MONITORING OF RUSSIA'S ECONOMIC OUTLOOK:

TRENDS AND CHALLENGES OF SOCIO-ECONOMIC DEVELOPMENT

No. 14(116) September 2020

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THE RUSSIAN PRESIDENTIAL ACADEMY OF NATIONAL ECONOMY AND PUBLIC ADMINISTRATION

Monitoring of Russia's Economic Outlook: trends and challenges of socio-economic development. 2020. No. 14(116). September. Edited by: V. Gurevich, S. Drobyshevsky, V. Mau and S. Sinelnikov-Murylev; Gaidar Institute for Economic Policy, Russian Presidential Academy of National Economy and Public Administration. 22 p. URL: http://www.iep.ru/files/text/crisis_monitoring/2020_14-116_Sept_eng.pdf

1. REVIEW OF FINANCIAL MARKETS (AUGUST 15–30, 2020)

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During the two weeks from August 15 to August 30, 2020, the global and national stock and bond markets generally remained stable, while the stock indexes continued their post-crisis recovery. The business media switched over their focus of attention to the discussion of the recovery rates being demonstrated by the world's top economies, the changes in the US monetary policies (MP), and government debt growth. The prevailing point of view has been that the USA and the other developed economies have so far failed to display a V-shaped recovery trajectory.

Although, in August, the price of oil and the RTS Index continued to gradually recover, the month-end rates for August 2020 of the ruble weakening and the Index's decline relative to their year-beginning values placed these indices among the topmost losers in the group of economies included in our review.

News and opinions over the two weeks

1. According to data released by the IMF, as the WSJ pointed out, debt in the developed economies rose, in July 2020, to 128% of world GDP [1]. In 1946, it stood at 124% of GDP. Glenn Hubbard, who chaired the Council of Economic Advisers under US President George W. Bush, and now is Dean Emeritus at Columbia Business School, believes that at the present moment, governments should not worry about their rising debt, focusing instead on battling the coronavirus pandemic.

After World War II, the advanced economies quickly reduced their debt largely due to their rapid economic growth. By 1959, the debt to GDP ratio shrank by more than half, to less than 50%. This time, it will probably be much more difficult to resolve the debt crisis, for reasons that have to do with demographics and technologies. Besides, the public debt situation currently faced by the developed countries (128% of GDP) differs from the WWII period in that most of those countries in the future are unlikely to rely on high rates of economic growth.

In the present situation, low interest rates and the effects of quantitative easing, alongside a strengthening business monopolization, are facilitating the recovery process, but they are fraught with low economic growth and low total factor productivity. Therefore this time, the task of coping with the high public debt problem will become very tricky for the developed countries. They will probably be compelled to employ some new means in the form of tax hikes, cuts on government spending, allocation of the resources of central banks to finance government debts, etc. It can be recalled, for example, that shortly after WWII, the US FRS kept its key rates low for several years, only because it wanted to facilitate the financing of budget expenditures through the issuance of government securities.

2. At the Federal Reserve Bank of Kansas City's annual Jackson Hole policy symposium on August 27, 2020, Jerome H. Powell, the chair of the Federal Reserve, officially announced the bank's monetary policy adjustment [[1]]. In his statement it is emphasized that the Federal Open Market Committee (FOMC) remains firmly committed to fulfilling its previous mandate from the US Congress of promoting maximum employment, stable prices and moderate long-term interest rates [2].

The FOMC aims at making its decisions regarding monetary policy as clear as possible to the public. This clarity will sustain households and businesses in their well-founded decision-making, reduce economic and financial uncertainty, and make monetary policy more effective, as well as improve its transparency and accountability.

As far as the maximum employment objective is concerned, the Federal Reserve chair noted that it depended mainly on nonmonetary factors that strongly influence the structure and dynamics of the labor market. For that reason, it is not directly measurable and changes over time. Therefore, the Federal Reserve removed from its monetary policy framework the median natural rate of unemployment estimate of 4.4% and announced that its policy decision would be informed by assessments of the shortfalls of employment from its maximum level rather than by deviations from it.

The FOMC confirmed that the main inflation-targeting goal in the framework of its monetary policy was to achieve the 2% longer-run objective. However from now on, instead of preventive measures designed to maintain the specified 2% inflation rate, it would seek to achieve inflation that averages 2% over time, at the same time not officially tying itself to a particular mathematical formula defining the period for measuring the inflation average and the band for its deviation therefrom. Later on the same day, President of the Federal Reserve Bank of Dallas Robert Kaplan explained that annual inflation could vary from 2.25% to 2.5% [3], but this was not an official figure recorded in the Federal Reserve's monetary policy framework.

Meanwhile, the current monetary policy statement has been augmented by a provision stipulating that 'sustainably achieving maximum employment and price stability depends on a stable financial system. Therefore, the Committee's policy decisions reflect its longer-run goals, (...) including risks to the financial system.'

These changes in the monetary policy make it possible to keep the federal funds rate at a low level, without it being affected by a rising inflation. In addition, the FRS secures its function of safeguarding the financial system sustainability through the mechanisms of effective lower bound on interest rates and quantitative easing.

Another new point is the FOMC's promise of a thorough public review of its monetary policy strategy, tools and communication practices roughly every 5 years.

Given the available historical data series for the past 30 years, the task of pursuing an average inflation target set at 2% per annum is by no means a difficult one. According to the WSJ [4], the core inflation average over the period

1 URL: https://www.youtube.com/user/KansasCityFed.

from July 2009 to July 2020 was 1.6%; from January 1993 to March 2001, it stood at 2.1%; and from December 2001 to November 2007, at 1.9% per annum. The inflation peaks over the period 1993–2020 were observed in May 1993 at 2.9%, in February 2012 at 2.1%, and in June 2018 at 2.1%. The current situation in the US economy is unique in that the very low core inflation of 0.9% per annum in July occurred alongside a high unemployment rate of 10.2%.

3. After Mr. Powell announced on August 27 a major monetary policy shift, the yield on US government bonds increased, reflecting a slight decrease in the demand for them [5]. By the end of the trading session on August 27, the yield on the benchmark 10-year U.S. Treasury note had climbed to 0.744%, from 0.686% at the previous day's close. However, this reaction appeared moderate, because in the statement of the Fed chair the market heard two mutually contradictory messages. On the one hand, the FRS was going to keep its rates low for a long time to come, while on the other, it did not commit to buying more longer-term Treasury debt. Adding more uncertainty for investors on the market, the officials were vague about the methods of calculating the inflation average and the permissible deviations of actual inflation from its 2% average objective.

After Mr. Powell's announcement, the yield curve for government bonds began to change [6]. Alongside small changes in short-term rates, long-term yields began to rise sharply (*Fig. 1*). The relaxed control over inflation and its average objective set at 2% pushed up the market risk premium. As of August 28, the spread between 30-year bonds and 5-year bonds increased to 121 b.p. vs 100 b.p. as of 24 August.

4. The author of an article in MarketWatch wonders how the long-term low interest rate policy of the FRS is going to affect the retirement savings of American citizens [3]. The main takeaway is that the new monetary policy impact on retirement savings could be negative, because low Fed rates translate into low bond yields.

