# MONITORING OF RUSSIA'S ECONOMIC OUTLOOK:

## TRENDS AND CHALLENGES OF SOCIO-ECONOMIC DEVELOPMENT

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# 1. THE SOCIAL AND ECONOMIC SITUATION IN G20 COUNTRIES: OUTLOOKS ARE GETTING WORSE

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*Global economic growth rates keep slowing down with economic outlooks getting worse. In August, Moody's lowered projections of G20's growth rates to 2.5% in 2022. By Moody's estimates, the eurozone will be facing recession in 2023. The factors affecting the economic situation include an energy price shock, tightening of the monetary policy in developed countries, as well as a slowdown of China's growth rates. In August, nine out of 15 central banks of G20 countries which target inflation held meetings on the monetary policy; the monetary regulators in the UK, South Korea, Brazil, Indonesia, Mexico, Australia and India raised interest rates, while Turkey and China cut them.*

**The global economic situation and its outlooks**

As seen from the dynamics of business indices which fell considerably in the past six months, the economic situation in G20 countries is getting worse. Based on the August results, PMIs (Purchasing Managers' Index) turned out to be below 50.0 in the eurozone countries, Japan, the UK, Canada and South Korea. The business activity was declining on the back of weak domestic demand, cuts in new orders and delivery problems. Prices pressures eased somewhat over the past month, but business expectations regarding the economy remain negative.[1] The reasons are as follows: a high inflation rate, tightening of financial conditions caused by a rise in central banks' interest rates, stock market volatility, high global prices for energy commodities and geopolitical conflicts.

In August, the data on some G20 countries' GDP in Q2 2022 were published: the UK (-0.1% q/q), Russia (-5.6% q/q)[2], India (13.5 y/y); the data on the momentum of US GDP (-0.6% q/q) and the eurozone's GDP (0.6% q/q) were updated. At the same time, late in February 2022 the US Dollar appreciated considerably against the euro, the yen and the pound sterling, as well as most developing countries' currencies, thus increasing the US trade deficit. Further, the US housing market was hit hard on the back of soaring interest rates and a dramatic increase in building costs. In this context, housing sales were falling and capital investments decreased.

In Q2 through Q3 2022, the eurozone's economy faced substantial challenges because of the energy crisis, high rate of inflation and tightening of the monetary policy. Robust economic growth of H1 2022 justified by the easing of quarantine restrictions and a revival of demand for services may give way to recession in H2 2022. Consumer demand is expected to decline the most. Galloping prices for energy commodities and food reduce households' purchasing power and

1 URL: https://www.pmi.spglobal.com/Public/Release/PressReleases

2 By estimates of the RF Ministry of Economic Development, in July Russian GDP increased by 0.6% m/m (for the first time in four months).

lead to higher inflation expectations: in August the consumer confidence index in the eurozone countries was only 2.1 p.p. above the record-low seen in July.

In Q2 2022, China's GDP increased by the mere 0.4% q/q because tough measures were introduced there again to prevent the spread of the coronavirus infection. As the rate of inflation in the Chinese economy is still below the target level, the People's Bank of China supported the economy by reducing in August the five-year and one-year interest rates. With the situation being complicated further by growing geopolitical tensions between China and the US, the economic outlook becomes more uncertain.

The downturn in economic activity in Q2 2022 turned out to be lower than analysts and government authorities expected (-5.6% q/q, -4% y/y).[1] The appreciation of the rouble helped stabilize the rate of inflation, underpin private consumption and cut the RF Central Bank's key interest rate (to 8%).

The situation on global commodity markets stabilized somewhat in August. Global prices for food and energy commodities depreciated as compared with their peak levels, but still remain high.[2] Though prices for container transportation were falling, the international trade still faces challenges because of disruptions in global supply chains.

The inflation data released in August show mixed dynamics: in the UK (one of the first G20 developed countries) annual growth rates of prices surpassed the double-digit level; inflation rate accelerated further in France, South Korea, Japan, Canada, Indonesia, Saudi Arabia, South Africa, China, Mexico, Turkey and Argentina; at the same time annual inflation slowed down in the US, Germany, Italy, India, Brazil and Russia. According to the preliminary data, in August the inflation rate in the eurozone was equal to 9.1%, a new all-time high.

Overall, global economic outlooks are highly uncertain.[3] High inflation, aggressive tightening of the monetary policy, the conflict in Ukraine and the coronavirus pandemic which has been prevailing for over 2.5 years cause a serious damage to the global economy. Economic growth in the US, China and the eurozone is slowing down and brings about negative effects in other trade partner-countries. International organizations and think tanks revise downwards global growth outlooks in 2022 (expectations of global growth do not exceed 3% in 2022), while economic indicators point to global growth slowdown in 2023.[4]

In August, Moody's updated outlooks by revising GDP and inflation forecasts downwards substantially.

***The Moody's outlook. The date of publication: August 31, 2022***

In the updated outlook, Moody's projected growth in G20 countries in 2022 and 2023 (0.6 p.p. and 0.8 p.p., respectively) (*Table 1*). Moody's attributes the slowdown of GDP growth rates in G20 countries to a number of factors: a) a longer than expected military conflict in Ukraine; b) a decrease in international trade volumes because of lockdowns in China; c) households' decreased purchasing power on the back of accelerated inflation and tightening of developed countries' monetary policy.

1 By estimates of the RF Ministry of Economic Development, in July Russian GDP increased by 0.6% m/m (for the first time in four months).
2 The FAO price index fell by 1.9% in August as compared with July.
3 URL: https://www.un.org/development/desa/un-desa-voice/more-from-undesa/2022/09
4 URL: https://www.un.org/development/desa/dpad/publication/world-economic-situation-and-prospects-september-2022-briefing-no-164/

## 1. The Social and Economic Situation in G20 Countries

*Table 1*

Real GDP growth rates (% on the previous year)

| Country | Actual | Outlook as of August 31, 2022 | Deviation from outlook as of May 26, 2022 | Outlook as of August 31, 2022 | Deviation from outlook as of May 26, 2022 |
|---|---|---|---|---|---|
| | 2021 | 2022 | 2022 | 2023 | 2023 |
| **USA** | **5.7** | **1.9** | **-0.9** | **1.3** | **-1.0** |
| **Eurozone** | **5.2** | **2.5** | **0.0** | **0.3** | **-2.0** |
| Germany | 2.6 | 1.4 | -0.4 | -0.4 | -3.0 |
| Italy | 6.6 | 2.7 | +0.4 | 0.0 | -1.7 |
| France | 6.8 | 2.1 | -0.1 | 0.5 | -0.9 |
| Australia | 4.8 | 3.2 | 0.0 | 1.9 | -0.7 |
| UK | 7.4 | 3.0 | +0.2 | 0.9 | -0.1 |
| Canada | 4.5 | 3.6 | -0.4 | 1.7 | -1.4 |
| South Korea | 4.1 | 2.5 | 0.0 | 2.4 | -0.4 |
| Japan | 1.7 | 1.8 | -0.6 | 1.3 | +0.1 |
| **Developed G20** | **5.0** | **2.1** | **-0.5** | **1.1** | **-1.0** |
| **China** | **8.1** | **3.5** | **-1.0** | **4.8** | **-0.5** |
| India | 8.3 | 7.7 | -1.1 | 5.2 | -0.2 |
| Brazil | 4.9 | 1.7 | +1.6 | 0.7 | -0.5 |
| **Russia** | **4.8** | **-7.0** | **0.0** | **-3.0** | **0.0** |
| Argentina | 10.4 | 2.8 | 0.0 | 1.9 | 0.0 |
| Indonesia | 3.7 | 5.1 | +0.1 | 4.8 | -0.1 |
| Mexico | 4.8 | 2.0 | +0.2 | 1.0 | -1.0 |
| Saudi Arabia | 3.3 | 7.2 | 0.0 | 4.6 | 0.0 |
| Turkey | 11.0 | 4.5 | +1.0 | 2.0 | -2.0 |
| South Africa | 4.9 | 2.2 | +0.7 | 1.5 | 0.0 |
| **Developing G20** | **7.3** | **3.3** | **-0.5** | **3.8** | **-0.4** |
| **All G20** | **5.9** | **2.5** | **-0.6** | **2.1** | **-0.8** |

*Source:* Moody's Global Macro Outlook [1].

At the same time, consumer demand for goods and services is picking up in some G20 developing countries, such as Mexico and South Africa (it is evidenced by the services sector's ongoing recovery and high growth rates of retail trade). Also, on the back of industrial output growth in Brazil and Indonesia, GDP growth forecasts were revised upwards in these countries in 2022. [1]. Moody's attributes the upward revision of the forecasts for Indonesia (retail sales growth sped up to 4.1% y/y in June after 2.9% y/y in May) and Mexico (retail sales increased by 4.0% y/y in June and 5.2% y/y in May, respectively, primarily owing to growth of 5.7% y/y in real wages) to export revenues growth, while in case of Turkey, to a motivating monetary policy, growth in minimum wages, depreciation of the lira and a subsequent increase in export volumes and a tourist flow[1] [1].

