

MONITORING OF RUSSIA'S ECONOMIC OUTLOOK:

TRENDS AND CHALLENGES OF SOCIO-ECONOMIC DEVELOPMENT

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Monitoring of Russia's Economic Outlook

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1. THE RISK OF LIMITATION OF ATTRACTION OF FOREIGN MIGRANTS TO THE RUSSIAN AGRICULTURE AMID THE PANDEMIC¹

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The closure of borders between countries in the wake of the outbreak of the coronavirus Covid-19 suspended the flows of the international labor migration, thus creating risks to the agriculture, particularly, fruit farming and horticulture. In this survey, the information is presented on the employment of foreign workers in the agriculture of various countries, as well as the measures taken to solve the problem of labor shortages in different countries whose experience can be useful to Russia.

The restrictions on travelling between different countries and even inside the countries have suspended the international labor migration flows and affected the situation with labor resources in the agriculture. This problem is particularly acute in such sectors as fruit farming and horticulture which are mainly of a seasonal nature and where the use of hand labor is widespread. In lots of countries, these sectors develop mainly owing to the foreign labor force. A special type of agricultural regions, which found themselves in a vulnerable situation amid the pandemic has been formed in the world. In numerous countries, the mass media has reported about the shortages of labor resources for harvesting, packing and primary processing of agricultural products, which situation may bring about yield losses and endanger food security.

The Use of Foreign Labor in the Russian Agriculture

In numerous Russian regions (the Moscow Region, the lower Volga region and the south of the Far East), thousands of foreigners are employed. By some estimate, around 500,000 labor migrants in Russia are farm workers [2]. They come mainly from countries of the former USSR, Central Asia, as well as China, Vietnam, Korea and other. The foreign labor force is normally required in labor-intensive industry of the agriculture: fruit farming and horticulture.

The Union of Berry Producers has reported about the harvesting-related problems because of the limitations on attraction of foreign harvesters. It was stated that the local workers would not be able to make up for labor shortages. The same concerns were expressed by representatives of the Union of Potatoes Producers of Russia [8]. The Director of the Horticultural Union noted that horticulture depends to a great extent on labor migrants from abroad; at some enterprises they account for up to 80% of the total number of the employed [2].

Some problems arise with labor migrants whose term of the patent is expiring. To extend it, the migrant has to leave the country and come back again, which is currently infeasible as the borders are closed. However, on April 18, 2020 the President of the Russian Federation signed the Executive Order "On Temporary Measures on Regulation of the Legal Status of Foreign Citizens and Stateless Persons in the Russian Federation in the Wake of the Risk of Further Spread of New Coronavirus Infection (COVID-19)". Under this executive order,

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until June 15, 2020 the extension of the term of registration, visas, work permits and patents is not required, so employers can hire foreign nationals without permit documents [7]. It means that the migrants who are already staying in the country can continue their work.

There are some problems with seasonal workers who come normally to do field work in the spring and harvesting in the autumn, while in the winter they go back home.

According to the Ministry of Agriculture, as a result of restrictions on entry to Russia of foreign workers the shortage of seasonal workers is estimated at about 23,000 persons [3]. In the Astrakhan Region alone, there is a need in over 6,000 seasonal workers in April-May and about 9,000 seasonal workers in August-September. According to R.Yu. Pashayev, Minister of Agriculture and Fishing Industry of the Astrakhan Region, "the problem cannot be solved by means of local workers alone" [5]. Lots of regions report about their need in foreign seasonal workers. For example, the Vice-Governor of the Volgograd Region declared that almost a half of workers engaged in harvesting of vegetables are foreigners (about 11,000 persons). At present, about 5,000 foreigners have received work patents; the labor shortage amounts to about 6,000 persons [1]. About 5,000 foreigners are normally engaged in agriculture of the Krasnoyarsk Territory [6]. In the Far Eastern Federal District, Chinese nationals acted both as hired farm workers and agricultural land tenants [9].

At present, Russia is planning to compensate the shortage of the workforce by means of internal labor resources which are going to be employed for harvesting the yield of horticultural and cucurbits crops, fruits and vegetables. The applied measures are aimed at the unemployed and those who cannot continue their work at the regular place because of the pandemic. In addition, it is planned to engage students in field work.

The Problem of Agricultural Migration amid the Covid-19 Pandemic in Other Countries

One of the world's most wide-spread measures of combating the coronavirus is the introduction of traveling restrictions and the complete closure of the borders. Lots of countries with a serious outbreak of the coronavirus have limited the movement inside their countries. As a result, numerous countries encountered labor-related problems in the agrarian sector where a large number of foreign workers was used to be employed. It is particularly evident in labor-intensive industries (fruit farming and horticulture) where the need in seasonal labor, most often hand labor, is high during the planting and harvesting period.

In 2017, the European Union attracted about 600,000 farm workers from abroad. The highest indices were registered in Spain and Italy (150,000–200,000 persons in each country), as well as Germany, the UK and Greece (40,000–45,000 persons in each country). These countries are oriented at workers both from other EU countries and other parts of the world (North Africa, Asia and Latin America) [19]. A large number of foreign workers can be found in the US agrarian sector; in 2017 it amounted to about 360,000 persons [16]. Canada attracted labor migrants (about 65,000 persons) to the agriculture, too [21]. These countries were mainly oriented at migrant workers from Mexico and the Caribbean countries.

The agrarian sector of the developed countries depends even more on seasonal foreign workers who engage in planting, harvesting and primary processing of the yield. Some countries maintain special programs aimed at attracting

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foreign seasonal workers to the agrarian sector to make up for labor shortages during a peak season [4].

By estimates of various sectorial unions and farmers' unions, at present the shortage of seasonal farm workers is estimated at 370,000 persons in Italy, 300,000 persons in Germany, about 200,000 persons in France and 70,000-80,000 persons in the UK and Spain, each. At the same time, Greece, Sweden, Norway, Ireland, the Netherlands, Denmark and other European countries invite fewer seasonal labor migrants [12]. So, the European countries alone need over 1m seasonal labor migrants in the agriculture. However, lots of migrants are engaged in processing, too. For example, in 2016 the UK food industry employed about 116,000 workers from the EU [18].

In the US, the cross-border travelling ban has brought about labor shortages in the agriculture, too, because numerous farmers employed seasonal workers from other countries. Over 200,000 such workers were employed on the legal basis in the US. Overall, in the US nearly a half of hired farm workers are foreigners [13]. Canada estimates its shortage of seasonal foreign workers at 60,000 persons.

The shortage of foreign labor owing to the closure of international borders and travelling restrictions inside the countries is a factor which may affect prices and the availability of some products. This situation may have a negative impact on labor intensive industries of crop production and livestock breeding.

The Measures Taken by Governments of Different Countries to Reduce the Risk of Foreign Labor Shortages in the Agriculture

Such measures can be grouped along the following several lines.

