developed in different ways. In some regions, GRP increased, for example, in the Republic of Dagestan (108.9 %), in the Kabardino-Balkarian Republic (104.2 %), in the Karachay-Cherkess Republic (101 %), and in the Republic of North Ossetia-Alania (102.5 %). In other regions it fell, in particular, in the Republic of Ingushetia (87.9 %), in the Chechen Republic (90.3 %), in Stavropol Territory (97.7 %).

The sectoral structure of gross value added of the subjects of the North Caucasian Federal District in 2009 will help to assess the industries that had the greatest impact on GRP growth or fall in the North Caucasus Federal District. Wholesale and retail trade (21.5 %) and agriculture (14 %) show the largest share in the structure of the macroregion's GRP. The other sectors include construction (12.7 %), public administration (9.7 %), transport and communications (9.5 %), and manufacturing (8.2 %).

Against the background of the 2009 collapse in industrial production in the Russian Federation (90.7 %), the dynamics of the industrial production index in the subjects of the North Caucasus Federal District (102.9 %) was multidirectional. On the one hand, growth in Dagestan (106.6 %), in Kabardin-Balkaria (100.7 %), in Karachay-Cherkessia (109.7 %) and Stavropol Territory (103.5 %). On the other hand, a drop in the industrial production index was observed in Ingushetia (93.8 %), in North Ossetia (98.8 %), and in Chechenya (86.9 %).

During the 2009 crisis, agriculture was one of the few industries that retained a positive dynamics of development in the Russian Federation (101.2 %). The decline in the index of agricultural production in the regions of the North Caucasus Federal District (98.5 %) was due to a sharp decrease in the relevant index in the Stavropol Territory (90 %), while in other regions of the North Caucasus Federal District the index grew from moderate in Chechenya (100.4 %) to significant in Dagestan (105 %), in Ingushetia (108.7 %), in Karachay-Cherkessia (110.7 %), in Kabardin-Balkaria (104.3 %), and in North Ossetia (104 %).

In 2009, construction, one of the leading sectors of the macroregion's economy, in contrast to the average Russian dynamics of the sector (93.8 %), experienced sustainable growth (106.5 %) exhibiting a characteristic feature – a wide dispersion of indicators of housing commissioning in the entities of the district: maximum values were observed for Chechenya (136 %) and Dagestan (117.5 %), and the minimum values were noted for Ingushetia (60 %) and Karachay-Cherkessia (94 %).

The retail trade turnover in the Russian Federation amounted to 95 %, and that in the North Caucasian Federal District was 105.4 %. The volumes of retail trade in Dagestan (110.6 %) and Chechnya (109.3 %) grew sharply, while Ingushetia (100.9 %), Kabardin-Balkaria (102.1 %), North Ossetia (103.7 %), and Stavropol Territory (101 %) showed a moderate growth. A slight drop in retail trade was observed in Karachay-Cherkessia (99.8 %).

A rather striking marker of the relatively better state of the economy of the North Caucasus Federal District during the crisis of the Russian economy in 2009 is the fall in the average monthly wages in the Russian Federation (9.5 %) and its growth in all constituent entities of the district, with the exception of Karachay-Cherkessia (99 %) and Chechnya (97.4 %). In particular, an increase in the average monthly wages amounted to 5.4 % in Dagestan, 8 % in Ingushetia, 4.9 % in Kabardin-Balkaria, 5.7 % in North Ossetia, and 1.4 % in Stavropol Territory.

According to sample surveys, the unemployment rate in 2009 in the Russian Federation increased from 6.3 to 8.4 %, which was one of the consequences of the 2009 crisis. However, in most regions of the

North Caucasus Federal District there was a decrease in the unemployment rate compared to 2008, for example, from 55 to 53 % in Ingushetia, from 18 to 14 % in the KBR, and from 16 to 12 % in the KCR. In other regions of the North Caucasus, the unemployment rate either increased within 1 %, or remained at the same level: 13 % in Dagestan, 10 % in North Ossetia, 35 % in Chechnya, and 8 % in Stavropol Territory. Trends in the decline and persistence of unemployment rates in the North Caucasus Federal District clearly show that the 2009 crisis had little effect on the socio-economic situation of the macroregion, which was associated, among other things, with the growth of intergovernmental transfers from the federal center.

A high level of budget subsidization in the subjects of the North Caucasus Federal District (with the exception of Stavropol Territory), which amounted to 60 % in Kabardin-Balkaria and over 90 % in Ingushetia and Checheya, indicates an unconditional dependence of the financial and economic situation in the macroregion on gratuitous receipts from the federal budget. The dynamics of incomes of the consolidated budgets of the subjects of the North Caucasus Federal District in 2008 and in 2009 is characterized by the following features:

- reduction in the total volume of the consolidated budget of the Russian Federation by 272.8 billion rubles in 2009 compared to 2018;
- growth in the volume of gratuitous receipts from the federal budget to the budgets of the constituent entities of the Russian Federation by 414 billion rubles in 2009 compared to 2008;
- increased amount of gratuitous receipts to the budgets of all subjects of the North Ossetian Federal District, with the exception of the RNO-A.