According to Eric Walters, managing partner and founder of Summit Hill Wealth, many retirement planners would need to review their plans for retirement using lower return assumptions. He explained that many annuity savings plans rely on average historical rates of returns, which could be between 4% and 5% for intermediate bonds. 'Using these assumptions now for a retirement plan could be disastrous when actual interest rates for 10-year Treasury bonds

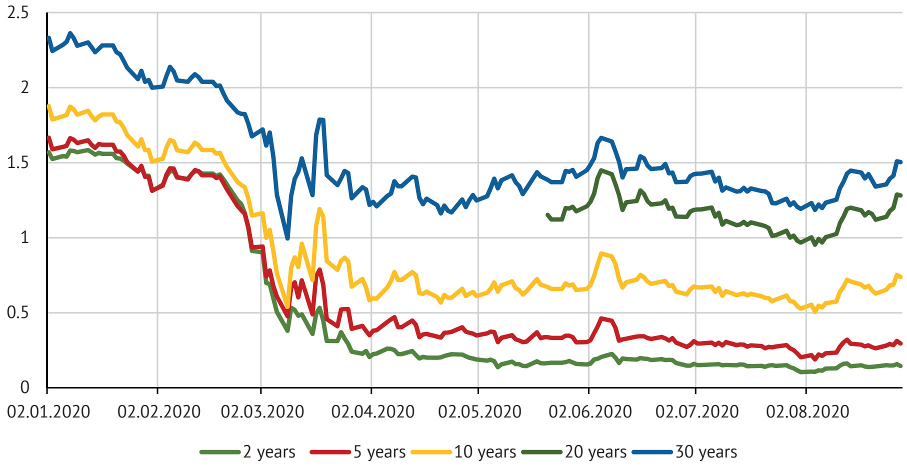


Fig. 1. The US government bond spreads in 2020, %

Source: Bloomberg.

are 0.74%'. Low rates could affect pension buyout offers and single premium annuities, which could be locked into permanently low rates. Investors may turn to stocks to compensate for their bond interest loss, said Michelle Buonincontri, a financial adviser with 'Being Mindful in Divorce'. She emphasized that 'this potentially motivates a greater commitment to stock market instruments and the associated risks for investors.'

5. The speed of economic recovery in the USA can actually strongly impact the outcome of the presidential election in that country. In this sense, an interesting article by H. Torrey appeared in the WSJ on August 28. The author argued that US consumer spending rose more slowly in July and for some time in August [7].

She wrote that US consumers indeed boosted their spending in July, but more slowly than in prior months, as new coronavirus infections rose and the expiration of enhanced unemployment checks loomed. Personal consumption expenditure of households, after having dived in March and April by 6.7% and 12.9% on the previous month, respectively, thereafter began to climb again by 8.6% in May and 6.2% in June. However, in July its growth amounted to only 1.9%.

Economists believe that over the coming months, after the federal additional weekly unemployment benefits of $600 expire on July 31, the growth rate of consumer spending could slow down even further. The negotiations between Democrats in Congress and representatives of the White House stalled over disagreements over the size of unemployment benefits and the amount of funding under the relief package for states and cities.

On August 8, President Donald Trump signed an executive order for distributing an additional $300 in weekly unemployment benefits from the federal budget, and urged states to pay an additional $100 per week. The US Department of Labor estimates that those states that join the program would need three weeks on average to transfer these funds.

On August 28, the University of Michigan reported that its consumer sentiment index for the current month climbed to 74.1, which was only slightly up from July's 72.5 score.

6. Renowned for the accuracy of his forecasts, including the prediction of the 2008 crisis, economist Nouriel Roubini, professor of economics at New York University's Stern School of Business, said that 'the European system of greater social cohesion gives you better economic outcomes than the one of the United States that is just Wild West capitalism. That's why the unemployment rate barely went up in Germany or even in Italy, while in the US we've had double-digit unemployment rate and actually even worse, considering underemployment and so on' [8]. Roubini also noted that the V-shaped bounce 'is becoming a U, and the U could become a W if we don't find a vaccine and don't have enough stimulus.'

7. According to Rob Arnott, another respected economist, the founder and chairman of the board of Research Affiliates – a global asset manager [9], the world's major economies are at risk of making bigger mistakes than those made during the financial crisis. 'The big issues are the lockdowns, and the resulting trillions in fiscal and monetary stimulus, fueling asset bubbles. The lockdown has inflicted a human toll that dwarfs the damage of the virus,' he said.' When asked whether the global economy was at risk of repeating mistakes of the 2008 financial crisis, Arnott went on to say as follows: 'No, it's much worse than that.' Arnott then warned against heavily relying on the concept of Modern Monetary Theory, the idea that countries that issue their own currencies can never run out of money in the same way a business or person can. 'We've already embraced

MMT on steroids,' he said. 'If we don't step back and take a fresh look, the consequences of this spending binge and money printing will be devastating.'

8. The concentration of issuers on the US stock market is growing: the movement patterns of its main indices are shaped by the top five technology companies, whose combined share in the total market cap of the S&P 500 is about 25%. In this connection, on August 20, Apple Inc. reached $2 trillion market cap, and by August 28 it further jumped to $2.14 trillion. Previously, such a high market concentration index had been observed only in the 1960s, but at that time the biggest companies represented a variety of industries: technology (IBM), telecommunications (AT&T), automotive industry (General Motors), the oil industry (Exxon), and 'other' (Kodak). The coronavirus pandemic only increased the existing gap between tech companies and the rest of the stock market, as the population during the quarantine began to increasingly rely on social networks, online cinemas, and so on. Besides, against the backdrop of falling interest rates, tech stocks became the most popular alternative for investors, and so they will suffer most in case of their growth, thus dragging along the entire stock market [10]. As far as the rising interest rates are concerned, their growth may be caused both by the spread of faith among investors in a speedy economic recovery and by the Fed's policy (as it happened on August 27). In August, the usually positive correlation between bond and stock yields switched over to negative values, with a particularly strong inverse correlation between the movement patterns of the yields on 10-year government bonds and those on tech stocks (*Fig. 2*); this phenomenon increases investor risks in a situation where the latter dominate the market, and the market is becoming increasingly dependent on government relief measures.