At the same time, Moody's highlights the following specific factors which have led to a downward revision of some G20 countries' outlooks: a) in case of the USA[2] – tightening of the monetary policy by the FRS[3]; b) Germany – power generation affected due to shortages of natural gas supplies from Russia;

1 At the same time, there is still a risk of Turkey's trade balance getting worse on the back of a decrease in demand on the part of the eurozone countries which are Turkey's key trade partners.

2 The US still faces the risk of recession by the end of 2022 amid a slowdown of business activity and growth in the rate of unemployment.

3 Also, by Moody's estimates, a 1.8 p.p. slowdown of US GDP growth rates is caused by a decrease in private companies' inventories.

c) China – shortages of electricity supplies because of extreme drought, a decrease in demand for exported goods, worsening of the situation on the labor and real estate markets and the zero-tolerance policy to the coronavirus.

Moody's attributes a downward revision of France's outlook to a substantial slowdown of growth in H2 2022 because high inflation will still be affecting consumer purchasing power. The same factors are expected to slow down Italy's economy in H2 2022. The evidence of imminent stagnation of the Italian economy is a slowdown of investment growth in Q2. The downward revision of Canada's and Australia's economic outlooks was justified particularly by a negative effect of tightening of financial conditions on the housing construction industry, as well as weak prospects of global growth which would affect exports and capital investments [1].

Moody's underlines that the baseline forecast of global economic growth rates is prone to a number of risks. Firstly, a further reduction in Russian natural gas supplies to the eurozone countries may lead to a recession in their economies. Secondly, the period of monetary policy tightening in developed countries turned out to be more protracted than originally expected and may trigger increased volatility on financial markets and capital flight from developing countries. Thirdly, China's zero-tolerance policy to the coronavirus leads to further tightening of measures and worsening of the situation on China's real estate market. Fourthly, extreme weather conditions may cause electricity and water supply shortages and an appreciation of prices for food products. Fifthly, it is an escalation of geopolitical conflicts [1].

*Table 2*

Inflation forecast (%, December on December of the previous year)

| Country | Estimate | Outlook as of August 31, 2022 | Deviation from outlook as of May 26, 2022 | Outlook as of August 31, 2022 | Deviation from outlook as of May 26, 2022 |
|---|---|---|---|---|---|
| | 2021 | 2022 | 2022 | 2023 | 2023 |
| **USA** | **7.1** | **7.0** | **+2.1** | **2.3** | **+0.2** |
| Germany | 5.7 | 8.6 | +2.6 | 3.2 | +0.2 |
| Italy | 4.1 | 7.5 | +1.5 | 3.3 | +0.7 |
| France | 3.4 | 5.7 | +0.8 | 2.4 | +0.1 |
| Australia | 3.5 | 7.8 | +4.3 | 4.3 | +2.0 |
| UK | 5.4 | 11.0 | +1.0 | 3.8 | +0.3 |
| Canada | 4.8 | 7.4 | +3.0 | 3.0 | +0.4 |
| South Korea | 3.7 | 4.5 | +0.6 | 2.9 | +0.3 |
| Japan | 0.8 | 2.0 | 0.0 | 1.2 | 0.0 |
| **China** | **1.4** | **3.0** | **0.0** | **2.5** | **0.0** |
| India | 5.7 | 6.8 | 0.0 | 5.2 | 0.0 |
| Brazil | 10.1 | 7.5 | -1.9 | 5.5 | +1.0 |
| **Russia** | **8.3** | **14.1** | **-2.1** | **6.9** | **-3.1** |
| Argentina | 51.0 | 85.0 | +20.0 | 80.0 | +20.0 |
| Indonesia | 1.8 | 5.0 | +0.5 | 4.0 | +0.6 |
| Mexico | 7.4 | 8.0 | +0.7 | 4.7 | -0.1 |
| Turkey | 36.1 | 68.6 | +16.5 | 40.0 | +10.0 |
| Saudi Arabia | 1.2 | 3.3 | 0.0 | 2.5 | 0.0 |
| South Africa | 5.9 | 7.0 | -1.2 | 6.5 | +0.5 |

*Source:* Moody's Global Macro Outlook [1].

In its updated report, Moody's (*Table 2*) underlines that by contrast with the inflation shock of Q1 2022 the stabilization of prices for primary commodities in summer allowed to lower projected levels of global prices for oil in 2022–2023.[1] Also, in the past few months container shipping costs were declining and global prices for metals required in manufacturing of industrial products depreciated. At the same time, Moody's expects further tightening of the monetary policy in G20 countries by the end of 2023 and, consequently, a decline in stock market prices, as well as capital flight from developing countries and a widening in credit spreads. However, the inflation forecasts for 2022 and 2023 were raised for all G20 developed countries.

The Moody's outlook premises for tightening of financial conditions are based on current actions and rhetoric of fiscal and monetary authorities of the world's largest economies.

**The economic policy monetary and fiscal measures**

In August, nine out of 15 central banks of G20 countries which target inflation held meetings on the monetary policy, seven monetary regulators (the Bank of England, the Bank of South Korea, the Bank of Brazil, the Bank of Indonesia, the Bank of Mexico, the Reserve Bank Australia and the Reserve Bank of India) raised interest rates, while two regulators (the Bank of Turkey and the People's Bank of China) cut them (*Table 3*).

*Table 3*

G20 countries' monetary policy

| G20 countries | May | June | July | August | Inflation target | Current inflation July 2022, % y/y |
|---|---|---|---|---|---|---|
| **Developed** | Monetary policy rate, % | | | | | |
| USA | 1.00 | 1.75 | 2.50 | *2.50* | 2.00 | 8.50 |
| Eurozone | *0.00* | 0.00 | 0.50 | *0.50* | 2.00 | 8.90 |
| Australia | 0.35 | 0.85 | 1.35 | 1.85 | 2.0–3.0 | 6.10* |
| UK | 1.00 | 1.25 | *1.25* | 1.75 | 2.00 | 10.10 |
| Canada | *1.00* | 1.50 | 2.50 | *2.50* | 2.0 (+/-1.0) | 7.60 |
| South Korea | 1.75 | *1.75* | 2.25 | 2.50 | 2.00 | 6.30 |
| Japan | *-0.10* | -0.10 | -0.10 | *-0.10* | 2.00 | 2.60 |
| **Developing** | Monetary policy rate, % | | | | | |
| China | 3.70 | 3.70 | 3.70 | 3.65 | 3.00 | 2.70 |
| India | 4.40 | 4.90 | *4.90* | 5.40 | 4.0 (+/- 2.0) | 6.71 |
| Brazil | 12.75 | 13.25 | *13.25* | 13.75 | 3.75 (+/- 1.5) | 10.07 |
| Russia | 11.00 | 9.50 | 8.00 | *8.00* | 4.00 | 15.10 |
| Argentina | Targets monetary base | | | | | 71.00 |
| Indonesia | 3.50 | 3.50 | 3.50 | 3.75 | 3.0 (+/- 1.0) | 4.94 |
| Mexico | 7.00 | 7.75 | *7.75* | 8.50 | 3.0 (+/- 1.0) | 8.15 |
| Saudi Arabia | Pegged to the US dollar | | | | | 2.70 |
| Turkey | 14.00 | 14.00 | 14.00 | 13.00 | 5.0 (+/- 2.0) | 79.60 |
| South Africa | 4.75 | *4.75* | 5.50 | *5.50* | 3.00–6.00 | 7.80 |

* Q2 because the data are collected on a quarterly basis. Banks which did not hold meetings in the month under review are marked in italics.

*Source:* Compiled by the authors on the basis of the data of central banks' official websites.

The monetary regulators in the UK, Australia, South Korea, Brazil, Mexico and India have kept tightening their monetary policies, the Bank of Indonesia has just started it, in response to a continued upturn in the rate of inflation.