1. The easing of restrictions on movement of seasonal farm workers

The US and Canada keep hiring seasonal farm workers from abroad, but with some changes in the registration procedure introduced and the compliance with preventive measures for protection of health and safety of the population observed. The US State Department cancelled personal interviews with applicants for H-2S visa (a visa issued to temporary unqualified agricultural workers), which procedure used to be mandatory before [17]. Canada is hiring seasonal agricultural workers from abroad, too. On arrival to Canada, they have to stay in lockdown for 14 days and only after that, in case of absence of any symptoms of the coronavirus, are allowed to go to work. However, there are problems because numerous visa centers in the US, Canada and Mexico – the main source of migrants – are closed, thus making bureaucratic procedures more complicated. In addition, there are problems with air travelling [14].

A complicated situation is observed in the EU, too. At present, the attraction of foreign workers from outside this region is utterly excluded. At the same time, the authorities are easing the restrictions on movement of seasonal agricultural workers inside the EU and include them in the list of the most important professionals along with medical workers and diplomats. However, not all employees are willing to leave their countries fearing to get infected with the coronavirus and, consequently, run the risk of not being able to return to their home country.

Germany has declared the easing of restrictions on the entry of seasonal farm workers and adopted the program of their transportation from East European countries. The Eurowings Airline Company has concluded a contract on attraction of migrants and will be providing an air transport service to migrant workers. Farmers should inform representatives of the airline company of their needs in labor. Based on such requests, they will hire a certain number of workers. After the confirmation of the registration and arrival of the required number of mi-

grants, the latter are registered at the website of the farmers' association. The data will be handed over to the federal police and the migration service for the official execution of relevant documents, as well as the authorities which are responsible for the quarantine measures. On arrival, migrants have to work and live separately from other workers and farmers for two weeks, use PPE and observe social distancing. The first flights have already arrived in Dusseldorf and Berlin and more are expected in Karlsruhe, Leipzig, Nurnberg and Frankfurt [20].

2. The extension of the working visas to temporary and seasonal migrants

Most measures in countries with labor shortages are aimed at extension of working visas to temporary and seasonal migrants so that those who are already in the country could continue their work in the agriculture. Responding to labor shortages, the Italian government has extended the term of residence permits for non-EU residents staying in Italy [11]. In addition, it was proposed to legalize foreign workers who had no residence permits, simplify the procedure for issuing work permits in the agriculture and other.

In the US, the Department of Labor has assumed the responsibility for organization of hiring of workers who completed a seasonal contract with one farm to go to work at another one. Normally, workers who were granted H-2A visas could work only for the employer whom they concluded a contract with. Upon the expiry of the contract, migrants had to go back to the country of their permanent residence. Amid the pandemic this rule has been modified.

3. Attraction of local workers to carry out agricultural jobs

The compensation of labor shortages is oriented not only at foreign migrants, but also own citizens who lost their jobs amid the pandemic or cannot continue working at the regular place. The schemes of hiring local personnel have been adopted in Germany, France, the UK, Spain, Canada and other countries.

For example, Germany has introduced communication platforms so that producers could place the information on their vacant jobs, while workers who are seeking a temporary job in the agriculture can specify their preferences. One of such websites (<https://www.daslandhilft.de/>) facilitates the networking between farmers and volunteers who are prepared to gather the harvest of various crops. Such measures have been introduced in France where a special website (<https://desbraspourtonassiette.wizi.farm/>) was created for farmers willing to employ workers, as well as for people seeking a job in the agrarian sector. Around 240,000 persons have already taken interest in it and about 5,000 people have started working [15].

In Spain, the government has passed a resolution under which the local population which engages in seasonal agricultural work will keep receiving both unemployment benefits and social benefits. These measures of attraction of local workers to the agrarian sector will be in effect until June 30, 2020. However, farmers believe that these measures are insufficient and local labor resources cannot make up for labor shortages. "Around 80% of the workforce we need for seasonal jobs come from abroad, so it will be very difficult, if not even impossible to compensate this shortage by means of local workers", Asaja, the Spanish Agricultural Association declared. [15]. In Spain's Huelva province – Europe's largest producer of strawberry – the agricultural union has started the campaign on hiring local residents to make up for the expected shortage of 9,000 seasonal migrants from Morocco [15].

In the UK, farmers encountered serious labor shortages after the Brexit which limited the free movement of migrant workers from the EU countries. However, the attraction of local workers failed to yield tangible results as few

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people were prepared to work in the agriculture. [10]. In 2018, the UK adopted a pilot program of attraction of seasonal agricultural migrant workers from non-EU countries.

4. Engaging of refugees for work in the agriculture

In lots of European countries, to help farmers the authorities take decisions to engage refugees, who have recently come to the EU and have no work permit, in the agrarian sector. In Italy, they legalize foreigners who came without documents and persons seeking refuge: such persons are issued stay and work permits. France and Germany engage refugees, whom labor contracts are concluded with and the minimum wage is ensured, for harvesting berries and asparagus [12].

Overall, amid the pandemic the organizational pattern of the agriculture requires some modification. No matter whether foreign or local workers are engaged in the agriculture, they have to be provided with PPE; observe social distancing which is particularly important in terms of the labor-intensive agriculture; have the right to a paid sick leave and access to medical service and other.

Recommended Guidelines for Facilitating Labor Migrant Flows to the Russian Agrarian Sector with International Experience Taken into Account

At present, Russia is planning to make up for labor shortages in the agriculture by means of local workers who are going to be attracted for harvesting. As in numerous developed countries, these measures are aimed both at the unemployed and those who cannot continue their work at the regular places amid the pandemic.

In such conditions, the following can be recommended:

It would be expedient to use the mechanism of other countries (Germany and France) which have created special online platforms for attracting local workers for seasonal jobs with publication of job vacancies and aid proposals there. It is feasible to create online platforms on the websites of the Ministry of Agriculture, the Ministry of Labor, the AKKOR Association or sectorial unions for publication of the data on job vacancies. In addition, such a platform will make it possible to get registered for those who would like to work in the agriculture. First, this measure will facilitate networking between agricultural producers and those who are willing to work and help; second, it will make up partially for the labor shortages which are caused by lack of foreign workers; third, it would be feasible to estimate the extent of the need in seasonal agricultural workers.

Wages of agricultural workers are over 40%¹ lower than those in the economy as a whole. So, for the attraction of local workers for seasonal employment in the agriculture it is expedient to preserve social benefits for those who are willing to work at farms.

An important issue is the organization of the safe movement both of foreign and local workers inside the country. Workers who arrive from other regions should be isolated for 14 days and only after the expiry of this period they can be allowed to start working in the agriculture. In this context, it is necessary to render support in terms of subsidies and grants to agricultural producers who are going to employ seasonal workers.

Furthermore, they should regulate safety measures and the hygiene of the agricultural work, take a worker's temperature for prophylactic purposes,

1 The Rosstat. Average monthly nominal accrued wages of workers across the entire range of entities and types of economic activities (in compliance with OKVED2) in the Russian Federation in 2017.

provide workers with PPE, see to it that workers observe social distancing and organize shift work or work on a rotational basis.

Taking into account the epidemiological situation in the country, it is important to develop the schemes of attraction of foreign workers for seasonal employment in the agriculture. Such schemes should be target-oriented, that is, meet the needs of specific employers in certain jobs. For this reason, it is necessary to organize networking between agricultural producers (the actual need in seasonal workers should be assessed) and the local authorities, representatives of the countries where migrant workers are expected to come from, migration services and airline companies.