9. The period of rising gold prices is not yet over, and the precious metal still has some potential for increasing its investment value because real interest rates are staying at a low level, according to PIMCO's experts (Pacific Investment Management Co) (*Fig. 3*) [11]. The experts believe that gold remains attractive and even cheap. In August, the price of gold hit its record high, jumping above $2 000 per ounce as investors sought alternatives amid the coronavirus pandemic, while central banks launched their unprecedented monetary stimulus measures. Real yields on 10-year Treasury bonds dived below zero, thus strengthening the investment attractiveness of gold and boosting the cash inflows into

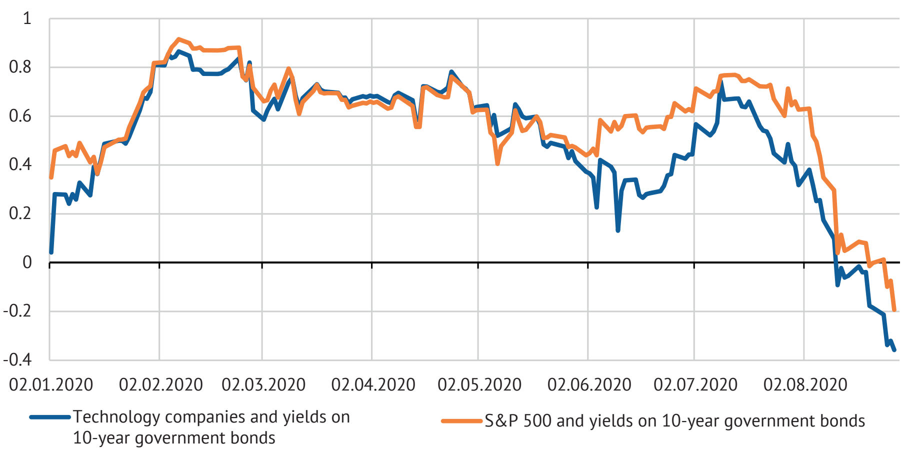


Fig. 2. The correlation, over the last 20 trading days, between the yields on 10-year government bonds and technology-sector and S&P 500 stocks, 2020

Source: own calculation based on data released by Bloomberg.

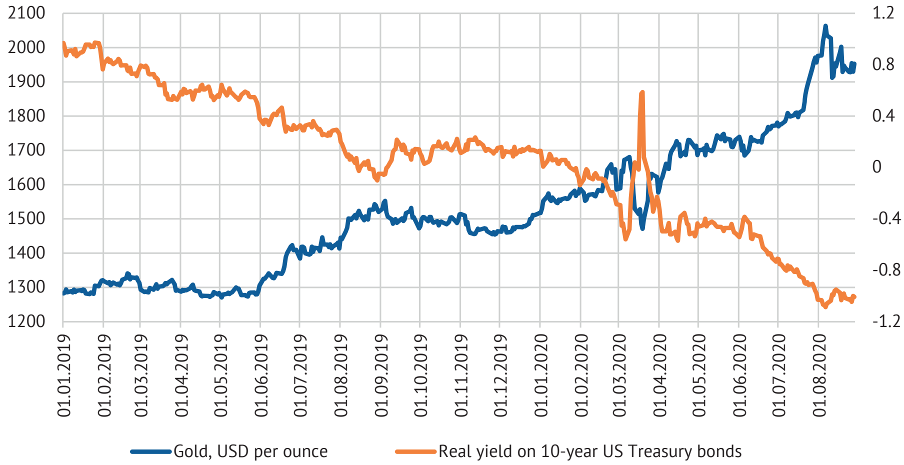


Fig. 3. The price of gold in USD and the real yield on 10-year US Treasury bonds, p.p., 2019–2020.

Source: Bloomberg.

gold-backed exchange-traded funds (ETFs). Goldman Sachs Group Inc. also expects an increase in gold prices: its updated forecast for the next 12 months indicates a gold price surge to $2 300 per ounce [12].

10. The value of US stocks relative to US output has hit its historic high, exceeding even its level shortly before the dot-com crisis, and so the sustainability of that growth is doubtful (*Fig. 4*) [13]. The combined market cap of the Wilshire 5000 Index stood at $36.8 trillion on August 26. This amounts to 190% of US GDP, which was $19.4 trillion in Q2 2020. The previous record high of 167% was reached in March 2000. In December 2001, before the onset of the dot-com crisis, Warren Buffett said in an interview that 'if the percentage relationship falls to the 70% or 80% area, buying stocks is likely to work very well for you. If the ratio approaches 200% (...), you are playing with fire.' [14] The current closeness of the ratio to this mark may mean that in the future, the yield on shares may become significantly lower than in the previous 10 years. One of the reasons for such a sharp rise in stocks was the extremely low yield on sovereign bonds.

11. In spite of the complicated trade relations between the USA and China, the US biggest financial companies retain a strong interest in developing their businesses in China. The WSJ reports [15] that the largest US investment man-

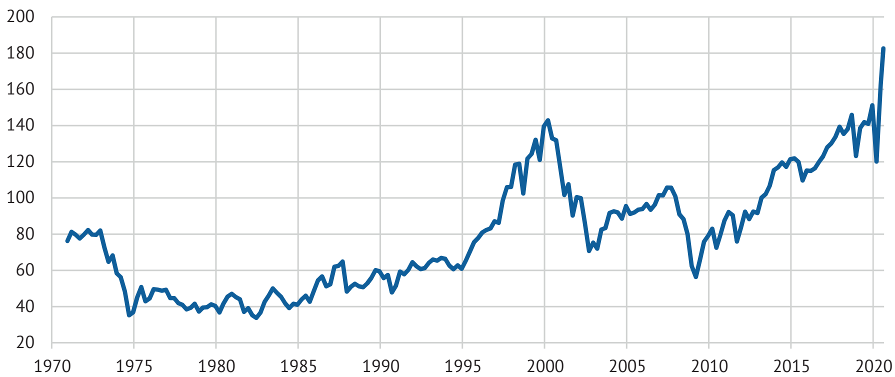


Fig. 4. The Wilshire 5000 Total Market Full Cap Index to nominal US GDP ratio, %, 1970–2020

Source: Bloomberg.

agement company BlackRock Inc. received a regulatory approval from China to launch its mutual fund business in that country. This allows BlackRock to become one of the first (if not the very first) foreign investment firms to start independently managing money for Chinese individuals. This year, Chinese regulators have allowed foreign asset managers to apply for mutual fund licenses, thus abolishing limits on foreign ownership of fund management companies. Neuberger Berman and Fidelity International have filed similar applications.

In recent years, Larry Fink and other CEOs of BlackRock have made China their business development priority. In an attempt to expand its activities in China, the global investment management corporation held talks with various potential partners. The China Banking and Insurance Regulatory Commission recently paved the way for BlackRock to establish a joint venture with China Construction Bank Corp. and Singapore-based Temasek Holdings. 'I continue to firmly believe China will be one of the biggest opportunities for BlackRock over the long term, both for asset managers and investors, despite the uncertainty and decoupling of global systems we're seeing today,' Fink wrote in an email to the company's shareholders earlier this year.

Traditional asset managers in China are projected to manage about 90 trillion yuan (about $13 trillion) in assets by 2023, according to consulting firm Oliver Wyman. The Asset Management Association of China reported that as of July 2020, there were more than 140 Chinese mutual-fund managers, overseeing more than 17 trillion yuan in assets.

Vanguard Group, another big asset management company in the USA, also recently announced its extensive development plans in mainland China [16]. Although Vanguard has been reducing its presence in the Asian markets, China remains its major priority. In 2018, Vanguard closed its Singapore office, and is currently shutting down its businesses in Japan and Hong Kong. On August 26, the company announced that it would leave Hong Kong, where its operation 'primarily serves institutional clients, and not the individual investors that are our primary strategic focus.' 'Our future focus in Asia is on Mainland China and our primary office in Asia will be in Shanghai,' a Vanguard spokeswoman said in an email.