1 Moody's expects Brent oil prices to decline to $105 and $95 a barrel in 2022 and 2023, respectively.

*Table 4*

G20 countries' monetary policy measures

| Country | Monetary policy rate, % | | Inflation, % y/y | | Description | Source |
|---|---|---|---|---|---|---|
| | July | August | target | actual | | |
| Australia | 1.35 | 1.85 | 2.0–3.0 | 6.10* | The Reserve Bank of Australia has been raising the key interest rate for a fourth month running. The regulator expects the inflation rate to be equal to about 7.75% in 2022, decline to 4% in 2023 and reach the target range in 2024. | [2] |
| UK | 1.25 | 1.75 | 2.00 | 10.10 | The Bank of England raised the rate by 50 b.p. to 1.75% annually. The regulator projects inflation growth to 13% and recession in Q4 2022. A return to the inflation target level is planned in 2024. | [3] |
| South Korea | 2.25 | 2.50 | 2.00 | 6.30 | The Bank of Korea raised the seven-day REPO rate by 25 b.p. to 2.5% and plans further tightening of the monetary policy and expects the inflation rate to fall to 5.2% and 3.7% late in 2022 and 2023, respectively. | [4] |
| China | 3.70 | 3.65 | 3.00 | 2.70 | The People's Bank of China cut the base mid-term interest rate for prime borrowers (LPR) by 5 b.p. to 3.65%, five-year LPR by 15 b.p. to 4.3% and rates on MLF loans by 10 b.p. to 2.75%. | [9] |
| India | 4.90 | 5.40 | 4.0 (+/-2.0) | 6.71 | The Reserve Bank of India raised the direct REPO rate by 50 b.p. to 5.4%. | [5] |
| Brazil | 13.25 | 13.75 | 3.75 (+/-1.5) | 10.07 | The Bank of Brazil raised the rate by 50 b.p. to 13.75% annually. The regulator plans further tightening of the monetary policy and expects the inflation rate to return to the target level early in 2024. | [6] |
| Indonesia | 3.50 | 3.75 | 3.0 (+/-1.0) | 4.94 | For the first time in four years, the Bank of Indonesia raised the seven-day reverse REPO rate by 25 b.p. to 3.50%; the interest rate on deposits, to 3,0%; the medium-term lending rate, to 4.5% annually. | [10] |
| Mexico | 7.75 | 8.5 | 3.0 (+/-1.0) | 8.15 | The Bank of Mexico raised the rate by 0.75 b.p. to 8.5% annually (record-high since 2008) amid record-high inflation in the past 22 years. | [7] |
| Turkey | 14.00 | 13.00 | 3.0–7.0 | 79.60 | The Bank of Turkey cut the rate by 100 b.p. to 14% annually to stimulate industrial output growth and employment. | [11] |

* Q2 because the data are collected on a quarterly basis.

*Source:* Compiled by the authors on the basis of the data of central banks' official websites.

In their press releases, monetary authorities note the rate of inflation may accelerate further contrary to expectations. The factors include the following: appreciation of prices for energy commodities and industrial and agricultural products; growing inflation expectations; demand-supply imbalances; declining rate of unemployment (it makes companies to compete actively for employees by raising nominal wages); China's restrictive measures to fight the spread of the coronavirus [2; 3; 4; 5; 6; 7].

On the general background, decisions of the Central Bank of China and the Central Bank of Turkey to reduce their monetary policy rates on the basis of results of their August meetings stand out. The Bank of China eased its monetary policy to support the banking sector's liquidity and stimulate economic growth amid new coronavirus restrictions and the real estate market crisis. In China, demand for mortgage loans is declining, households' debts on mortgage payments are growing and some developers have defaulted on debentures (*Table 4*).

For the first time since December 2021, the Bank of Turkey (contrary to analysts' expectations) took a decision to cut the rate. Specifically, the rate of inflation in Turkey was equal to 79.6% annually in July (78.6% in June), a nearly 16-fold increase on the central bank's target. The Turkish authorities substantiated their decision by the temporary nature of the rate of inflation and the need to underpin industrial output growth in the economy. Shortly after the Central Bank meeting, the Turkish lira fell by 1.2% against the US dollar to lira 18.15 per $1 (its new low since December 2021) (*Table 4*).

In the current cycle of monetary policy tightening, central banks of most G20 countries are seeking to ensure "soft landing" of their economies by speeding up the rate of inflation without triggering a recession. However, the tightening of the monetary policy has had a limited impact on inflation so far. It can be primarily explained by the fact that its current surge was caused not only by excessive demand, but also persistent supply shortages coupled with soaring global prices for primary commodities and depreciation of national currencies against the US dollar.

As regards the fiscal policy, Q2 2022 saw a decrease in budget deficit (fiscal policy tightening) in the US to 4.5% of GDP (7.9% of GDP in Q1 2022). At the same time, China's budget deficit increased to 3.6% of GDP (2.5% of GDP in Q1) on the back of worsening of the epidemiological situation in the country: a pickup in the government's expenditures on fighting the spread of the coronavirus infection and overcoming implications of lockdowns, funding of medical research and purchasing of vaccines. From the beginning of the year, the Chinese government has taken a number of measures to reduce taxes and duties, increased expenditures on combating drought and building infrastructure facilities, as well as expenditures on support of households and businesses in order to promote a business activity [8].

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# 2. REGIONAL BUDGETS MAINTAIN SUFFICIENT FINANCIAL SUSTAINABILITY AT THE END OF 7 MONTHS OF 2022

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*At the end of the first seven months of 2022, growth in revenues of the consolidated budgets of the RF regions was outpacing the growth in budget expenditures and the inflation rate, indicating that regions maintained a sufficient level of financial sustainability. As for the structure of expenditures, those expenditures on the national economy are increasingly replacing expenditures on national matters, education and culture. The federal center's emergency measures aimed to replace regional commercial debt with budget loans contributed both to the reduction of debt servicing costs and to the general reduction of the risk of default on regional debt obligations.*

**Revenues**

According to results of the consolidated budgets execution in RF regions in the first 7 months of 2022, total revenues amounted to Rb11.30 trillion, having increased by 21.6% as compared with the same period of 2021. It should be noted that the regions' own tax and non-tax revenues (+22.9% vs. the same period of 2021) were growing faster than inter-budgetary transfers from other budgets (+14.4%).

The main revenue sources of regional and local budgets in the first 7 months of 2022 showed positive growth against the same period of 2021: corporate tax (+33.3%), PIT (+14.1%), excise duties (+19.4%), taxes on comprehensive income (+20.8%), property taxes (+6.5%), nontax revenues (+46.1%), subsidies (+53.4%) and other inter-budget transfers (+12.4%). Only subsidies (-0.4%) and subventions (-19.4%) have declined, which, however, was not an obstacle to the real growth in regional budget revenues.[1]

Over the first 7 months of 2022 most of Russia's regions (81) saw positive growth rates in consolidated budget revenues with 46 above the inflation rate over the period under review, while 5 regions saw a more than 50% increase: St. Petersburg (+57.8%), the Republic of Mordovia (+55.0%), Yamalo-Nenets Autonomous Okrug (+57.0%), Kemerovo region, Kuzbass (+87.3%) and the Republic of Khakassia (+62.2%). Only 4 regions failed to reach the level of 7 months of 2021, namely Lipetsk region (-2.0%), Kaliningrad region (-5.3%), the Chechen Republic (-0.6%) and Magadan region (-7.1%). The Lipetsk Region saw a reduction in budget revenues due to a high base year of 2021.

Despite positive results in the first 7 months of 2022, growth rate of budget revenues (both their total volume, and own tax and non-tax revenues) is expected to be moderate due to reduction of economic activity. Thus, in July 2022, relative to July 2021, the growth rate of consolidated regional budgets'

1 Index of consumer process evidenced 115.10% in July 2022 against July 2021.

revenues amounted to 7.9%, and tax and non-tax revenues to 6.5%. Income tax revenues dropped by 18.8%.

**Expenditures**

Expenditures of consolidated regional budgets following 7 months of 2022 amounted to Rb9.82 trillion, having increased by 16.9% against the relevant period of 2021, which is slightly higher than inflation rates and lower than growth rate of budget revenues.

Spending on the national economy (+29.4%), including road construction (+27.6%) and agriculture (+29.9%), as well as housing and utilities (+24.7%), grew fastest among major areas, while spending on nation-wide matters (+13.9%), pre-school education (+10.5%), social policy (+6.2%), including social security (+3.3%) and family and child welfare (+9.7%) grew slowest. State and municipal debt servicing costs fell by 18.4% resulted from a record reduction in the share of expensive-to-service loans from credit institutions and state and municipal securities, as well as a record growth in the share of significantly cheaper-to-service budgetary loans in the structure of state and municipal debt.

Comparing the structure of expenditures of consolidated regional budgets in the first seven months of 2013-2022, it should be noted that this year the share of a number of expenditures (on nation-wide matters, national security and law enforcement, pre-school education, culture and cinematography, pensions, social services, mass media, as well as public and municipal debt service) had minimum values. However, the share of other expenditures (national economy (including road maintenance), housing and utilities, environmental protection, physical culture and sports), on the contrary, reached its maximum values.

Results of the consolidated regional budgets execution for 7 months of 2022 differ from the those for the same period of 2019 more than results for the same period of 2021.[1] That is, the structure of revenues in 2022 differs more from the structure of the pre-pandemic period. A similar conclusion can be drawn from a comparison with the average expenditure structure over the period of 2013–2019.

Thus, the pandemic followed by events of 2022, resulted in long-term changes in the priorities of regional fiscal policy.

Over the period under review, expenditures of consolidated budgets grew in 84 regions of the Russian Federation, moreover, growth exceeded inflation in 52 regions over the same period. Only Kaliningrad region saw a decline in expenditures (by 5.9%). The Tyumen region (+63.6%), Belgorod region (+45.4%), as well as Yamalo-Nenets Autonomous Okrug (+39.7%) were the leaders in terms of budget expenditures growth.

**Balanced regional budgets and public debt**

75 regions of the Russian Federation received a surplus of the consolidated budget after 7 months of 2022 (there were 71 regions based on results of 7 months of 2021, a rather successful year for regions in terms of financial plan), and their total volume amounted to Rb1.48 trillion or 13.4% of total revenues of the regional consolidated budgets, not including subventions.