Following Germany's experience, it would be expedient to create a single platform where agricultural producers could place the list of jobs and specify the number of the required seasonal workers. Such information should be accumulated and transmitted both to Russian regions and abroad for hiring of the personnel. Further, it is necessary to identify countries – sources of migrants – where groups of migrant workers are to be formed on the basis of the needs of Russian farmers. In case of the reservation by employers of a certain number of foreign workers, the air transportation of seasonal migrant workers for the needs of the agrarian sector can be approved at the level of the Government of the Russian Federation. Such measures could be applied to other sectors of the economy where foreign migrants are engaged. Proceeding from the experience of different countries, it is advisable to organize a 14-day quarantine for migrant workers who arrive in Russia. Upon the expiry of this period, migrant workers have to undergo medical examination and only after that they can be allowed to go to work.

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2. REGIONS' BUDGETS FOR 4 MONTHS OF 2020: CONTRACTION OF REVENUES HAS BECOME INEVITABLE

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April saw crisis developments in the economy that had fully affected regions' consolidated budgets revenues: revenues compared to April 2019 decreased by 20.9% and PIT demonstrated maximum decline over 20 years (-18.7%). At the period-end for 4 months of 2020 revenues growth rates were in the red (-1.2%). Had it not been for the increase of fiscal transfers from the federal budget by 28.6% (including advance ones) the reduction of regions' revenues would have been more noticeable.

Despite the fact that the current crisis and the 2008–2009 crisis were induced by different causes, relative growth rates of the consolidated budgets of various regions demonstrate similar trends.

Expenditures of regional and local budgets for 4 months of 2020 peaked by 18.5% which was both due to the implementation of national projects and to anti-crisis measures and their structure shifted towards investments.

Revenues

Preliminary data on regional and local budgets execution for the first 4 months of 2020 demonstrate that the total volume of revenues of the consolidated budgets of the Russian Federation contracted by 1.2% although in late Q1 they exhibited a reasonably stable growth (+10.7%) compared to the same period of 2019. The main cause for a sharp change in the trend was the plunge in the revenues seen in April 2020, which decreased by 20.9% against April 2019. During the last decade, regions' consolidated budgets demonstrated plunge in revenues solely in May 2013 (contraction by 34.2% to May 2012), in June 2013 (-22.8%), and in January 2014 (-32.8%).

As anticipated, the corporate income tax was the main driver for the revenues decline, which over the first four months of 2020 have contracted by 11.1% to the corresponding period of 2019 and were exacerbated by the April reduction in the amount of 28.5%. Out of the large revenues sources the aggregate income tax (contraction by 15.8% over four months of 2020, for April – by 40.7%) and the property taxes (-10.8% and -43.7%, respectively) were in the red. The Personal Income Tax (PIT) has not buttressed fiscal revenues although remained in the black at the four months-end of 2020 (+2.7%) and in April contracted by 18.7%, which was the peak to the month of the previous year over the last 20 years. Excises have exhibited an upward trend (up by 7.3% for four months and in April – up by 15%). In this context, fiscal transfers from budgets of other levels were the main source of income, which in the course of the period under review maintained revenues of the consolidated budgets and prevented them from collapse.

2. Regions' Budgets or 4 Months Of 2020

Despite the general contraction of the revenues posted growth rates in the black. Chukotka autonomous okrug (up by 34.7% to the corresponding period of 2019), Khanty-Mansi autonomous okrug-Yugra (+32.0%), and Republic of Sakha (Yakutia) (+23.6%) were in the lead. Kemerovo region-Kuzbass (-23.7%), Republic of Tatarstan (-22.0%), and Astrakhan region (-21.4%) moved to the bottom of the ranking. Regarding federal districts, the best situation with revenues growth arose in North-Caucasus federal district (+12.1%) where all seven subjects continued demonstrating an upward trend in revenues and Far Eastern federal district (+9.5%) where growth was observed in 9 out of 11 subjects. The Volga federal district (-5.2%), North-Western federal district (-4.4%), and Central federal district (-3.7%) were at the bottom of the ranking regarding fiscal revenues.

Although crisis in the RF budgetary system was only gaining momentum, breakdown of territories across the dynamic of fiscal revenues growth over the first four months-end reminds the 2009 crisis when at year-end the same federal districts were the front runners in growth and in decrease in fiscal revenues, the only difference the Urals federal district in 2009 being at the head of reduction in regional revenues (-13.5%), while at the first four months-end of 2020 remained a relatively satisfactory one (+1.9%). In some measure, this conclusion confirms coefficient of correlation of relative (with regard to an average across subjects) growth rates of the consolidated budgets revenues for four months of 2020 and 2019 equaling 0.41. Consequently, despite the fact that the real pandemic-induced crisis is still in the initial phase and to a significant extent has a different nature from the 2009 crisis, the relative reaction of regions' budgets revenues then and now has a lot in common.

In view of this, the total amount of revenues contraction of the RF subjects' consolidated budgets hit around \$350 bn in April 2020 compared to April 2019. Having said that, high rates of fiscal transfers from the federal budget over the first four months of 2020 (+28.6%), which partially offset contraction of tax and non-tax regions' revenues (about Rb 420bn) were marked not only by the increase in their overall planned annual amount (+13.4%) but by the outstripping promptness of their extension to regions. Even taking into consideration the decision about the additional appropriations to the RF subjects to the tune of Rb 200bn to be extended this year¹, the regions are facing a severe contraction of fiscal revenues if they do not receive still more additional financial assistance by the end of the financial year. The decline of the fiscal transfers from the federal budget before the end of the year and the prospects for the negative growth rates of tax and non-tax revenues of the regions seem inevitable in the months to come at the least.

Expenditures

The RF subjects consolidated budgets expenditures constituted 18.5% over the first four months of 2020 against the corresponding period of 2019, which is significantly higher than the inflation rate and even more so that the growth rates of budget expenditures. Having said that, a significant spike in expenditures happened precisely in April when they increased by a quarter relative to April 2019, which obviously due to the implementation of contingency measures.

Expenditures growth was observed in 83 regions. Republic of Tatarstan (+38.1%), Moscow (+35.1%), and Irkutsk region (+31.9%) were in the lead. Mur-

¹ Meeting of the RF President with the members of the RF Government dated 15.04.2020. [Electronic resource] – Available at: <http://kremlin.ru/events/president/news/63204>

mansk region (-4.2%) and Kalinin-grad region (-2.9%) posted decreased in expenditures.

A shift towards capital investments in the real estate state (municipal) facilities, which was due to the implementation of national projects as well as procurements of goods, works and services for state (municipal) needs was observed in the structure of budget expenditure items.