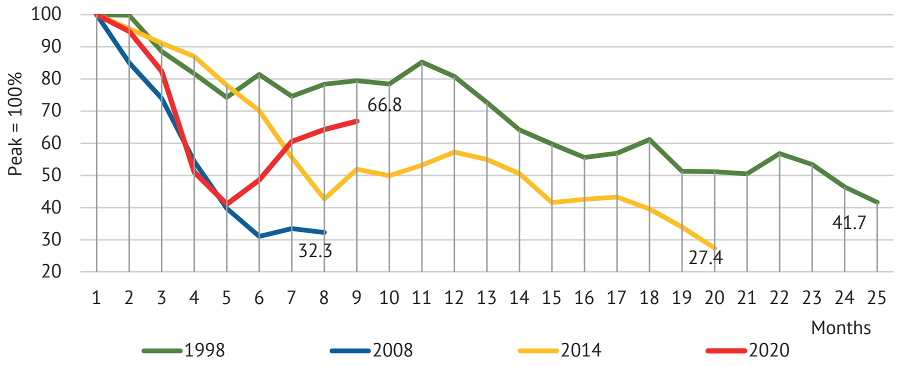
Vanguard has set up a joint venture with Ant Financial Services Group, China's most valuable technology startup, and since this year's beginning it has been providing investment advice to the hundreds of millions of Chinese consumers who use Alipay, a popular mobile app that Ant owns. For a small fee, the company helps its users to create investment portfolios by choosing from thousands of mutual funds managed by various asset managers and listed on the Ant platform. Within 100 days after the project launch in April 2020, about 200 000 users invested a total of 2.2bn yuan ($319mn), Ant said in a statement.

The experience of China's interaction with the world's largest asset managers in localizing their services for private investors in its domestic market is an effective model that could be of interest to any large developing country.

The crisis indicators in the Russian financial market

Over the period from August 16 to August 28, the oil price growth amounted to 0.4 p.p. As of August 28, the average monthly price of Brent crude reached 66.8% of its December 2019 level (*Fig. 5*).

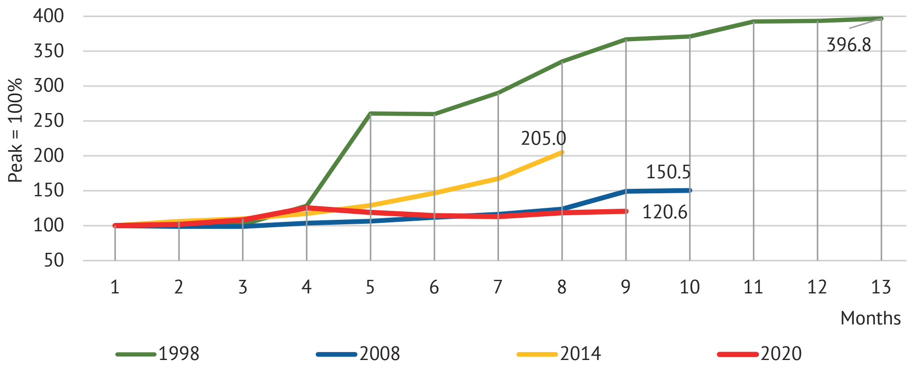
Between August 15 and August 29, the USD-to-ruble exchange rate plunged from 73.22 to 74.64. Over the period from December 2019 to August 28, the ruble plunged by 20.6% overall (*Fig. 6*).



Note. The average monthly price of Brent for August 2020 is calculated relative to the period August 1–28, 2020.

Fig. 5. The average monthly movement of the price of Brent crude oil relative to its peaks of December 1996 (prior to the 1998 crisis), July 2008, June 2014, and December 2019, as % (peak value = 100%)

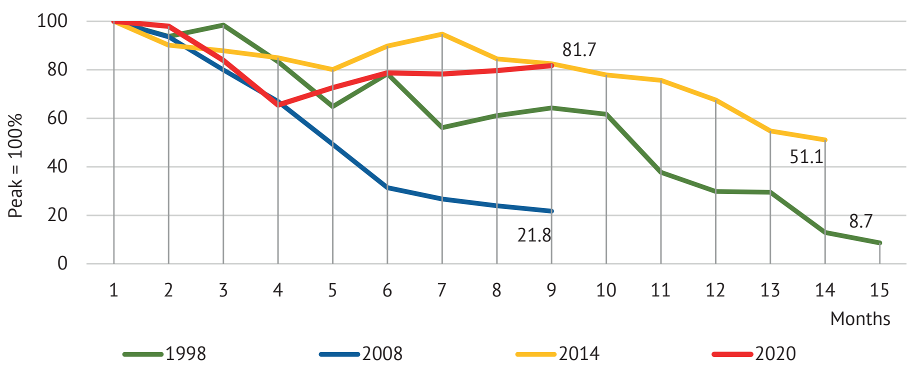
Source: own calculation based on data released by Thomson Reuter and Finam (URL: https://www.finam.ru/profile/tovary/brent/?market=24).



Note. The USD-to-ruble exchange rate in August 2020, as of August 16, 2020.

Fig. 6. The average monthly movement of the USD-to-ruble exchange rate relative to its peaks of May 1998, May 2008, July 2014, and December 2019, as % (peak value = 100%)

Source: own calculations based on data released by the Bank of Russia.



Note. RTS Index in August 2020, as of August 16, 2020.

Fig. 7. The average monthly movement of the RTS Index relative to its peaks of July 1997 (prior to the 1998 crisis), May 2008, February 2014, and December 2019, as % (peak value = 100%)

Source: own calculations based on data released by the Moscow Exchange.

1. REVIEW OF FINANCIAL MARKETS (AUGUST 15–30, 2020)

Over the past two weeks, there has been a slight drop in the RTS Index. As of August 28, its value was 81.7% relative to its December 2019 level; this is 3.8 p.p. below its value as of August 16 (*Fig. 7*).

World stock quotes and forex rates

As before, the highest growth has been demonstrated by the Shenzhen Stock Exchange Composite Index, which gained 33.8% since year-beginning (2.16 p.p. from August 1 to August 28). The deepest plunge occurred in the stock exchanges of Cyprus and Greece (since the beginning of the year, their indexes lost 30.2% and 30.8%, respectively).