The total volume of public debt of the RF regions reached Rb2.65 trillion by August 1, 2022 (a record high), increasing by 5.56% as compared to the same

1 The amounts of absolute values of the deviations of expenditures by subsections of budget classification for 7 months of 2021 and 2022 from expenditures for 7 months of 2019 were 19.5% and 16.6%, respectively.

period of 2021, by 7.1% since the beginning of the year, and by 3.13% in July 2022. Despite the significant growth, the size of the public debt in the regions does not present a significant issue due to the lag in growth rate of public debt from the one of own revenues of the regional budgets, as well as the low cost of its servicing.

It is not the size of the public debt, but the extent of debt burden, the uniformity of repayment and the relative cost of servicing that may become an issue. The first parameter in the Russian practice is calculated as the ratio of the volume of public debt to the volume of tax and non-tax revenues of the regional budget, which, as shown in *Fig. 1*, has been steadily declining over the past two years and reached its current lowest level since 2014, equaling to 19.8%.

In low-income regions,[1] the debt burden also continued to decline, reaching its lowest level since 2014 at 33.1%. The Republic of Mordovia (102.1%) and the Republic of Udmurtia (103.8%) retained a high level of public debt, exceeding 100% of the region's tax and non-tax revenues, while declining from 173.8% and 107.6%, respectively, a year earlier. The Republic of Khakassia had a debt burden equal to 108.6% as of August 1, 2021, but managed to reduce it nearly twofold over the year to 55.6%.

As for the Republic of Mordovia, the support from the federal center allowed it to achieve significant positive results and consequently, the total volume of government debt has been reduced by Rb15.2 bn or by 31% over 12 months. The total volume of state debt of the Republic of Khakassia during the period under review not only did not drop, but even increased by 4.2%, and the almost two-fold decline in the debt burden was due to more than two-fold growth of

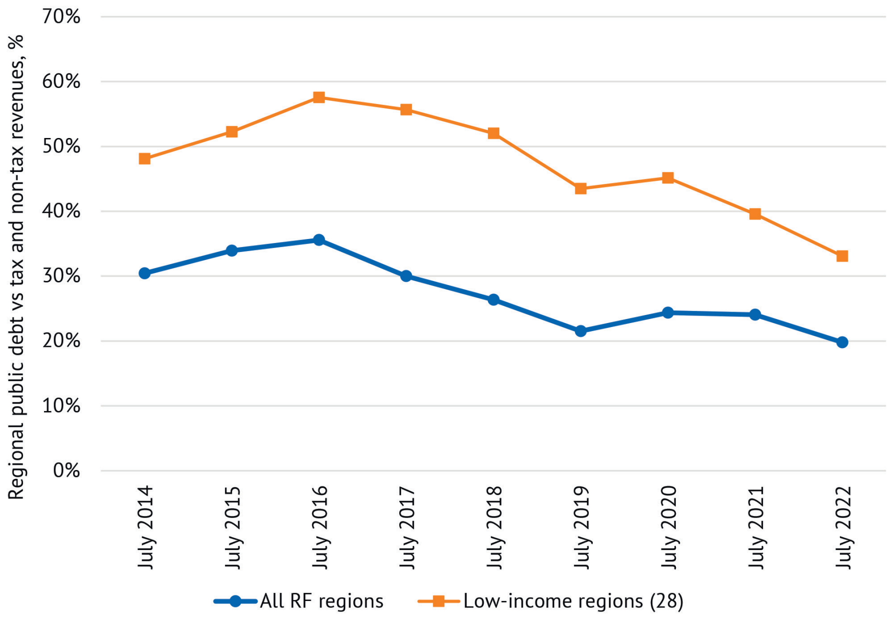



*Fig. 1. Ratio of RF regional public debt with different fiscal capacity to tax and non-tax budget revenues (debt burden of the RF regions), %*

*Source:* own calculations based on data from RF Ministry of Finance and Federal Treasury.

1 The RF regional fiscal capacity is determined by methodology approved by the RF Government Resolution No. 670 of. 22.11.2004 "On the distribution of grants to equalize RF regional fiscal capacity." Twenty eight RF regions will be considered to be low-income with their fiscal capacity estimated below 0.6 in 2021.

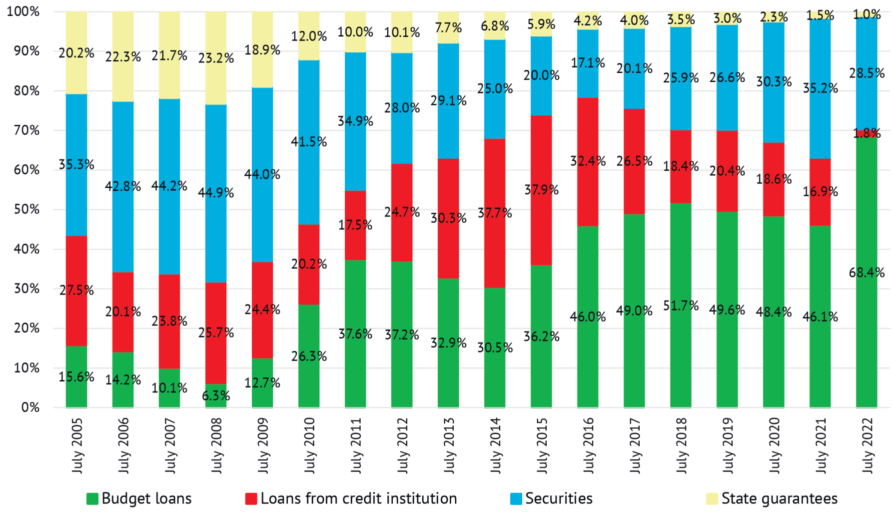



*Fig. 2. Structure of RF regions' public debt, % vs total*

*Source:* own calculations based on data from the RF Ministry of Finance.

tax and non-tax revenues of the republican budget (+103.6%), which was the result of a 3.4 times growth of corporate tax revenues.

Given the extremely volatile growth rate of corporate tax revenues in the budget of the Republic of Khakassia, it seems premature to talk about solving the debt problem in the republic.

On the whole, the public debt in 55 regions of the RF increased in the period between August 1, 2021 and August 1, 2022, while debt load grew only in 22. However, structure of public debt has undergone major changes over the past 12 months (*Fig. 2*).

The trend of recent years marked mainly by the replacement of credit institutions' loans with government securities, has changed to the replacement of the total commercial debt with budget loans. Hence, the share of credit institutions' loans over 12 months dropped from 16.9% to 1.8%, the share of securities decreased from 35.2% to 28.5%, and the share of budget loans increased from 46.1% to a record 68.4%. Taking into account the significantly lower cost of servicing budget loans, not to mention the possibility of writing off some of the debt, it can be stated that due to the preventive intervention of the federal center the potential problems of the regions associated with the public debt were solved before they could arise.

# 3. MORTGAGE LOANS IN JANUARY-JULY 2022

**Sergey Zubov**, Candidate of Economic Sciences, Assistant Professor,
Senior researcher, the Center for Structural Studies, IAES, RANEPA

*The destabilization of the economic situation led to a decline in the volume of transactions on the mortgage market. The subsequent measures of the government and the Central Bank helped reducing market rates and partially restore activity at the market. The schemes of practically interest-free mortgages introduced by banks and developers against the backdrop of inflated housing costs may become a source of serious issues on the market.*

As of August 1, 2022, the total portfolio of mortgage loans (ML) amounted to Rb 12.7 trillion. The growth in the total portfolio in 7 months of the current year amounted to Rb 913.4bn, or 7.8%, which is much lower than the last year's figure for the same period: in 7 months of 2021 the mortgage loan portfolio increased by Rb 1490.2bn, or 16%.

During the 7 months, a total of 636.4 thousand loans amounting to Rb 2.2 trillion were granted, the corresponding value for the same period last year amounted to 1,088.2 thousand loans worth of Rb 3.1 trillion. Thus, the reduction in the number of transactions on the ML market amounted to 41.5%, while the volume of transactions dropped by 29%. The share of refinancing in the volume of loans decreased markedly: from 10.5% in Q2 2021 to 1.9% in Q2 2022. High market-oriented mortgage interest rates were the restraining factor in refinancing.

The average size of mortgage loans rose by 27.6% to Rb 3.7 million rubles over the year, helped by rising housing costs, reduced down payment aimed at raising the marketing loans appeal as well as new parameters of concessional lending.

Given the fact that this increase occurred at the same time as a reduction in loan transactions, we can talk about an emerging trend of reducing the availability of mortgages for the households in the context of high real estate prices.

The weighted average loan term has gone up: according to the results of Q2, it constituted 22.9 years, a year earlier it amounted to 20.1 years (an increase of 13.9%). Extending the period of credit allows to reduce the monthly debt burden on borrowers, thereby lowering the risk of default on the loan. However, in the face of unstable interest rates and low level of securitization, long-drawn loan term is a source of risk for the banking system. Despite the impressive hike in mortgage securitization (+34.8% y-o-y), its overall level is insignificant and does not exceed 7–8% of the total mortgage debt. This instrument is unlikely to contribute much to reducing the regulatory burden on capital and improving bank liquidity against the backdrop of further growth in the ML debt.