Equilibrium and public debt

Significant excess of regions' consolidated budgets expenditures over revenues posted in April 2020 resulted in the growth of the total amount of public debt which at May 1, 2020 hit Rb 2.087 trillion up by 2.1% against the level for the same date of 2019. Over this period, public debt owed by 53 RF subjects decreased and 32 subjects posted growth in their public debt. Krasnodar krai (-Rb 29.5bn) Krasnoyarsk krai (-Rb 17.8bn and Astrakhan region (-Rb 5.6bn) were in the lead in reducing its total amount. Moscow region (+Rb 42.3bn), St. Petersburg (+Rb 24.9bn) and Sverdlovsk region (+Rb 19.4bn) were in the lead regarding public debt growth.

The average debt burden of RF subjects stopped contracting and even somewhat went up from 21.8%¹ in late April 2019 to 21.9% in late April 2020 (Fig.1). The debt owed by medium- and lower-revenue regions as of yet continues declining but remains above mid-level (36.0% and 43.0%, respectively). High level of public debt surpassing 100% of tax and non-tax revenues was observed solely in the Republic of Mordovia (210.2%) and Republic of Khakassia (121.0%), although contraction of tax and non-tax revenues can result in greater number of regions in this group.

The structure of regions' public debt demonstrates common trends inherent to recent years: budget loans prevail whose share is rather stable (48.3% of the total amount of debt), phasing out of loans extended by credit institutions (reduction over 12 months from 22.2% to 20.3%) by state securities (growth over 12 months from 26.0% to 28.6%) as well as contraction of state guarantees (2.5%).

It should be noted that due to the feature of tax proceeds to regions' and local budgets (first of all, corporate income tax), April as a rule is ranked 1st or 2nd on the list of monthly revenues receipts in the regions' consolidated budgets over the year that is why against the backdrop of lower expenditures that peaked in December, regional debt usually contracted in April rather than went up. Against March it contracted in the course of entire period of 2011–2019 including 2011–2016 when the total public debt of regions increased to-fold. That is why, growth of regional debt seen in April 2020 marks significant problems in the current regions' budgets

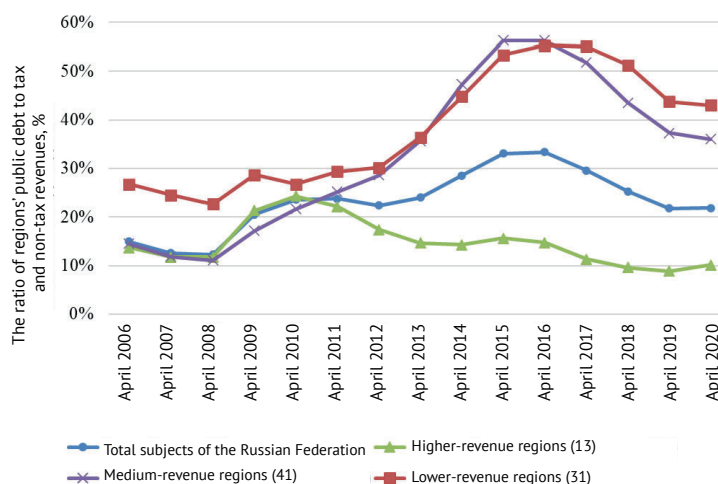



Fig. 1. Debt burden of RF subjects with different level of fiscal capacity, %

Source: own calculations based on data released by the Finance Ministry of the Russian Federation and Federal Treasury.

¹ Determined as a public debt/tax and non-tax revenues ratio of a subject of the Russian Federation.

2. Regions' Budgets or 4 Months Of 2020

balance as well as prospects for its growth in May and June 2020 – months when regions' budgets revenues are relatively small and in sum are equal to those in April.

In the meantime, the ongoing low regions' debt burden, advance appropriation of financial assistance to regions amidst the plunge in their revenues as well as additional fiscal transfers from the federal budget will allow regions at least during coming two years to ensure resolution of tasks they are facing. In addition, the regions retain possibilities for optimization of budget expenditures to the tune of Rb 300bn,¹ which in case of need can be utilized without affecting the implementation of national projects. 

¹ The author's calculations.

3. THE PROBLEMS CREATED BY THE RISING FOOD PRICES AND PRICES FOR OTHER VITAL GOODS DURING THE CURRENT PANDEMIC

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During the COVID-19 pandemic, prices for a number of consumer goods and services, as well as for some pharmaceutical and medicines products, have increased significantly. To counter the attempts of unscrupulous sellers to increase their profits by price gouging, the governments of several OECD countries introduced special state regulation of prices for the period of the pandemic.

OECD Recommendations and the situations in its Member countries

On April 28, 2020, the OECD released its report 'Protecting online consumers during the COVID-19 crisis' [¹] concerning the measures designed to counter speculative overpricing of a number of goods and services in connection with the COVID-19 crisis. Generally, in many EU countries, any sharp increase in prices (price gouging) is prohibited in principle. Thus, for example, Article 102 of the Treaty on the Functioning of the European Union (TFEU) stipulates that abuse may, in particular, consist in 'directly or indirectly imposing unfair purchase or selling prices or other unfair trading conditions'. However, such offenses often only apply to those companies that enjoy a dominant position on the markets. Therefore, in the context of the COVID-19 pandemic, OECD member countries have introduced some additional standards that apply to all companies and markets. The following measures are applied in order to control the appetites of speculators and prevent any unreasonable increases in prices for goods and services.

1. *The creation of mechanisms for receiving consumer complaints.* In the UK, the Competition and Markets Authority (CMA) set up its COVID-19 Taskforce and introduced a consumer complaint form for reporting unfair business behavior during the COVID-19 outbreak. On April 24, 2020, the CMA released its first report, stating that over the first month of the Taskforce's work, it had received 2,500 complaints against 187 firms about large price rises for food and personal hygiene products.²

2. *Price control.* In some Canadian provinces, including British Columbia, Alberta, Nova Scotia and Ontario, the practice of price gouging is subject to express prohibition under emergency management statutes, which allow regional governments during a state of emergency to fix or regulate prices of goods or services deemed essential or necessary.³ Thus, in Ontario, an order prohibiting price gouging was issued on March 28, 2020 under the Emergency Management

1 URL: https://read.oecd-ilibrary.org/view/?ref=130_130819-ay45n5rn74&title=Protecting-online-consumers-during-the-COVID-19-crisis

2 URL: <https://www.concurrences.com/en/bulletin/special-issues/competition-law-covid-19-en/exploitative-abuses-price-gouging-covid-19-the-cases-pursued-by-eu-and-national-en#nb16>

3 URL: <https://www.bakermckenzie.com/en/insight/publications/2020/04/canada-pricing-goods-and-services-covid19>

3. The Problems Created by the Rising Food Prices

and Civil Protection Act ('Ontario Act').¹ The order prohibits all retail businesses from charging 'unconscionable prices' for 'necessary goods'. In addition to referring broadly to 'necessary goods', defined under the Ontario Act to include food, water, electricity, fossil fuels, clothing, equipment, transportation and medical services and supplies, the order also specifically calls out some other health and safety products, including protective masks and gloves, non-prescription medications for the treatment of the symptoms of the coronavirus (COVID-19), disinfecting agents, and personal hygiene products (soap products and paper products). The penalties for price gouging involve a fine of CAD100 000 to CAD1mn, and up to one year in prison. In California (USA), after the declaration of a state of emergency and within 30 days after the state of emergency is lifted, it is prohibited to sell any consumer food or non-food goods or services, daily necessities, medical supplies, building construction materials, housing, transport, transportation or storage services, and fuel at a price that is more than 10% higher than the price charged by the same seller for the same goods or services immediately before the state of emergency was introduced.²

In Poland, a similar ban was introduced on March 28, 2020 as part of the Anti-crisis Shield package of laws (regulation of the situation with COVID-19).³ It is established that the government can set a ceiling on the selling prices and mark-ups for pharmaceuticals, medical equipment, foodstuffs and other goods or services that are necessary to protect human health or safety, or significantly affect household costs. The penalty for violation involves a fine of up to 5m zlotys (Rb86.5mn), payable within 7 days. Besides, a fine of up to 10% of the turnover in the previous financial year can be imposed.