Table 1

The movement of national stock exchange indexes in 2020, %

	Growth	
	Over 2020	Over August 2020
China – Shenzhen Stock Exchange	33.8	2.16
USA – NASDAQ (composite index)	30.3	8.84
Denmark – Copenhagen Stock Exchange (KAX)	12.2	2.54
China – Shanghai Stock Exchange	11.6	2.83
Argentina – Buenos Aires Exchange (MerVal)	11.3	-5.80
USA – S&P 500 Index	8.6	7.24
Republic of Korea – Korea Exchange (KOSPI)	7.1	4.64
Finland – Helsinki Stock Exchange (OMXH)	2.3	6.79
USA – Dow Jones	0.4	8.42
Sweden – Stockholm Stock Exchange (OMX)	0.3	4.05
Canada – Toronto Exchange (TSE 300)	-1.5	3.37
Germany – Frankfurt Stock Exchange (DAX)	-1.6	5.85
South Africa – Johannesburg Stock Exchange (All Share)	-1.8	0.60
Russia – Moscow Exchange (IMOEX)	-2.2	2.36
Japan – Tokyo Stock Exchange (Nikkei 225)	-3.3	5.40
Turkey – Borsa İstanbul (ISE – 100)	-3.8	-2.34
Malaysia – Malaysian Stock Exchange (KLSE)	-4.0	-4.90
Switzerland – Swiss Exchange (SIX)	-4.3	1.58
India – Indian Exchange (NIFTY)	-4.3	5.18
Portugal – Lisbon Stock Exchange (Euronext)	-5.5	0.90
Netherlands – Amsterdam Stock Exchange (AEX–25)	-7.9	2.11
Australia – Australian Exchange (AS30)	-8.0	3.34
Poland – Warsaw Stock Exchange (WIG)	-9.7	3.51
Hong Kong – Hong Kong Exchange (Hang Seng)	-9.8	3.36
Norway – Oslo Stock Exchange (OBX)	-10.1	4.03
Brazil – Sao Paulo Stock Exchange (Bovespa)	-11.7	-0.75
Mexico – Mexican Exchange (IPC)	-13.2	2.09
Belgium – Brussels Stock Exchange (BEL – 20)	-14.6	3.21
Italy – Italian Stock Exchange (FTSEMIB)	-15.6	3.92
Thailand – Thailand Exchange (SET)	-16.2	-0.39
France – Paris Bourse (CAC 40)	-16.3	4.58
Chile – Santiago Stock Exchange (IPSA)	-17.0	-3.57
Russia – Moscow Exchange (RTS)	-18.3	2.53
UK – London Stock Exchange (FTSE 100)	-20.9	1.12
Singapore – Singapore Exchange (Straits)	-21.2	0.39
Hungary – Budapest Stock Exchange (BUX)	-24.4	0.43
Philippines – Philippine Exchange (PSE Comp)	-24.7	-0.75
Spain – Madrid Stock Exchange (Ibex 35)	-25.3	3.72
Cyprus – Cyprus Exchange (CSE)	-30.2	-2.26
Greece – Athens Exchange (ATHEX)	-30.8	2.73

Note. Quotes as of July 30, 2020.

Source: Stock exchange indexes are denominated in national currencies (except the RTS Index) – Bloomberg.

As seen by the period-end results for the first 8 months of 2020, an increasing number of currencies are strengthening against the US dollar. The highest growth indices since the beginning of the year to August 28, 2020 have been observed for the Swedish krona and the Swiss franc (8.6% and 7%, respectively). The euro likewise continues to strengthen, having gained 6.2% from the beginning of the year. Over the same period, the US dollar (Bloomberg index) has continued to decline, having lost 2% as of August 28. The deepest plunge since the beginning of the year has been observed with regard to the Argentine peso and Brazilian real (19.2% and 25.4%, respectively).

Table 2

The movement of national currencies against the US dollar in 2020, %

	Growth	
	Over 2020	Over August 2020
Swedish krona	8.6	1.8
Swiss franc	7.0	1.0
Euro	6.2	1.1
Bulgarian lev	6.1	1.0
Philippine peso	4.7	1.5
Japanese yen	3.1	0.5
Polish zloty	2.9	1.7
CNY	1.4	1.6
British pound sterling	0.7	2.0
Vietnamese dong	0.0	0.0
Norwegian krone	-0.2	3.5
Kuwaiti dinar	-0.8	0.1
Hungarian forint	-0.9	-1.8
US dollar (Bloomberg Index)	-2.0	-1.5
South Korean won	-2.1	1.1
Indian rupee	-2.8	2.3
Chilean peso	-3.4	-2.8
Thai baht	-4.4	0.5
Indonesian rupee	-4.6	1.3
Kazakhstani tenge	-7.7	0.0
Mexican peso	-13.0	2.4
Ukrainian hryvnia	-13.3	1.1
South African rand	-15.6	2.9
Russian ruble	-16.3	0.1
Turkish lira	-18.9	-4.9
Argentine peso	-19.2	-2.2
Brazilian real	-25.4	-3.1

Note. Exchange rates of national currencies, as of August 28, 2020.

Source: Bloomberg.

* * *

For two weeks – from August 15 to August 30, 2020 – the global and national stock and bond markets generally remained stable, and the post-crisis recovery of stock indexes followed its course. The prevailing point of view has been that the USA and other developed countries are not yet displaying a V-shaped recovery trajectory.

In the USA, there have been signs of a significant slowdown in the pace of consumer demand recovery, as well as inconsistencies in the measures undertaken by the authorities to extend the anti-crisis relief packages for businesses and households. Fears have been growing over the US stock market bubble.

In spite of the troubled trade relations between the USA and China, major US investment management companies are confidently expanding their presence in mainland China's financial market. For its part, China is steadily increasing its openness.

As of the end of August 2020, the ruble depreciation rate and the RTS Index decline remain significant relative to their year-beginning levels. Over the last two weeks of August, the ruble continued to weaken in absence of any obvious fundamental factors that could provide an explanation for this phenomenon.

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2. IMPROVING THE INSTITUTION FOR PROTECTION OF WHISTLEBLOWER RIGHTS TO RAISE EFFECTIVENESS OF THE ANTI-CORRUPTION FIGHT AMID COVID-19

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The institution for protection of whistleblower rights plays a key role in the effectiveness of systemic anti-corruption flight. The pandemic made the issue of protection of whistleblowers, disclosing facts of corruption and other wrongful acts, even more evident.

OECD recommendations and the situation in member-countries

The institution for protection of whistleblowers rights plays a key role in the effectiveness of systemic anti-corruption fight. Over 40% of corruption cases are detected due to whistleblower reports; this percentage can be increased by effective protection of whistleblowers. The COVID-19 pandemic made the issue of whistleblower protection, i.e. those disclosing information about corruption and other wrongful acts, even more evident.

Preliminary research evaluation by Shengjie Lai, Nick W.Ruktanonchai, Liangcai Zhou et al.[1], published in Nature, prove that number of infections in China could have been reduced to 95% if restrictive and easing measures of impacts (testing, social distancing, travel restrictions) have been implemented earlier. As governments take action to contain the pandemic, there are reports of attempts to silence those health workers and journalists wishing to warn on existing dangers. If these early warnings have been answered and whistleblowers protected, it would allow resisting the spread of the viral infection more effectively.

In response to the pandemic, the governments, international organizations, companies and non-profit organizations (NPOs) have launched massive, urgent funding for measures to contain the coronavirus. Given the urgency of such measures, transparency and accountability standards are not always fully implemented, undoubtedly leading to the growth of corruption risks.

The Organized Crime and Corruption Reporting Project (OCCRP) is already preparing reports on corruption related to the pandemic. Thus, for instance, among them is the waste of EU research funds in Greece, and winning the public procurement tender for supply of equipment to combat COVID-19 in Slovenia by a company having no experience in the healthcare sphere, etc. Governor's chief of staff in the Saratov region resigned voluntarily after the prosecutor's office started checking the purchase of disposable non-sterile face masks at Rb 425 a piece by regional authorities. Such examples in Russia are far from being isolated.