The loan portfolio quality, according to the aggregate reporting published by the Central Bank of Russia, remains at an acceptable level: as of August 1, 2011, the overdue debt amounted to only 0.5% of the total ML debt, which is much lower than in other types of bank loans (from 4 to 7%).

At the end of Q2 2022, the weighted average mortgage loan interest rate on the primary market dropped to 4.3%, which is generally below the level of 2021 and was provided both by the Central Bank of Russia quantitative easing (the key rate cut) and the promotion of partnership programs by large developers and banks with the rates from 0.01 to 2% (the rate is subsidized by the developer through selling the apartment at a higher price). The preferential mortgage programs upgrade with affordable rates for the households played its role and their share in the total volume of loans originated increased from 34% in Q1 2022 to 64% in Q2 2022.

On the secondary market, the opposite dynamics of rates was observed. The growth of mortgage loans interest rates granted led to a drop in the volume of loans. In general, the rate rose to 10.3%, which is higher than last year's rate by 2.2 p.p.

In early March, following the introduction of the anti-Russian sanctions and a sharp increase of the key rate by 10.5 p.p. to 20%, the weighted average market mortgage rate hiked to 21–22%. However, despite this, the volume of mortgages rose slightly due to the rush of demand on the eve of the crisis and the execution of transactions approved before the sharp rise in rates. The average rates on privileged mortgage programs have grown insignificantly, as the banks participating in state programs are getting larger amounts of budget subsidies when the key rate is rising. This factor was largely responsible for the March growth in mortgage loans and changes in the lending structure: in March, the volume of mortgage loans granted within the framework of concessional programs increased to 43% against 25% in January and February.

Delayed effect of the growth of interest rates on market programs following the increase in the key rate of the Bank of Russia in late February to 20% was the main reason for the decrease in the volume of granted mortgage loans in April-May (*Fig. 1*). At the same time, the share of concessionary mortgage loans

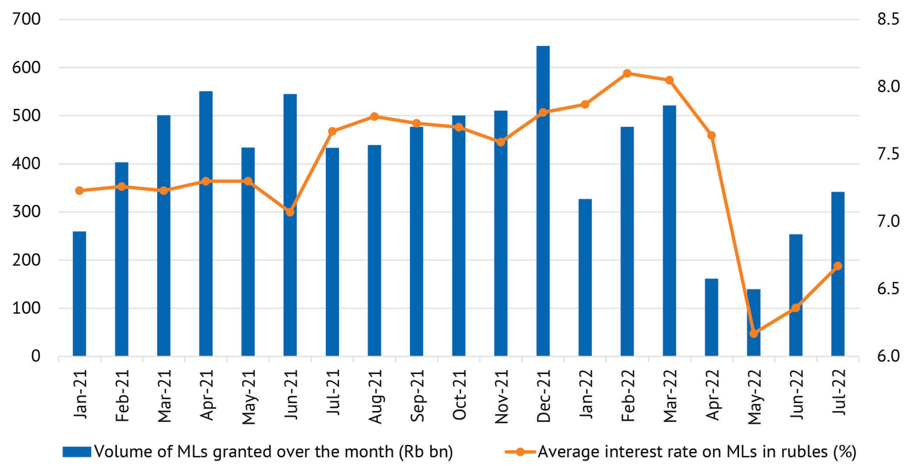



*Fig. 1. Dynamics of monthly lending volumes and interest rates on the mortgage lending market in 2021–2022*

*Source:* Mortgage loans. URL: https://www.cbr.ru/statistics/pdko/Mortgage/ML/

in the total volume of loans originated rose to 79%. In the context of a sharp rise in market rates, mortgages with state support remained the only available tool for solving the housing issue.

In June-July, the mortgage market began to recover driven by the pent-up demand thanks to a gradual decrease in market mortgage rates to 10.7–10.9%, an increase in the volume of loans issued on preferential mortgage program following the decision to lower the rate from 9 to 7%, and the expansion of partner mortgage programs of banks and developers at a rate of 0.01–2% (the rate is subsidized by the developer through the sale of apartments at higher prices).

In order to stimulate mortgage lending, the government has taken a number of measures relating to the reformatting of state preferential programs:

- increase in the limit on concessional mortgages from Rb 3 to 12 million in metropolitan areas and up to Rb 6 million in other regions;
- launch of a pilot preferential mortgage program for the construction of private houses by own efforts, without a contract with professional developers;
- introduction of a mortgage program for IT-specialists at the rate of 5%.

In the near future the Russian Government and the Bank of Russia will continue to take stimulating measures. At the initiative of the Central Bank, it is proposed to launch a new type of housing loans – a “green mortgage” on houses safe for the planet.[1] Also, the Government of Russia intends to additionally allocate more than Rb 56bn for the support of the privileged mortgage programs, of which Rb 16.5bn will be allocated for the family mortgage and about Rb 5bn for the Far East mortgage.[2]

The Government of the Russian Federation is launching a new tool to support enterprises – industrial mortgages. Russian organizations will be able to obtain long-term preferential loans for the purchase of industrial property. It is planned that the loans will be issued for up to 7 years at a preferential rate of 5% per annum, while for innovative technology companies the rate will be even lower – 3%, the upper limit of industrial mortgage is proposed to set at Rb 500mn.

At present, the volume of loans under concessional and market mortgages exceeds the volume of early and scheduled repayments by about 2–2.5-fold, so we can say that in the absence of external shocks by the end of 2022 the mortgage portfolio will grow to Rb 14–14.5 trillion.

The average mortgage payment amounted to Rb 26,500, or +14.2% compared to the previous year. The housing affordability rate[3] in Russia on average increased to 4.5 years (3.6 years in 2021). In comparison to foreign cities this ratio does not look exaggerated (e.g., this rate for the US as of 01.06.22 was 7.79), however, its support at an acceptable level is largely due to manipulations with mortgage lending (lower interest rates through preferential programs and development schemes, longer loan terms, lower or no down payment, the use

1 URL: https://lenta.ru/news/2022/09/12/green_ipo/
2 URL: https://lenta.ru/news/2022/09/15/ipoteca/
3 Housing Affordability Ratio (HAR) is the number of years it takes a household of two working people to save up for an apartment (average size) if all their income is saved. The indicator does not take into account mortgages and expenses for daily living needs. According to the international classification, housing is considered affordable with a HAR of up to 3 years. From 3 to 4 – “not quite affordable”, from 4 to 5 – “purchase is seriously complicated” and from 5 years – “housing is significantly unaffordable”.

of maternal capital), which in the current environment will become increasingly difficult to achieve.

Currently, in the face of problems in the economy, the government and the regulator could undertake efforts to stabilize the market, not in terms of its further growth, but by contributing to an even decline in housing prices. The fact that developers are subsidizing rates to almost 0% to promote sales, speaks to the emerging mortgage crisis and the artificial stimulation of demand in terms of reducing its solvency. At the moment, mortgages have significantly lost their investment appeal. The reason for this is largely due to high prices on the real estate market and the decline in investment activity of the population against the backdrop of shrinking incomes.

# 4. SHARE OF SCHOOL GRADUATES ENTERING HIGHER EDUCATION IS DECLINING

**Elena Lomteva**, Candidate of Pedagogic Sciences, Leading researcher, the Center of Economy of Continuous Education (CENO), IAES, RANEPA;
**Larisa Bedareva**, Senior researcher, CENO, IAES, RANEPA

*Social and economic changes resulted in a transformation of youth' values: the attitude towards higher education, granting both social status and, consequently, privileges in employment, became a history. However, the changes taking place in Russia, external to the vocational education system, may have a serious impact on the behavior of young people in the near future, especially young men, who will be more targeted to enroll in full-time higher education programs.*

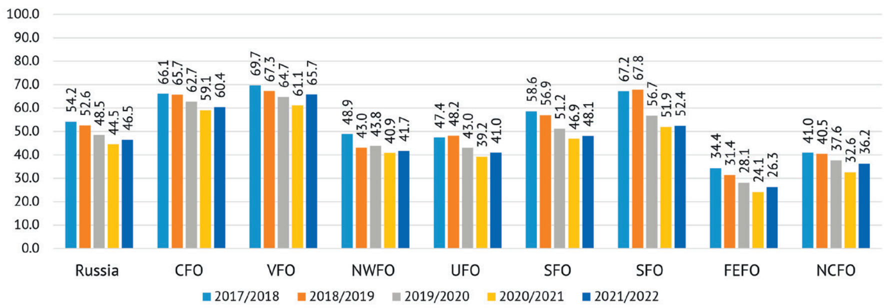
In recent years, CENO IAES RANEPA has studied the educational trends of graduates of the 9th and 11th graders, as well as graduates of educational institutions of the secondary vocational education (SVE). The choice of graduates was determined by analysis of statistical data contained in the forms GE-1, SVE-1 and HVE-1 of statistical observation, and the motivation of this choice was estimated on the basis of information collected in the course of various sociological surveys.

Higher education has always been in the focus of young people and the population on the whole. The goal to get it has long been considered a social norm, crucial in shaping human capital and life success. Now, this norm began to change.