In France, temporary control was introduced over the prices for disinfectant gels, some food products, and protective masks; these measures also apply to e-commerce platforms. In Italy, the antimonopoly authority requested information from major retailers and platforms, including Amazon and eBay, by way of investigating their price increases and misinformation in connection with sales of protective masks and disinfecting agents. In Spain, the antitrust authority launched an investigation into the increased prices in the funeral services sector. The Netherlands Competition Authority in one of its statements noted that big online platforms (Bol.com, Marktplaats and Amazon) on their own had been taking the necessary steps to prohibit sellers from charging high prices.

The situation in Russia

By Article 6 of Federal Law No. 135-FZ dated July 26, 2006 'On Protection of Competition', the concept of 'exclusively high commodity price' is established. However, such a price can only be set by an economic unit in a dominant position, while the market is filled by a multitude of small sellers who, while not having a dominant position, nevertheless inflate their prices on a massive scale. Besides, the price of a commodity is not recognized to be exclusively high if it does not exceed the price that has been established in the course of competition in a comparable commodity market. This means that if, during the COVID-19 outbreak, the majority of sellers operating on the market sharply raise their prices for a particular commodity, that price will not be considered to be

1 URL: <https://www.dentons.com/en/insights/alerts/2020/april/14/price-gouging-on-necessary-goods-during-the-covid19-pandemic>

2 URL: <https://www.dwt.com/insights/2020/03/covid-19-price-gouging-antitrust-laws>

3 URL: <https://www.bakermckenzie.com/en/insight/publications/2020/03/covid19-special-legislation-maximum-prices>

exclusively high; this is fraught with high risks of a simultaneous price increase across a given market.

The agreements between competing business entities selling goods in one and the same commodity market are also prohibited, if such agreements result in establishing or keeping prices at a certain level. During the pandemic, the FAS has already conducted a number of investigations into certain agreements – for example, the agreement between Magnit and SPAR retail chains¹ concerning buckwheat prices. It is worth noting that in Russia, according to media reports, the prices of some foodstuffs during the COVID-19 pandemic have moved up 5–20%².

Overall, state regulation of prices in Russia is executed within the framework of Decree of the Government of the Russian Federation No. 239 dated March 7, 1995 'On Measures to Streamline the State Regulation of Prices (Tariffs)'. However, food prices are not included in the lists of products regulated by that decree. Moreover, there is no special procedure for introducing such regulation in emergency situations or situations that threaten the sanitary and epidemiological safety of the people, for example, when there is a threat of the spread of a dangerous disease.

In addition, there exist the Rules for setting a retail price ceiling for certain types of socially significant essential food products, for compiling a list of certain types of socially significant essential food products subject to the retail price ceiling, and for compiling a list of certain types of socially significant food products, for the purchase of a certain amount of which an economic unit carrying out trading activities cannot be paid the remuneration established by Decree of the Government of the Russian Federation No. 530 dated July 15, 2010 (hereinafter – the Rules, Decree No. 530). These Rules establish the regulation of the retail price ceilings for certain types of socially significant essential food products (24 types of goods) in the event of their price being raised by 30%. In respect of such goods, by Draft Law No. 942591-7 ('On the Introduction of Alterations into Article 8 of the Federal Law 'On the Fundamental Principles of State Regulation of Trade Activities in the Russian Federation'), mark-up margins are envisaged (the draft law is undergoing the phase of preliminary consideration).³

And finally, in March 2020, alterations were introduced into Article 60 of Federal Law No. 61-FZ dated April 12, 2010 'On the Circulation of Pharmaceuticals', whereby the procedure for state regulation of prices of pharmaceuticals in an emergency situation or in face of a threat of the spread of a dangerous disease (for example, such as COVID-19) is established. It should be added that previously, Decree of the Government of the Russian Federation No. 431 dated April 4, 2020 had been in force (its action is currently suspended), whereby the prices of protective masks and gloves were regulated. It is also worth noting that the FAS has set up a hotline for complaints on issues of raised food prices.⁴

Thus, the rules of state regulation of prices for pharmaceuticals, utilities, and fuel have been elaborated and introduced in Russia, but there is still no established procedure for state regulation during the periods of an emergency situation, a pandemic, etc. The absence of such regulation in the context of the coronavirus pandemic has given rise to soaring prices for some goods and

1 URL: <https://chel.fas.gov.ru/news/29537>

2 URL: <https://www.kommersant.ru/doc/4316139>

3 URL: <https://sozd.duma.gov.ru/bill/942591-7>

4 URL: <https://fas.gov.ru/pages/goryachaya-liniya-fas-rossii-po-voprosam-povyisheniya-czen/>

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services, their inaccessibility, and massive-scale violations of consumer rights and competition rules.


The suggestions for Russia

Based on the experience of foreign countries, the Government of the Russian Federation should develop the procedures for regulating prices in emergency situations and other situations that can threaten the sanitary and epidemiological safety of the people.

1. The FAS should prepare amendments to Draft Law No. 942591-7 (On the Introduction of Alterations into Article 8 of the Federal Law 'On the Fundamental Principles of State Regulation of Trade Activities in the Russian Federation') which, as noted above, is undergoing the phase of preliminary consideration. The proposed amendments address the right of the executive bodies of state authority of subjects of the Russian Federation, in the event of an emergency situation or other situations that can threaten the sanitary and epidemiological safety of the people (for example, infectious diseases, large-scale outbreaks of non-infectious diseases, etc.), to introduce the regulation of the mark-up margins for certain types of food and non-food products. This refers to the list of goods established by the aforesaid Rules approved by Decree No. 530, as well as other food and non-food products and services, the price of which cannot be increased by more than 10–20% (according to the practices of the OECD and EU discussed earlier), including with due regard for the number of consumer complaints received by the FAS.

2. The FAS should initiate the conclusion of memoranda of cooperation with those e-commerce platforms that would be ready to comply with the agreements on control of price increases by the suppliers of goods to those platforms during the periods of emergency situations or other situations that can threaten the sanitary and epidemiological safety of the people (for example, infectious diseases, mass-scale non-infectious diseases, etc.).

What can be the benefits of the proposed measures?