1 URL: https://www.nature.com/articles/s41586-020-2293-x#citeas.

2. IMPROVING THE INSTITUTION FOR PROTECTION OF WHISTLEBLOWER

The global health and economic crisis caused by the COVID-19 pandemic has demonstrated the importance of the whistleblower institution as a key mechanism for early detection and remedy of defaults. Whistleblowers are often the first to discover corruption and fraud. For example, healthcare employees reporting medical developments that could be used for unlawful purposes, or facts of theft or embezzlement in healthcare institutions; government officials reporting fraud or waste in healthcare procurement; company employees reporting bribery aimed at obtaining lucrative deals in medical supplies or equipment, etc.

Organized criminal groups and corrupted government officials often find new opportunities to consolidate illicit wealth and power during a pandemic. At the same time, existing corruption and crime makes it much more difficult for governments to respond to the COVID-19 threat[1].

The most advanced current laws for protection of whistleblowers allow them to report directly to the general public or the media about cases presenting health or safety hazards for the population. However, there is a relative legal vacuum at both international and national levels when it comes to whistleblower protection standards. The first detailed, legally binding document governing whistleblowers protection was the EU Directive on Whistleblower Protection, 2019. The Directive applies to a wide range of areas, including the health sector.

The directive imposes the obligation on member states to introduce into their legislation the requirements binding legal entities to set up channels and procedures for internal reporting in private and public sectors. The requirements to set up a reporting channel apply to private companies with more than 50 employees.

In accordance with the directive, any form of reprisal against whistleblowers is prohibited, including dismissal, demotion or refusal to promote, changing jobs, reducing wages, changing working hours, applying any disciplinary action or other punishment, including financial, coercion, intimidation, discrimination, early termination of a temporary employment contract, harm, including person's reputation, especially in social media, early termination of a contract for provision of goods or services, revocation of a license or permit, etc.

The directive has been included in the national legislation of EU member states. For example, a law on protection of whistleblowers has been in force in Latvia for a year. The law provides for setting up the channels for protection of whistleblowers in private and public sector. A website has been set up for filing applications online.

In the year the law was in force, over 400 applications have been received in the public sector. According to OECD experts, the Directive could change the situation in Europe, as it involves large-scale reforms aimed to facilitate filing of applications by whistleblowers.

There are other international initiatives highlighting the importance of whistleblower protection striving to effectively fight against corruption: the 2019 G20 High Level Principles for Effective Protection of Whistleblowers and the OECD Recommendation on State Integrity, appealing to countries to maintain a transparent corporate culture in the public sector, including through reliable whistleblower protection mechanisms.

Protection of whistleblowers is a priority isubject that the OECD intends to address in the course of revision of the 2019 Anti-Bribery Recommendation. This

1 URL: https://www.occrp.org/en/coronavirus/.

Recommendation is a key OECD tool adopted to develop the Convention against Bribery of Foreign Public Officials in exercising international business transactions by further strengthening the anti-bribery campaign in foreign countries.

Situation in Russia

Russia is a full party to the Convention, however, not many key provisions of this international treaty have been implemented into national legislation, which significantly complicates Russia's transition to the next phases intended to monitor the fulfillment of the Convention.

At this stage, there is no any comprehensive law to protect the rights of whistleblowers in Russia, which would embrace both the public and private sectors. Only common framework has been established for the protection of participants in criminal proceedings in accordance with the Federal Law 'On State Protection of Victims, Witnesses and Other Participants in Criminal Proceedings.'

However, they concern only those who have notified the law enforcement bodies on the corruption crime, while those individuals who have informed on the corruption infringement, have no state protection. Moreover, the existing legislation lacks the provision on protection of whistleblower employment rights.

There were attempts to adopt a law on the protection of whistleblowers in Russia. However, the draft law providing for measures to protect those individuals who have notified the employer, the prosecutor's office or the government institutions about corruption offenses committed in government agencies, local governments or organizations (submitted to the State Duma back in 2017) was rejected last year in June. Unfortunately, effective whistleblower protection is not a priority.

Proposals for Russia

In view of the above, it is proposed:

1. The Ministry of Justice together with the Ministry of Economic Development and other relevant bodies, to develop a draft federal law on the protection of whistleblowers, taking into account OECD standards in terms of mechanisms and guarantees of protection (this draft law should target both the public and the private sectors).

2. The Ministry of Justice together with the Ministry of Economic Development and other relevant bodies, ensure the development of recommendations for the private sector aimed at creating a mechanism for providing information on the facts of offenses, determining the responsible structural company unit for being in contact with whistleblowers and conducting internal investigations, determining a policy to protect whistleblowers within the company, communicating policy of whistleblower protection to employees, defining whistleblower protection measures (reimbursement of judicial and medical expenses, change of employee's position, etc.), defining measures against persons who take revenge on whistleblowers, etc.

What are the benefits of the proposed changes

Establishing a legal framework for whistleblower protection is an important step to ensure facilitated reporting during and after the COVID-19 crisis. Many companies in Russia and abroad set up mechanisms for providing information on offenses (for example, a hotline, online application forms, etc.). Nevertheless, it is critical to possess real mechanisms to protect whistleblowers. Adoption of the Whistleblower Protection Law will help establishing an effective legal framework to protect whistleblowers, whose information is a key source for detecting corruption.

Companies will get a viable tool to raise the corruption awareness, as whistleblowers will benefit from state-guaranteed protection mechanisms when they report on corruption offenses. However, there are actual risks associated with abuse and inappropriate reporting of corruption. Therefore, liability shall be provided for deliberately false corruption reports implying significant damage to the company's reputation.

Another, far more challenging path is to build confidence in compliance with whistleblower protection standards. Having even the utmost legal protection, whistleblowers still have to overcome significant fear and threats to their careers or even their lives in order to report wrongdoing, including serious crime.

3. THE RUSSIAN FOREIGN TRADE IN H1 2020: REDUCTION OF THE TRADE TURNOVER DURING THE PANDEMIC

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In H1 2020, exports of fuel and energy commodities decreased by 34% because of a drop in global prices of energy commodities. The non-oil and gas exports increased in value terms by 2.8% as a result of the decrease in global prices of some commodities of this group (6.5%), however, it was made up for by twofold growth in supplies of precious stones and metals. Imports fell by 6.5% owing primarily to the reduction of Russian GDP caused by the pandemic.

Dynamics of Exports and Imports

In Q1 2020, in value terms exports fell by 14% as compared with the relevant period of the previous year, while in Q2, by 30.9%; overall in H1 the decrease was equal to 22.3% (up to $160bn). Such dynamics were related to the reduction of 20.6% and 49.1% of exports of fuel and energy commodities in Q1 and Q2, respectively; consequently, in H1 exports of such commodities decreased by 34.1% to $87.8bn. The share of fuel and energy commodities in exports fell to 62% and 46% in Q2 and Q2, respectively. Such a substantial reduction was related to the pricing environment on global markets, rather than actual decrease in export volumes.