Socio-economic changes resulted in a transformation of young people's values: setting towards higher education granting social status and, inevitably, privileges in employment, has become a history. Thus, according to the findings, the share of eleventh-graders admitted to universities right after school was between 20% and 70% over the five years from 2017 to 2021, depending on the federal okrug, while the meaning of this share by 2021 decreased relative to 2017 (*Fig. 1*): the lowest indicator was recorded in 2020, when the USE was abolished for those eleventh-graders not planning to continue their studies in higher education. Hence, in 2020 the share of eleventh-graders admitted to SVE institutions increased significantly (from 1.6 to 3.6 p.p.).

The share of eleventh-graders admitted to universities right after school largely depends on special aspects of a particular RF region. High figures of this share in the Volga (VFO) and the Central Federal Okrugs (CFO) have been attributed to the fact that in a number of regions these figures were off the charts: thus, in Moscow (CFO) these shares in different years in the period under consideration changed from 155.5 to 169.7%, while in the Republic of Tatarstan (VFO) they changed from 97 to 106%[1].

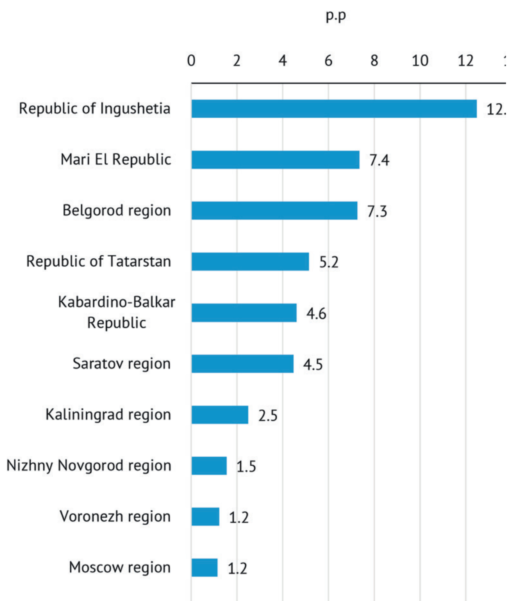
1 If this indicator exceeds 100%, it means that eleventh-graders from other regions come to study in the universities of this particular region (i.e. education migration).




**Note.** Shares estimated relative to a number of the eleventh-graders.

*Fig. 1. Share of eleventh-graders admitted to universities in 2017/18–2021/22 school years, %*

The insignificant admission rates to higher education in the Far Eastern Federal Okrug (FEFO) in 2017/18–2021/22 academic years are associated with their ultra-low values in Chukotka Autonomous Okrug (0.0–3.7%), Sakhalin Region (9.9–17.8%) and Jewish AO (9.8–16.6%). One of the reasons for the low demand for higher education in these regions is the small number of universities: 1 (branch) in Chukotka AO, 2 in Sakhalin Region and 1 in Jewish AO.




**Note.** Share estimates relative to a number of eleventh-graders.

*Fig 2. Regions demonstrating growth in the share of eleventh-graders admitted to universities immediately after completing school education, p.p.*

The share of eleventh-graders admitted to universities immediately after school increased only in 11 out of 85 regions of the Russian Federation over 5 years under consideration (*Fig. 2*).

Over the 2017/2018–2021/2022 academic year, the share of eleventh-graders admitted to universities right after graduating from school declined in all forms of higher education (*Fig. 3*).

The share of eleventh graders admitted to universities right after completing school education, calculated relative to total admission to higher education institutions, has also decreased (*Fig. 4*). Their share in total admission over five years (2017–2021) did not exceed 50% both for Russia as a whole and for all federal okrugs, while this indicator dropped, especially in 2019–2021.

The decline in the share of eleventh-graders choosing to continue education in the universities right after school, is due to:

— growing social and financial instability of households and inevitable inability to prepare their children for the Uniform State Exam (USE) guaranteeing scores sufficient to get into state-financed higher

## 4. Share of school graduates entering higher education is declining

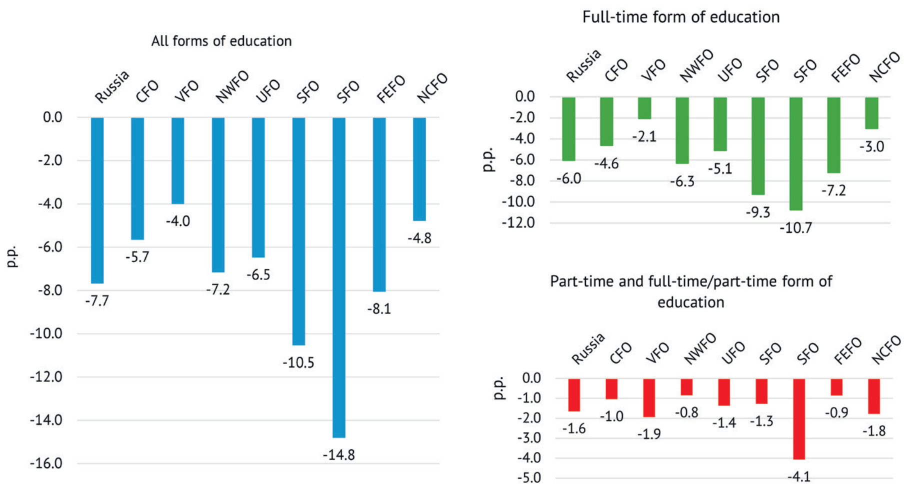
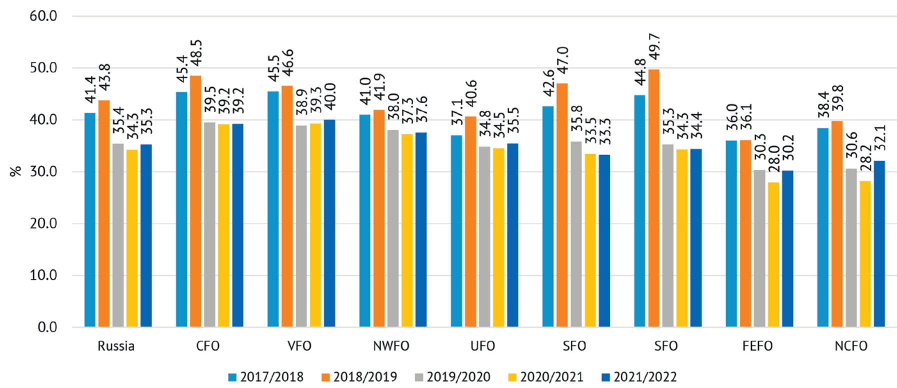



*Fig. 3. Decline in the share of eleventh-graders admitted to universities right after completing school education, p.p.*

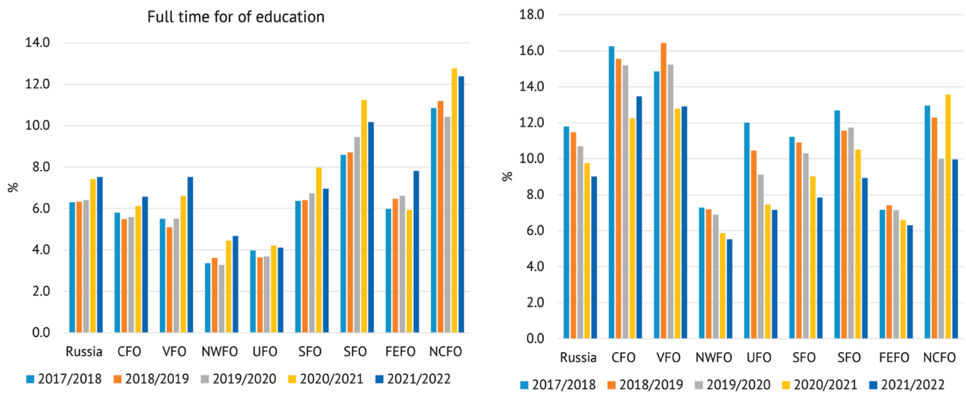



**Note.** Shares estimated relative to overall admission to universities.

*Fig. 4. Share of eleventh-graders admitted to universities right after completing school in 2017/18–2021/22 school years, %*

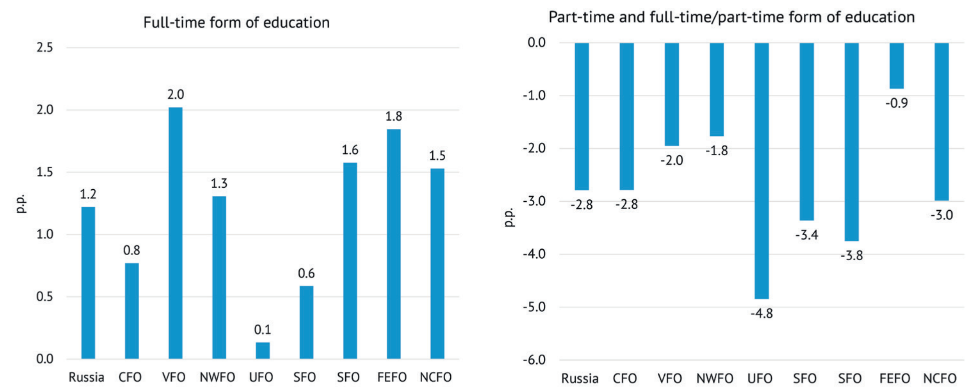
education institutions, as well as lack of funds to educate their children on a fee-paying basis;
- an increasing risk of failing to enter the university due to the one-stage admission campaign;
- rather poor school preparation in the subjects required for studies at technical universities, especially in mathematics and physics;
- the fact that many young people are already actively employed by the time they leave school, including without formal employment, especially in information technology.