The establishment, in the framework of emergency or crisis situations caused by sanitary and epidemiological factors, of price regulation procedures for certain types of food products and other types of goods and services, the prices of which are being significantly increased (including housing prices, transportation services, etc.), is consistent with international practices. This measure ensures a temporary freeze on any price increases, not only with regard for essential goods and services, but also, at the discretion of the authorities, for some other goods, thus making it possible to avoid huge price mark-ups (for example, the ginger and lemon prices that jumped 300–500%), as well as to reduce the risks of litigations and audits by the FAS regarding the legality of such mark-ups. The cooperation between the FAS and electronic trading platforms will enable the latter to track the cases of overpricing in online trading. 

4. EXECUTION OF THE FEDERAL BUDGET IN JANUARY-APRIL 2020: BUDGET SURPLUS IS DUE TO NON-TAX REVENUES GROWTH

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We analyze dynamic of budget receipts, federal budget expenditures and assets in the National Wealth Fund for January-April 2020. Over the period, the federal budget was executed with a surplus, however one should remember that oil and gas revenues reflect the changes on the market the same month and the plunge in oil prices was offset by the currency sale taken from the NWF and non-oil and gas revenues lag behind in their reaction towards the change in the tax base by a quarter. Provided that retail sales and industrial output declined against the previous months of the corresponding period of 2019, one should project decline in proceeds from VAT and income tax in Q2 and Q3 2020.

According to recent data released by the Finance Ministry of Russia, the federal budget revenues for January-April 2020 have gone up to 20.1% of GDP (Table 1) compared to the same period of the previous year or by 0.9 p.p. of GDP, which mainly can be explained by the low base effect (due to GDP decline). Oil and gas revenues continue falling: if for the first 3 months of the current year to the same period of 2019 their volume contracted by 1.1 p.p. of GDP (to 7.0% of GDP), then by the period-end of January-April to the same period of 2019 contraction amounted to 2.2 p.p. of GDP or Rb 588.2bn¹ mainly due to the crude oil component in MET and export duties. The volume of additional oil and gas revenues at April-end of the current year came to Rb 58.8bn. However, given the excess of the actual crude oil price over the base one seen in January-February, at 4 months-end of 2020 the volume of additional oil and gas revenues hit Rb 511.1bn against Rb 966.0bn to 4 months of 2019.

Non-oil and gas revenues of the federal budget for 4 months of 2020 moved up by Rb 1,228.6bn or by 3 p.p. of GDP compared to January-April of the previous year. However, there is contraction by 0.1–0.2 p.p. of GDP regarding main tax expenses less receipts from domestic excises which went up by 0.2 p.p. of GDP or by Rb 67.6bn.

Cash execution across oil and gas and non-oil and gas revenues of the federal budget at 4 months-end of 2020 to 4 months of 2019 stays in comparable values.

The federal budget expenditures for 4 months of 2020 related to January-April 2019 went up by Rb 1,200bn (Table 2) or by 2.6 p.p. of GDP. The highest growth was noted in the following items:

¹ Less excise reimbursement which is taken by the Finance Ministry of Russia in the calculation of oil and gas revenues.

4. Execution of the Federal Budget in January-April 2020

Table 1

Main parameters of the federal budget for January-April 2019–2020

	2019			2020			Deviation, 2020 to 2019	
	Rb mn	% GDP	Cash execution, %	Rb bn	% GDP	Cash execution, %	Rb bn	p.p. of GDP
Revenues, including:	6361.2	19.2	31.5	7001.6	20.1	34.0	640.4	0.9
oil and gas, including	2765.1	8.4	33.5	2176.9	6.2	28.9	-588.2	-2.2
MET	1986.5	6.0	33.2	1679.6	4.8	29.0	-306.9	-1.2
export duties	778.6	2.4	34.2	497.3	1.4	28.6	-281.3	-1.0
non-oil and gas, including:	3596.1	10.9	30.1	4824.7	13.9	36.9	1228.6	3.0
corporate income tax	464.5	1.4	39.1	447.4	1.3	36.7	-17.1	-0.1
VAT on goods sold in RF	1362.4	4.1	32.0	1354.4	3.9	29.7	-8.0	-0.2
VAT on goods imported to RF	852.2	2.6	30.0	836.9	2.4	27.7	-15.3	-0.2
excises on goods sold in RF	160.6	0.5	30.8	228.2	0.7	23.7	67.6	0.2
import customs duties	220.0	0.7	30.7	200.8	0.6	30.2	-19.2	-0.1
other revenues	536.4	1.6	30.4	1757.0	5.0	34.5	1220.6	3.4
Expenditures, including:	5 676.2	17.1	31.1	6876.2	19.7	31.5	1200.0	2.6
interest	228.4	0.7	31.2	254.5	0.7	28.4	26.1	0.0
non-interest	5447.8	16.4	31.1	6621.7	19.0	35.3	1173.9	2.6
Surplus (deficit) of budget	685.0	2.1		125.4	0.4		-559.6	-1.7
Non-oil and gas deficit	-2 080.1	-6.3		-2 051.5	-5.8		28.6	0.5
GDP (in current prices), Rb bn	33 100			34 882				

Sources: Finance Ministry of Russia, Federal Treasury, GDP for Q1 and 4 months of 2020—own estimates, own calculations.

- “social policy” up by 0.9 p.p. of GDP or Rb 378.9bn due to accelerated disbursement of budget funds for pension and social insurance of the population in the amount of 41.1 and 51%, respectively from the approved annual volumes;
- “healthcare” up by 0.7 p.p. of GDP or by Rb 264.3bn mainly at the expense of spending growth on the item “other issues in healthcare” by 2.8-fold or by Rb 188.2bn;
- “national economy” by 0.3 p.p. of GDP or by Rb 119.2rb. Growth of budget allocations in this item in absolute terms is noted practically in all items except sub-items “fuel and energy complex” and “agriculture and fisheries.”

Spending growth in those strands is in line with planned measures of assistance to the population and economy amid pandemic.

The federal budget surplus at January-April 2020-end hit Rb 125.4bn or 0.4% of GDP against 2.1% of GDP for the same period of 2019. At the same time, non-oil and gas deficit contracted from 6.3% of GDP to 5.8% of GDP. Regarding the cash flow of the federal budget taken as a source for deficiency payment of the budget for January-April 2020, it should be noted that accelerated securities placed on domestic markets which constituted 52.1% of annual values or Rb 304.4bn under allotment in the amount of Rb 842.9bn and decrease in remaining balance of the federal budget on deposits by Rb 23.5bn. The balance regarding state securities turnover denominated in foreign currency at 4 months of 2020-end constituted Rb 260bn, the volume of emission hit Rb 405.3bn under cash execution of 100% of the approved annual volumes.