Exports of other goods were stable (-0.5%) and amounted to $72.2bn (*Fig. 1*). Monthly fluctuations of overall exports, except for fuel and energy commodities (as compared with the relevant periods of 2019) did not exceed 5%, which is evidence both of exports' resilience to the shock caused by the pandemic and the absence of breaks in production chains.

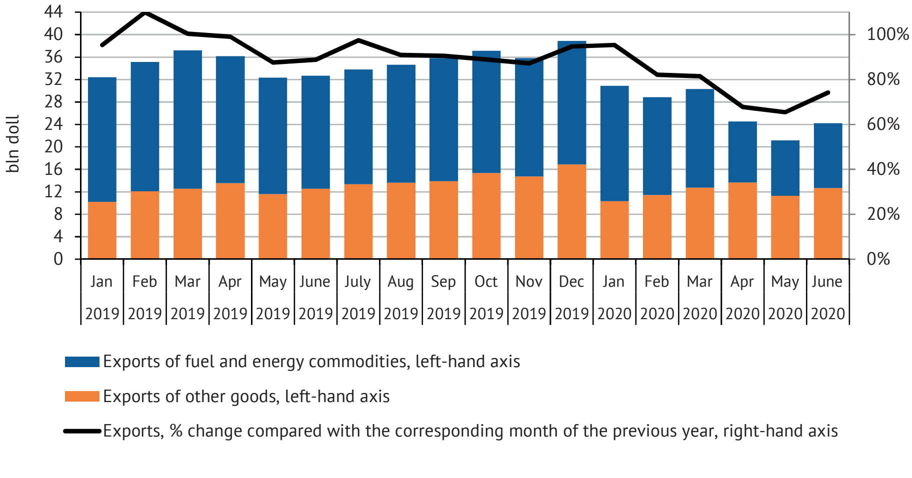
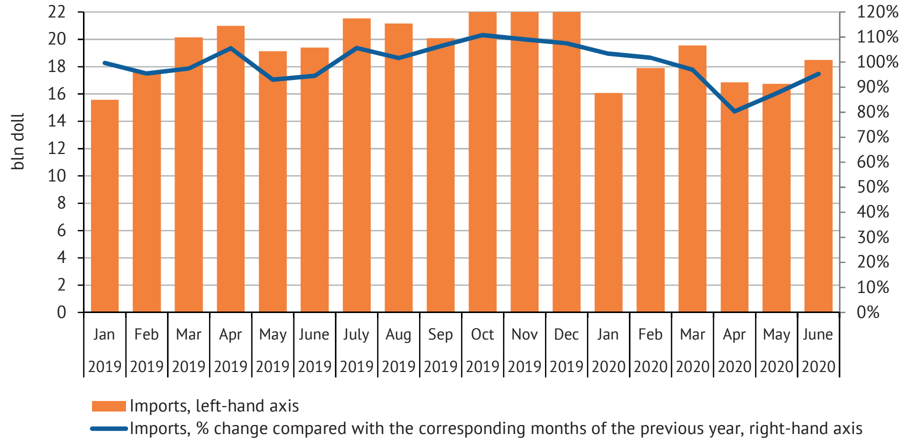


Fig. 1. Exports' dynamics in Russia in 2019–2020

Source: own calculations based on the data of the Federal Customs Service.



Note. Data comparison for H1 of each year.
Fig. 2. Imports' dynamics in Russia in 2019–2020

Source: own calculations based on the data of the Federal Customs Service (FCS).

For this reason it can be assumed that in H2 2020 exports' dynamics will depend primarily on fluctuations of global prices of energy commodities, while exports of other goods is going to be relatively stable.

In Q1 2020, in value terms imports were quite stable (+0.4%), but in Q2 they fell considerably by 12.5%; overall in January-June 2020 imports of goods fell by 6.5% and amounted to $105.6bn. Such dynamics of imports were caused primarily by the reduction of GDP in months with nationwide non-working days (*Fig. 2*).

In H1 2020, exports of goods amounted to 63% of the level of the relevant period of 2013. Specifically, exports of all goods, except for fuel and energy commodities, returned to the level seen in 2013 as far back as 2018 and fluctuated after that within the range of 5% of this indicator (*Fig. 3*). Though the extent of decrease in imports in 2016 and 2020 was almost the same, the factors which caused it were different. In 2016, it was mainly driven by the depreciation (12.8%) of the Russian ruble against the US Dollar amid stable GDP. In H1 2020, the main factor was a 4.2%[1] reduction of GDP because of non-working days and other consequences of the pandemic. The depreciation of 3.8% of the real exchange rate of the ruble to the US Dollar can explain only for one-third the observed reduction of imports.[2] Such a situation is sooner an exception because the exchange rate of the ruble in the short-term prospect is more volatile than the GDP index, while the elasticities of consumption of imports in value terms based on the exchange rate and the GDP volume have got similar absolute values. For that reason, the short-term dynamics of imports have been determined of late by exchange-rate fluctuations. So, if we assume that the lockdown regime is not introduced again it can be predicted that imports' dynamics will continue to follow the ruble exchange rate fluctuations.

Export Prices

In H1 2020, a greater part of large export commodity groups (defined by the FCS) saw a substantial depreciation of export prices. The reduction of volumes

1 As per the preliminary estimate by the Ministry of Economic Development.
2 For estimates of the ruble exchange rate-based imports elasticities, see Bussière M, Gaulier G, Steingress W. Global trade flows: Revisiting the exchange rate elasticities // Open Economies Review. 2020.

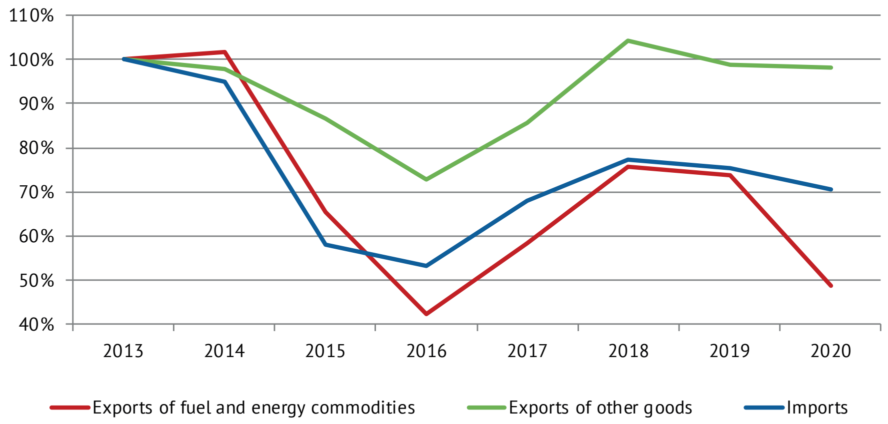


Fig. 3. Dynamics of exports and imports in Russia in 2013–2020

Source: own calculations based on the data of the Federal Customs Service.

of exports took place in the "machinery and equipment" and "metals" commodity groups.