The choice of graduates in the SVE system differs from that of the eleventh-graders. Thus, 3 to 13% of graduates prefer full-time education right after graduating from SVE institutions, and 5 to 17% chose part-time and evening classes (*Fig. 5*). Every year the share of SVE graduates who continued their studies full-time at the universities has been increasing, while the share of part-time and full-time/part time graduates has been decreasing. The reason for this is primarily the limited range of educational programs demanded by young people, implemented in full time/ part-time and part time forms.




**Note.** Shares estimated relative to a number of Professional Educational Organizations (PEO) graduates.

*Fig. 5. Share of PEO graduates admitted to higher education institutions right after completing school over the period of 2017/18–2021/22 school years*




**Note.** Shares estimated relative to a number of PEO graduates.

*Fig. 6. Changes in the share of PEO graduates admitted to universities right after completing education in 2021/2022 school years against 2017/2018*

Over the five years (2017–2021), the share of graduates admitted to universities as full-time students right after graduating from SVE institutions increased by 0.1 p.p. in UFO (minimum) and by 2 p.p. in VFO (maximum), while the share of part-time and full-time students fell by a minimum of 0.9 p.p. in FEFO and a maximum of 4.8 p.p. in UFO (*Fig. 6*).

Usually, immediately after graduating from PEO, young people continue their studies in the higher education system on a full-time basis, if this organization works under the university and there is a chance to continue studies in the specialization acquired at the college. If they failed to enroll in full-time education, they can apply for part-time and evening classes, but this share is small and mainly relates to those combining work and study.

The rather low indicators showing transition of PEO graduates to universities on a full- time basis immediately after completing education (3–13%) are primarily due to the high level of youth employment (up to 70% in Russia as a whole), as well as the fairly high share of young conscripts drafted to Russian Armed Forces. This is well illustrated in terms of the Volga Federal Okrug (*Fig. 7*).

# 4. Share of school graduates entering higher education is declining

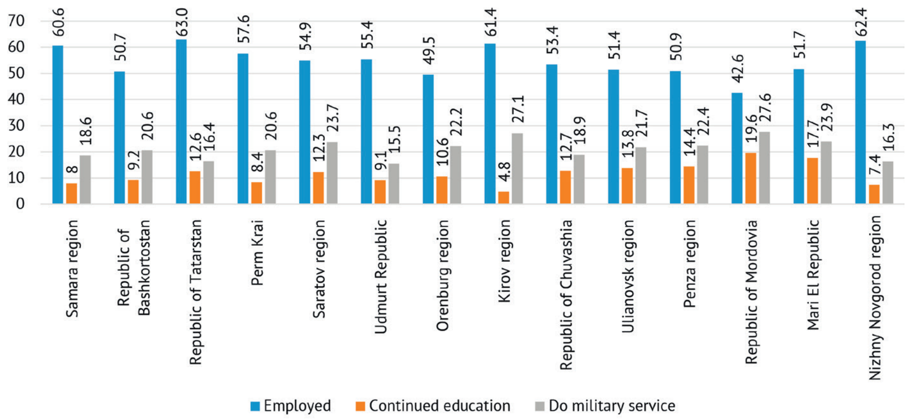
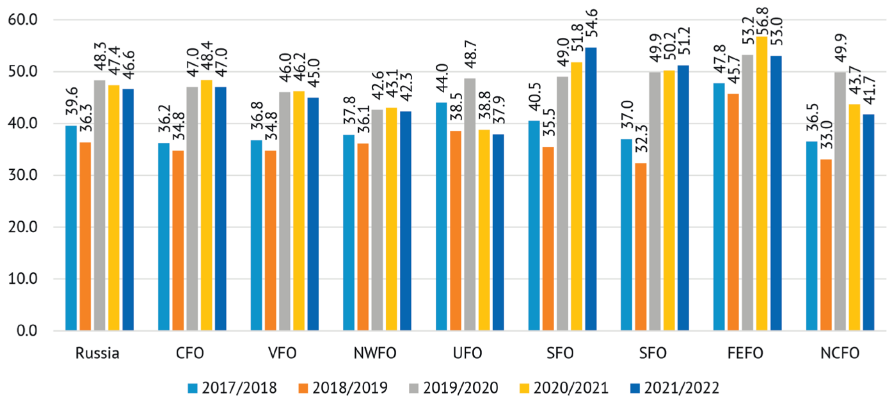



*Fig. 7. Distribution of graduates of the VFO SVE regional systems per employment channells in 2022, %*




**Note**. Estimates relative to the total universities admission.

*Fig. 8. Share of graduates representing different levels of education, including SVE, who entered universities not immediately after completing their studies at the previous level, %*

In 2022, almost a third of young people in the Volga Federal Okrug were forced to interrupt their educational and employment activities immediately after graduating from SVE. For these young people, in the context of rapidly changing technologies and labour market demands, a year of military service results in a reduced likelihood of employment, especially in the specialty they have acquired. This contributes to inequality of starting opportunities for different groups of young people. As a result, a significant part of SVE graduates do not enter the higher education system immediately, but after some time, which may be due to both military service and the need to improve professional competencies (*Fig. 8*).

At present, a change in young people's priorities can be confirmed. Whereas in the past it was more popular to have an end-to-end model of educational behaviour "school – university" or "school – college – university" followed by the labour market, young people now either combine work and study, or take turns in fulfilling their educational and professional needs.

Meanwhile, the changes taking place in Russia, external to the vocational education system, may in the near future dramatically affect the behaviour of young people, especially young men, while their focus on entering full-time higher education institutions will increase.

# 5. YOUTH EMPLOYMENT: CHALLENGES AND TRENDS

**Yelena Semionova**, Leading Researcher, the Center for the Economies of Continuous Education, the Institute of Applied Economic Studies, RANEPA

*Young people's success in employment depends considerably on the standard of the chosen line of vocational training. A lack of jobs which is referred to by the youth as an employment problem points not only to the fact that the training of personnel does not meet regional economic needs, but in some cases to the redundancy of young specialists' qualifications.*

At the first sight, the situation with youth employment on the labor market is quite stable and the "shift from education to employment" is successful: in 2021 overall nationwide 88.9% of the graduates from secondary vocational education institutions (SVE) and higher educational establishments (the graduates of 2016–2020) could find a job. The share of the employed youth is growing as the standard of education picks up. In 2021, the level of unemployment among the graduates from educational establishments in 2016–2020 was equal to 6.7%. It is noteworthy that the higher the level of education, the lower the level of unemployment: for skilled workers and employees it is equal to 8.9%, mid-level specialists – 8%, bachelor's degree holders – 7.4%, specialists – 4.4% and master's degree holders – 4.5%. However, there are exceptions, for example: in the Tambov Region the levels of unemployment among the graduates of higher educational establishments, mid-level specialists, as well as skilled workers and employees are equal to 7.9%, 6.3% and 3.4%, respectively; the Archangelsk Region – 18.4%, 15.6% and 17.1%, respectively; the Republic of Kalmykia – 10.2%, 5.8%, and 8.5%, respectively. Such processes justify labor migration of the youth to other parts of the country and increase the level of unemployment in individual subjects of the Russian Federation.

The outputs of youth employment vary depending on a subject of the Russian Federation. The share of the employed graduates from SVE institutions and higher educational establishments (HEE) is quite diversified: the Republic of Ingushetia (63.1%), Dagestan (70.2%), the Republic of North Osetia – Alania (71.9%), Chukotka Autonomous region (97.8%) and the Vologda region and the Kamchatka Territory (97.3%). Accordingly, the level of unemployment changes considerably among the graduates depending on the Russian region under review. In 2021, the highest rates of unemployment were seen in the following subjects of the Russian Federation: the Republic of Ingushetia (43.4%), the Republic of Dagestan (21.1%) and the Republic of North North Osetia – Alania (20.1%). In 2021, the highest rates of unemployment among graduates – mid-level specialists – were registered in the same republics, except for the Republic of North Osetia – Alania. Young skilled workers and employees are the least sought after on the labor market in the Republic of Ingushetia (the level of unemployment among graduates – skilled workers and employees – was equal to 57.2%), the Republic of North Osetia – Alania (38.4%) and the Omsk region (35.9%).