As of May 1, 2020, the National Wealth Fund boasted of Rb 12.4 trillion or 10.9% of GDP and the amount of public domestic debt went up insignificantly

Table 2


Federal budget expenses in January-April 2019–2020

	2019			2020			Deviation, 2020 to 2019	
	Rb bn	% GDP	Cash execution,%	Rb bn	% GDP	Cash execution,%	Rb bn	p.p. of GDP
Expenditures, total, including:	5 676.2	17.1	31.1	6876.2	19.7	31.5	1200.0	2.6
Nationwide Issues	401.4	1.2	29.4	499.7	1.4	17.3	98.3	0.2
National Defense	1 120.1	3.4	37.4	1151.0	3.3	34.7	30.9	-0.1
National Security and Law Enforcement	565.8	1.7	27.2	621.8	1.8	25.2	56.0	0.1
National Economy	454.9	1.4	16.1	574.1	1.7	19.5	119.2	0.3
Housing and Utilities	92.7	0.3	32.8	118.0	0.3	36.3	25.3	0.0
Environmental Protection	79.4	0.2	40.2	105.8	0.3	30.4	26.4	0.1
Education	330.0	1.0	39.9	385.4	1.1	37.3	55.4	0.1
Culture and Cinematography	33.6	0.1	27.4	45.2	0.1	30.2	11.6	0.0
Healthcare	225.6	0.7	31.6	489.9	1.4	44.3	264.3	0.7
Social Security Policy	1766.7	5.3	36.2	2145.6	6.2	41.5	378.9	0.9
Physical Culture and Sports	14.5	0.0	17.8	16.9	0.0	21.2	2.4	0.0
Mass Media	20.0	0.1	19.3	25.7	0.1	27.0	5.7	0.0
Public Debt Servicing	228.4	0.7	31.2	254.5	0.7	28.4	26.1	0.0
Interbudgetary transfers	343.1	1.0	34.2	444.9	1.3	42.6	101.8	0.3

Sources: Finance Ministry of Russia (online data), Federal Treasury, own calculations.

from the start of the year – to Rb 10.6 trillion against Rb 10.2 trillion. The amount of foreign public debt contracted from \$54.8bn at the beginning of year to \$50.9bn.

* * *

Oil and gas revenues demonstrated downward trend during the period under review which was offset by the use of funds from NWF. However, one should expect a decline in non-oil and gas revenues in the federal budget in Q2 and Q3 2020. According to Rosstat, retail sales in Russia in April constituted in comparable prices 76.6% to the level seen in April 2019. Moreover, there was a decline in the share of non-food products in favor of foodstuffs which means a decline in the tax base of the main (not reduced rate) VAT rate. Also according to Rosstat, April 2020 saw a decrease in industrial output by 6.6% compared to the corresponding month of 2019 and by 9.2% compared to March 2020. According to current fiscal rule, the NWF assets are not designated to offset the shortfall in non-oil and gas revenues, that is why one should expect a significant ramp up in public borrowings above the planned volume in H2 2020. 

5. THE CYCLICALLY BALANCED FISCAL RULES: THE EXPERIENCE GAINED IN THE APPLICATION THEREOF

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We review the application of cyclically balanced budget rules in Switzerland and Chile. The budgets of these countries, drawn up based on the cyclical balance rule, have improved their primary indicators of fiscal sustainability (the level of public debt, primary surplus).

In world practices, fiscal rules have been viewed as one of the tools employed in maintaining a balanced budget. However, international experience demonstrated that the period 2000–2010 was marked by several different trends. Firstly, in a poorly developed institutional environment, fiscal rules are frequently revised or suspended, and the period of their existence is reduced to the electoral cycle. Secondly, compliance with the rules whereby budget deficit and public debt ceilings are set not only fails to secure budget sustainability, but even gives rise to the risk of an additional negative macroeconomic shock in cases when budget sequestration becomes necessary; for these reasons, there has emerged a trend of switching over to cyclically balanced budget. Thirdly, the governments of those countries that depend on exports of natural resources create national sovereign wealth funds based on the cut-off price of their main export product. In this study, two countries are selected that have been successfully applying the cyclical balance rule. However, while Switzerland sets the example of a non-resource rich country, Chile has succeeded, in its fiscal rule design, to apply the cut-off price to opportunistic budget revenues, while the structural budget balance component is applied to all the other budget revenues. In view of Russia's similarly plummeting oil-and-gas revenues and non-oil and gas revenues, it has become necessary for this country to modify the currently applied fiscal rule, so as to increase its long-term stability and flexibility.

The Swiss experience of applying cyclically balanced fiscal rules

In the 1990s, Switzerland's fiscal policy was pro-cyclical, with a spending bias. The periods of economic growth were not taken advantage of in order to promote fiscal consolidation, and during economic downturns, the government had to impose significant cuts on budget expenditures and to increase its public debt. The fiscal rule was first introduced in 2003, it was the government's response to the sharp increase in public debt in the 1990s.

The fiscal rule is enshrined in the Swiss constitution, it cannot be amended without a universal vote, and more than 85% of the vote should be cast in support of its amendment. Under that rule, budget expenditures should be consistent with cyclically adjusted budget revenues, which are calculated based on real budget revenue projection (T_t) and economic cycle phase (k). The latter is the ratio between the real potential GDP estimated by applying the Hodrick-Prescott (HP) filter (Y^*) and real actual (projected) value of GDP (Y): $k = Y^*/Y$. Thus, the allowed government expenditure ceiling is $k \cdot T_t$. Note that during the economic growth phase $k < 1$, and thereby budget expenditure growth is constrained

during the growth phase. The purpose of the fiscal rule is to ensure that the government fiscal policy is countercyclical (a relative spending reduction during the period of economic growth, and increased spending during the period of an economic downturn). After the budget is executed in accordance with the parameters approved by the law, the resulting deficit or surplus is entered in a special account (adjustment account). If the account balance is negative, that negative value should be given consideration to when planning the next period's expenditure. If the deficit is above 6% of budget expenditures, it should be offset within the next three years by bringing down the budget expenditure ceiling. In this connection, it should be noted that the rule applies to all budget expenditures of the central government, including public investments. In some exceptional cases, the Constitution stipulates that the budget expenditure ceiling may be raised, for example in case of a protracted deep recession, or in response to certain unforeseen economic shocks. Thanks to that condition, the government can rely on a more flexible fiscal policy during the periods of crises in the national economy. At the same time, these excessive expenditures are reflected in a special account (amortization account), and must be offset within 6 years.

In the paper by A. Geier [1], it is noted that the fiscal rule mechanism relies on a simple cyclical adjustment where (1) expenditure is set regardless of fluctuations in the economic cycle, while (2) it is assumed that the annual budget revenue should be proportional to real GDP. The first assumption is quite well-substantiated, because expenditure-side automatic stabilizers, such as government unemployment insurance, are not subject to the debt brake rule (they have accounts that are kept separately from federal accounts and are subject to their own budget requirements). The second assumption, according to A. Geier, is by no means always true.

The researchers have also pointed to the possibility of applying methods other than the Hodrick–Prescott filter (for example, an evaluation of production function). However, in their opinion, there exist two reasons why the Hodrick–Prescott filter is preferable [2]: firstly, the symmetry of values during the recession and boom phases;¹ secondly, the complete transparency and relative simplicity of the assessment procedure.

In addition, the authors of paper [2] point out the other challenges inherent in a fiscal rule of this type:

- 1) the correctness of budget revenue estimates, which in Switzerland is the exclusive prerogative of the Ministry of Finance;
- 2) the risks associated with a broad interpretation of the concept of 'unforeseen circumstances'.