A dramatic decrease (34%) in exports of *fuel and energy commodities* was driven by the depreciation of export prices of oil, petrochemicals, coal and piped gas (21–41%) amid stable volumes of exports of oil and petrochemicals and the reduction of supplies of coal (-13%) and piped gas (-18%). The trend of reduction of crude oil export supplies (-3%) and growth in petrochemicals supplies (+5%) observed throughout the past few years has continued. Exports of condensed natural gas keep growing, too (12%); its share in the overall exports is equal to 2.4% (+0.27 p.p. compared with H1 2019).

Exports of *food products and agricultural primary products* increased by 19% in value terms despite a slight reduction of the price index (-2.7%), *Table 1*. In H1, exports of *grain* amounted to 12.4mn tons.

Exports of *chemical products* fell by 13% owing to the depreciation of export prices amid weak growth in volumes of exports (+1.5%). Exports of synthetic rubber saw a substantial decline (-15%).

With export prices of the main items of timber and paper products falling up to 30%, exports decreased by 9% in value terms amid weak growth in the physical volumes of exports (+2%). The downward trend of exports of unprocessed timber observed in the past few years has prevailed (-16%).

The value of exports of *metals* decreased by 16% owing both to the depreciation of prices of those products (-10%) and the reduction of supply volumes (-6%). The export prices of ferrous metals depreciated by 12%–20%, while export volumes remained at the level of the first six months of the previous year (-3%). In case of nickel and aluminum, the situation was quite the opposite: exports' volumes fell sharply (36% and 28%, respectively) amid stable prices.

*The overall exports of the most high-tech commodity groups: "machinery, equipment and transport vehicles" and "other goods" decreased in value terms by 18%. The main items of household appliances, machin*ery, heat-producing elements, turbines and rail cars saw a decrease in supply volumes. The exports of cars and open-top cars fell twofold and tenfold, respectively.

Non-Oil and Gas Exports

In H1 2020, the non-oil and gas exports increased in value terms (without taking into account secret commodity groups) and in volume terms by 2.8% and 10%, respectively. The dynamics of exports of non-oil and gas commodities in the breakdown by groups did not have a common trend (*Table 1*).

Taking into account the volatility of global prices amid the pandemic, volumes of exports should be considered as a more reliable index of the dynamics of non-oil and gas exports. Among large commodity groups (over $5bn within a half year), there was growth in exports of food and agricultural products (+23%), chemical products (+1.5%), timber (+1.8%) and precious stones and metals (2.1-fold), while exports of metals and fabricated metal products and machines and equipment decreased by (-6.5%) and (-16%), respectively.

The US Dollar price index of the non-oil and gas exports declined by 6.5%: all commodity groups saw a decrease (from 0.8% to 14.8%), except for precious stones and metals (+34%). Such a situation is typical of the crisis period and growing uncertainties because of higher demand on reliable assets, including monetary gold.

Table 1

Dynamics of non-oil and gas exports in H1 2020 by commodity groups **

Export positions of non-oil and gas commodities by commodity groups	Volume of supplies, billion USD		Change in January-June 2020 on January-June 2019, %		
	January-June 2019	January-June 2020	In value terms	Price index	In volume terms
Food products and agricultural primary products (except for textile)	10.35	12.38	19.6	-2.7	23.0
Chemical products and rubber	12.37	10.69	-13.6	-14.8	1.5
Rawhide, furs and articles thereof	0.07	0.07	-11.9	-5.0	-7.3
Timber and pulp and paper products	5.65	5.20	-7.9	-9.6	1.8
Textile, textile products and footwear	0.60	0.66	10.5	-0.8	11.4
Precious stones, precious metals and articles thereof*	3.74	10.37	177.0	34.1	106.5
Metals and fabricated metal products	18.60	15.65	-15.9	-10.0	-6.5
Machinery, equipment and transport vehicles **	9.24	7.39	-20.0	-4.7	-16.0
Other goods (without arms)	1.29	1.22	-5.1	-4.4	-0.7
Total**	61.94	63.66	2.8	-6.5	10.0

* The data on group 710229 "Industrial Diamonds" and group 710820 Monetary Gold" are unavailable.

** Without secret commodity groups: arms, aircraft, diamonds, monetary gold and other.

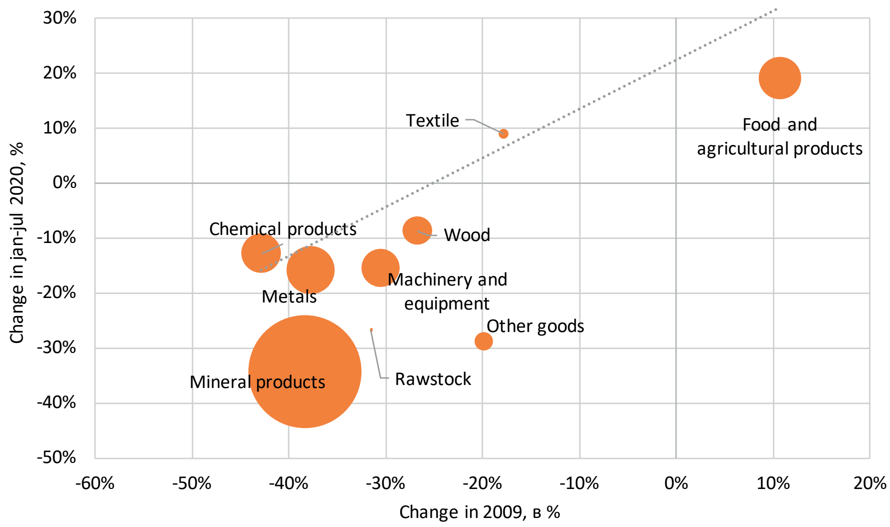
Source: own calculations based on the data of the Federal Customs Service.

Comparison of the Pandemic with the Global Recession

In 2009, the reduction of global GDP was equal to 1.67%, while a drop in Russian exports of all commodities, to 37%. In H1 2020, global GDP decreased by 4.1% on H1 2019[1], while Russian exports, by 23%. Accordingly, the reaction of Russian exports to changes in global GDP in 2020 turned out to be four times weaker.

In comparing dynamics by individual commodity groups, it can be stated that the reactions by most of them during the crises of 2009 and 2020 were similar.

1 The Crisis Like No Other One, An Uncertain Recovery // The IMF. "The World Economic Outlook Report" June 2020. URL: https://www.imf.org/ru/Publications/WEO/Issues/2020/06/24/WEOUpdateJune2020.



Note. As regards 2020, the comparison is made with H1 2029. The "precious stones and metals" commodity group is not shown in the figure.

Fig. 4. Dynamics of Russian exports in the crises of 2009 and H1 2020

Source: own calculations based on the data of the Federal Customs Service and COMTRADE.

For example, in 2009 as well as in H1 2020 there was growth only in exports of food and agricultural products (11% and 19%, respectively). Seven commodity groups defined by the Federal Customs Service saw a decrease in exports both in 2009 and 2020 (*Fig. 4*). Specifically, only in the "other goods" commodity group exports fell more substantially in 2020 than in 2009. It is noteworthy that exports of the "precious stones and metals" commodity group increased considerably (110%) in 2020, while in the global crisis of 2009 they fell (-24%).