Youth employment depends largely on a profession (specialty). The most successful young people among HEE graduates were those who received education in the following careers: military administration (100% of the graduates found a job), veterinary medicine and zootechnics (100%), materials technology (98.1%), arial navigation and operation and maintenance of aviation and space devices (97.3%) and physical culture and sport (97%). The worst employment results were shown by HEE graduates who received training in the following professions (specialties): light industry technologies (76.4% of the graduates got a job), political science and area studies (79.1%), geosciences (84%), chemistry (84.1%) and nuclear-power engineering and technologies (84.2%). The best employment results among mid-level specialists were shown by those who specialized in the following programs: pharmacy (96.2% of the graduates were employed), science on health and preventive medicine (95.6%), shipbuilding technologies and equipment (93.7%), culturology and sociocultural projects (93%) and engineering system management (92,5%). The share of employed mid-level specialists was the lowest one among graduates who majored in the following lines: light industry technologies (76.2% of the graduates got a job), forms of fine and applied art (76.7%), chemical technologies (77%), history and archeology (77%) and physical culture and sport (78.8%). Among skilled workers and employees, the best employment results were shown by the graduates who majored in machine-building (92.8% of the graduates were employed), shipbuilding equipment and technologies and water transport (92.5%), chemical technologies (92.4%) and forms of fine and applied art (90.4%). On the contrary, the worst employment results are seen with young skilled workers and employees who received education in technosphere safety and environmental engineering (71.5% of the graduates found a job), electronics, radio engineering and communication systems (74.8%), information and computer technologies (76.6%), applied geology, mining, oil and gas engineering and geodesy (78.6%) and light industry technologies (79.5%).

The level of unemployment among the youth, as well as employment opportunities depend on young people's profession (specialty). The highest level of unemployment is registered among the graduates who majored in the following programs: "political science and area studies" (22.6%), "light industry technologies" (19.9%) and "chemistry" (17.5%). As regards young mid-level specialists, the highest level of unemployment was seen among the graduates who received training in such programs as "light industry technologies" (21.2%), "physical culture and sport" (15.8%) and "chemical technologies" (15.4%). As regards skilled workers and employees, the highest rates of unemployment were seen with the graduates who majored in the following programs: "electronics, radio engineering and communication systems" (18%), "applied geology, mining, oil and gas engineering and geodesy" (15.8%) and "economics and management" (15.6%).

No doubt, the place of residence predetermines youth employment results, too: the level of unemployment is twice as high among the youth in rural areas than in urban areas (10.1% and 5.7%, respectively), specifically, in rural areas the level of vocational training does not have a strong effect on the level of unemployment.

In 2021, over two-thirds of HEE graduates (71.9%), as well as 61.4% of SVE graduates and 57.2% of skilled workers- and employees-graduates got their first job in their profession or specialty. The main reason for which they could not get their first job in their profession (specialty) was a lack of job opportunities. Another factor was unsuitable working conditions and a low level of wages.

The survey of employed young workers with secondary vocational and higher education carried out by the Center for the Economies of Continuous Education of the Institute of Applied Economic Studies, RANEPA proved largely the outputs of Rosstat's survey.

Lots of young people combine their first job with education: 41.6% of young people got their first job when they studied. In the Novosibirsk region nearly a half of young people (48.2%) got their first job when they studied, while in the Ivanovo region and the Sverdlovsk region, 40.9% and 35.5%, respectively (*Fig. 1*).

Among those who started to work during their education were young people whose work life began before the age of 16 (included) (29.5%), that is, nearly a third of the youth started to work before completing their main education. The share of young people who combine work with studying and started their work life at the age of 17–18 is equal to 31.8%. Thus, a little over one-third of the youth started to work during their education in upper general schools or SVE

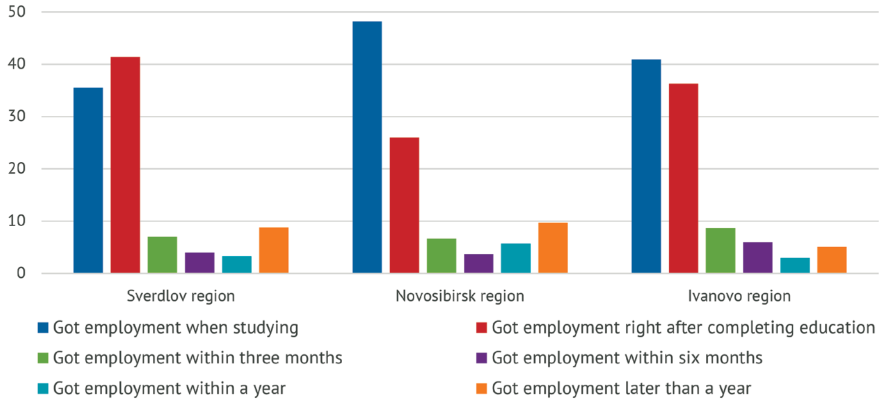



*Fig. 1. The time of getting the first employment, %*

*Source:* The Monitoring of CECE IAES RANEPA.

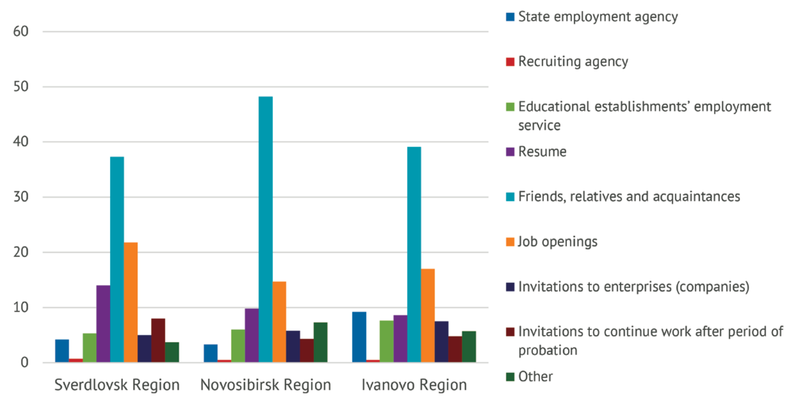



*Fig. 2. The ways of getting the first employment, %*

*Source:* The Monitoring of CECE IAES RANEPA.

institutions. Another third of the youth combined their first work with studying either at SVE institutions or higher educational establishments.

Over a third of young men (34.6%) got their first job right after they completed their education. Accordingly, most young people (83.7%) get their first job either when studying or within three months after they finished their education.

Young people get more often their first job through their acquaintances, friends and relatives (*Fig. 2*). At the same time, from 14.7% of young people in the Novosibirsk region to 21.8% in the Sverdlovsk region got their first job by searching for job vacancies. Young people in the Ivanovo region, the Novosibirsk region and the Sverdlovsk region received their first employment by sending a resume: 8.6%, 9.8% and 14%, respectively.

The earlier young people start looking for their first job, the more often they look for it through their acquaintances, relatives and friends (*Fig. 3*). The elder they become, the less they look for their first job through their acquaintances, relatives and friends. The later they start looking for their first job, the more often they are invited to work by companies and enterprises.

Starting from 2022, the schemes of youth employment which were formed in the previous years will be changing because the Russian economy will be passing through a structural transformation: demand for skilled workers and employees, engineering and technical personnel and logistics specialists will be growing. Accordingly, many young people will have to work in a profession (specialty) other than that they received. At the same time, in the past few years labor supply on the part of youth cohorts has been declining owing to demographic reasons, so, there are no grounds for youth unemployment to be high.

So, in Russian regions where the labor market situation is not quite simple (for example, the Republic of Ingushetia, the Republic of Dagestan and the Republic of North Osetia – Alania) the situation of the youth is getting ever more complicated either because graduates from SVE institutions and higher educational establishments lack work experience or most students do not work when they study. A success in young people's employment depends both on the chosen line of training, so, for example, graduates in light industry technologies experience more often problems with employment no matter whether they graduated from HEE or a SVE institution. The higher the level of the youth's vocational training, the lower the rate of unemployment, though there are

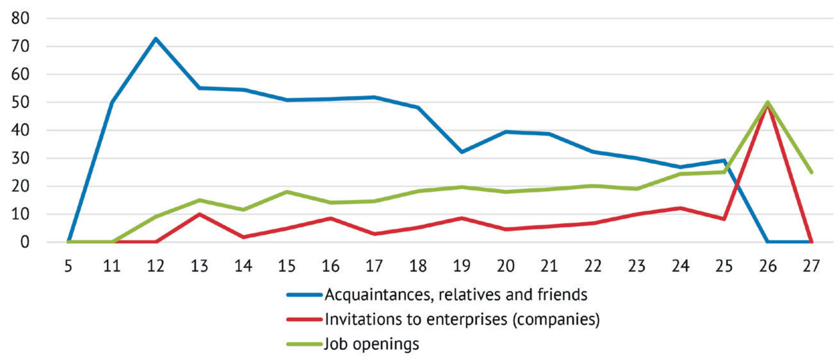



*Fig. 3. The age of the first employment and ways of searching for a job, %*

*Source:* The Monitoring of CECE IAES RANEPA.

exceptions: in some Russian regions mid-level specialists are in a higher demand than HEE graduates which fact is the evidence of qualifications redundancy of some specialists with respect to the economy of those regions. A lack of jobs noted by the youth can be the evidence both of incompliance of personnel training with the needs of regional economies and, in some cases, redundancy of qualifications.