Nevertheless, these challenges did not transform into significant threats. In Switzerland, after the fiscal rule was introduced, the level of public debt declined from about 30% of GDP in the early 2000s to the current 23–24% of GDP, and the level of the primary balance of the government budget hovers near zero. The fact that the two challenges described earlier have not fully materialized has to do with the existence of the adjustment account, which is corrected in case of an excessively optimistic budget forecast, and also with the qualified majority vote in both houses of parliament required approve a broader interpretation of 'unforeseen circumstances'.

The Chilean experience of setting the upper budget expenditure limit based on the main export commodity price and GDP cleared of its cyclical component

Among all the countries dependent on their exports of natural resources, Chile is the country that stands closest to Russia in terms of its GDP share of those

¹ Although symmetry may suffer from annual adjustments, the Swiss experience has shown that those annual adjustments do not strongly distort the symmetry.

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exports.¹ In this connection, the Chilean experience appears to be relevant for Russia, because the budget planning procedure relies not only on the cut-off price of copper (Chile's main export commodity), but also on the structural fiscal balance as a share of GDP, and these indicators are applied to establish an upper limit to the amount of government outlays based on forecast revenue for the planning period.

In 2001, Chile formally adopted a structural, budget-balance fiscal rule. The rule requested the government to hold a structural surplus of 1% of GDP. The Chilean central government's structural surplus is calculated in several steps. During the first step, the forecast values of real GDP cleared of the cyclical component and the reference price for copper (same as the base oil price in Russia) are determined. After that, the sensitivity of budget revenue to fluctuations in GDP and the price of copper is estimated, and the revenue projection is calculated under those macroeconomic conditions where real GDP is equal to its structural component value, and the price of copper – to its reference value (those estimates having been obtained during the first step). The resulting calculated forecast revenue value is structural revenue. The structural surplus is calculated as the difference between structural revenue and planned expenditure, or (which is equivalent) as the difference between the forecast revenue value less the cyclical revenue component and the central government's planned budget expenditure.

To calculate budget revenue, forecast data are applied, which are entered into a separate table and consist of the following groups of indicators: GDP growth rate; CPI; the national currency's nominal exchange rate against the US dollar; copper price on the London Metal Exchange; receipts from Codelco adjusted in light of the level of copper export prices (on a cash basis); Codelco copper sales (in tons); GMP-10 production data; GMP-10 profit sharing ratio.

The volume of expenditures should be determined on the basis of a structural surplus of 1% of GDP. The non-zero value is explained by the assumed presence of unforeseen negative macroeconomic shocks.

To calculate structural revenue, the 'tendencial' indicator (hereinafter – structural GDP) is applied, which is determined by a group of selected experts (the Committee of Experts). For example, in August 2016, a group of 15 independent experts plotted the structural GDP volume and growth rate until 2021, calculated as the averaged indicators of the maximum and minimum values determined by the experts.

Based on the movement of structural GDP and other macroeconomic indicators, the structural tax-generated revenues are then calculated. The volume of structural revenues is determined by applying a coordinated calculation methodology to all the tax and non-tax receipts in the central government budget. The calculation procedure is determined by the Committee of Experts.²

In actual practice, the upper budget expenditure limit, as mentioned earlier, was calculated as the difference between structural revenue and the structural surplus target, which was set by the president of the country during the preparation of the draft budget. The target value was determined on the basis of many different factors. Thus, in 2001, the structural balance target was set at 1% of GDP; in 2008, with due regard for the accumulated sovereign wealth funds, the target was reduced to 0.5% of GDP, thus permitting budget expenditure to be increased from 18.7% of GDP in 2007 to 21.2% of GDP in 2008. In 2009, due to the necessity of increasing budget funding earmarked for the anti-crisis package, the structural surplus target was set at 0% of GDP, and later, during the period

1 According to data released by the World Bank, in recent years, mineral exports of Chile and Russia alike have been hovering near 20% of GDP, while for major oil-producing countries that index has been around 30–60%.

2 In addition, the Committee of Experts has the power to determine the reference price of copper (same as the base oil price in Russia).

2010–2014, the structural budget deficit was determined in the amount of -1% of GDP. Over the period 2014–2017, the structural surplus target was also changing. Thus, when planning the budget for 2014–2018 in the framework of the four-year political cycle, the structural deficit target was set at -1.0% of GDP, with a subsequent annual reduction of 0.25 p.p. of GDP, to 0% of GDP in 2018. However, due to the subsequent decline of world copper prices and the need to sustain the investment programs launched by the state-owned copper mining company Codelco, a government decree issued in September 2016 set the structural surplus target for 2017 at -1.6% of GDP, while the planned structural surplus target in the draft budget stood at -1.5% of GDP (*Table 1*).

Table 1

Chile's central government balance, 2016–2017, as % of GDP

Index	Estimate for 2016	Draft law 2017
Total budget revenue	21.1	21.0
Total structural income	22.5	22.8
Total expenditure	24.2	24.3
Headline fiscal surplus	-3.1	-3.3
Structural surplus	-1.7*	-1.5

In one of the latest studies it was found that this modification of the fiscal rule significantly reduced, but did not eliminate, the cyclical nature of government spending (especially the investment component of Chile's central government budget) [3]. In addition, the authors specify, from their point of view, the following limitations of the fiscal rule as applied in Chile:

- 1) the rule makes no reference to the composition of public outlays, focusing only on the government's aggregate balance;
- 2) in recent years, revenue forecasts have systematically overshoot the actual revenues, although the key components and parameters of the fiscal rule (such as trend output and the long-term price of copper) are estimated by the Committee of Experts independently of the fiscal authority;
- 3) the absence of transparent escape clauses. During its first years of operation, the structural balance target was indeed met, but from 2009 onwards, due to the falling government revenues in the form of copper royalties from copper exports and the absence of multiannual budgeting procedures, the authorities were denied the opportunity of amending the consequences of wrong forecasts within the budget cycle, and it was more difficult for them to reach the fiscal target.

* * *

Our analysis has shown that:

- 1) the use of a cut-off price and a cyclically balanced budget are by no means two mutually exclusive components of a fiscal rule;
- 2) a cyclically balanced budget makes budget expenditure less pro-cyclical, but does not guarantee that it may become completely a-cyclical; in developing economies, the pro-cyclical nature of budget expenditure affects primarily its public investment projections;
- 3) the quality of applying cyclically balanced budget rules is highly sensitive to the quality of budget revenue forecasts. The Swiss and Chilean experiences demonstrate that, in order to mitigate such risks and achieve long-term budget sustainability, it is advisable to use more transparent forecasting methodologies, as well as to keep separate records of the deviations from the established expenditure limits, so that they could be offset at a later date;
- 4) it is necessary to stipulate an explicit escape clause concerning unforeseen circumstances. In this connection, the recognition of the fact of 'un-

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foreseen circumstances' should follow a sufficiently 'strict' decision-making algorithm (for example, a constitutional majority vote in parliament) and a transparent procedure for determining the ceiling for the amount of expenditure that could be earmarked for anti-crisis measures.

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