Thus, the financial and economic stability of the regions of the North Caucasus in 2009 was ensured largely due to the growth of gratuitous receipts from the federal center in 2009, despite the reduction in budget revenues in Russia by 272.8 billion rubles.

The leaders in the growth of the industrial production index (IPI) in the North Caucasus Federal District in the first 4 months of 2020 were Kabardin-Balkaria (116 %) and North Ossetia (110 %). Other subjects show results that are more modest, which were, however, close to the national average (99.4 %): Stavropol Territory (101 %), Karachay-Cherkessia (99 %), etc. In the crisis in April, industrial production in the Russian Federation fell by an average of 9 %, while the regions of the North Caucasus Federal District as a whole showed the best results. In some subjects of the macroregion, the decline turned out to be less, in particular, in Ingushetia, Kabardin-Balkaria and Stavropol Territory, while in others showed a significantly increased IPP, for example, in Kabardin-Balkaria (124 %) and North Ossetia (103 %). The drivers of industrial growth in the KBR in January–April 2020 were an increase in the production of alcoholic and non-alcoholic products (1.2-fold), an increase in the production of clothing (2.9-fold), etc. The production of beverages showed a significant 2.5-fold increase in April compared to March 2020.

The growth of industrial production in North Ossetia in January–April 2020 was due to the growth in the production of alcohol, vodka and wine (1.5-fold), beer (1.2-fold), mineral water (1.5-fold), electricity (2-fold), etc. Similar to Kabardin-Balkaria, in North Ossetia there was a sharp increase in the production of alcohol (2-fold), vodka (2-fold), and wine (5.5-fold) in April compared to March 2020.

No doubt, external factors, the level of development of the country's economy, and internal factors of the given region determine the state of the economy, but the managerial factor is much more important

(Mazur, 2012), especially when the authorities of the region are experienced in production activities, for example, in the production of alcoholic beverages.

The dynamics of the agricultural production index in the subjects of the North Caucasus Federal District in the first quarter of 2020 was found to be similar to that in the Russian Federation (103 %), and confirmed a relatively low-vulnerability status of the industry in the study period.

In contrast to the average Russian indicator of freight turnover in January–April 2020, which dropped to 96 % in January–April 2019, this indicator in the North Caucasus Federal District decreased at a much stronger pace. Thus, this indicator reduced by more than 50 % in Karachay-Cherkessia and in Stavropol Territory, and by 20–30 % in Kabardin-Balkaria and North Ossetia, which clearly indicated the crisis in the production of goods and services and the forced inaction of people during the period of self-isolation. Comparison of the dynamics of freight turnover with the dynamics of industrial production in the regions of the North Caucasus Federal District clearly illustrates a smaller drop in freight turnover in the regions of the North Caucasus Federal District and higher indicators of industrial production growth.

Analysis of the dynamics of retail trade turnover in the subjects of the North Caucasus Federal District in January–April 2020 shows lower indicators compared to the national average (97 %) by an average of 4–5 %. The lag in retail turnover in the North Caucasus Federal District can be due to the lower demand of the population, lower incomes, 1.6–1.8-fold lagging of nominal wages in the subjects of the District compared to the average ones in the Russian Federation in March 2020 (50.9 thousand rubles).

As expected, an increased unemployment rate in the North Caucasus Federal District in January–April 2020 caused a 2-fold growth in the number of unemployed in the Russian Federation (109 %). This is probably due to a rather high level of shadow employment in the macroregion, lower monetary savings of the population, etc.

In general, the crisis phenomena of March–April 2020 manifested themselves in the economy of the subjects of the North Caucasus Federal District with greater force. However, industrial production in the macroregion grew primarily due to the production of alcoholic beverages and electricity.

7. Conclusion

Regional economic sustainability as a multidimensional category requires fine tuning of the interaction between macroeconomic, microeconomic and spatial effects (Minakir, 2019). Relevant improvement of the Strategy for Spatial Development of the North Caucasus Federal District is required with due regard to the existing realities in the economy of the subjects of the macroregion (Kulov et al., 2019).

Overcoming the crisis and further development of the economy of different constituent entities of the Russian Federation, which are significantly different in industrial, scientific, innovation, personnel and other potentials, largely depend on the efforts of local authorities. However, it is the differences in potentials that significant differentiated the regions of Russia, especially in the North Caucasus Federal District, which caused disproportion in their development. In a difficult epidemiological situation, these phenomena exacerbated the existing contradictions in the economy of the North Caucasus Federal District and clearly showed the precariousness of the production model, which is dominated by a relatively limited high-income industry specialization and is under the ‘patronage’ of the administrative resource. This is associated with

reorientation to the diversified economy, in which goods with high added value are manufactured using innovative technologies. Moreover, such economic systems have already been developed in the region. This requires a revision of the state regional policy at the federal level to focus on eliminating the difference in the levels of region development and on more active use of the mechanism of funds redistribution in interbudgetary relations.

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