

MONITORING OF RUSSIA'S ECONOMIC OUTLOOK:

TRENDS AND CHALLENGES OF SOCIO-ECONOMIC DEVELOPMENT

No. 11(155) October 2022

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Monitoring of Russia's Economic Outlook

Monitoring has been written by experts of Gaidar Institute for Economic Policy (Gaidar Institute), Russian Presidential Academy of National Economy and Public Administration (RANEPA).

Editorial board: Sergey Drobyshevsky, Vladimir Mau, and Sergey Sinelnikov-Murylev.

Editor: Vladimir Gurevich.



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RANEPA
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AND PUBLIC ADMINISTRATION

11(155) 2022

Monitoring of Russia's Economic Outlook: trends and challenges of socio-economic development. 2022. No. 11(155). October. 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. 19 p. URL: http://www.iep.ru/files/text/crisis_monitoring/2022_11-155_Oct_eng.pdf

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1. THE FEDERAL BUDGET EXECUTION OVER 9 MONTHS OF 2022

Sergey Belyov, Candidate of Economic Sciences, Head of the Budget Policy department, Gaidar Institute; Senior Researcher, the Budget Policy Studies Department, IAES, RANEPA;

Tatiana Tischenko, Candidate of Economic Science, Senior Researcher, the Budget Policy Studies Department, IAES, RANEPA

The federal budget for 9 months of 2022 was executed with a surplus of Rb 54.7 bn. The dynamics of revenues is slowing down, with the growth of rental revenues by 1.4 p.p. against the same period of the previous year and does not compensate for the fall of non-oil and gas revenues by 2.0 p.p. of GDP. Apparently, the federal budget revenues will make about 19% of GDP at year-end. The Budget execution on expenditures for the three quarters of 2022 is ahead of the last year and reached 18.8% of GDP, which is by 1.2 p.p. of GDP higher than a year ago. The increase in expenditures is mainly due to an increase in funding for closed budget items. According to our estimates, the volume of budget expenditures for the entire year of 2022 may exceed 20% of GDP.

Main parameters of the federal budget

The federal budget revenues over January-September 2022 amounted to Rb19.7 trillion or 18.8% of GDP, which is by 0.6 p.p. of GDP lower than in the previous year (Table 1). The volume of oil and gas revenues over 9 months of this year at the average price of Urals crude oil of \$80.6/bbl made Rb 8.5 trillion, or 8.1% of GDP, which is by 1.4 p.p. of GDP exceeds the indicator of January-September 2021 (at average oil price of \$72.5 per barrel). For three quarters of 2022, the volume of additional oil and gas revenues is estimated at Rb4.4 trillion, or 51.3% of the total volume of such revenues against Rb1.8 trillion (28.8%) for the same period last year.

The main factors behind the decline of non-oil and gas revenues in the first three quarters of 2022, as compared with the same period of 2021, were reduction of revenues from the import VAT and import duties, as well as other revenues. As of the first 9 months of 2022, the federal budget is executed with a surplus of Rb54.7 bn, which is by Rb1,570.3 bn less than the budget surplus in the first three quarters of the previous year. The reduction of non-oil and gas revenues has increased the non-oil deficit from 4.9% to 8.0% of GDP, or by Rb3.9 trillion.

Revenue

The structure of oil and gas revenues demonstrates an increase in the share of MET up to 90.1% of the total rent revenues for 9 months of 2022 against 79.5% for 9 months of the previous year. Analysis of the quarterly dynamics of oil and gas revenues for 2021–2022 (Fig. 1) reveals no significant impact of Western sanctions on MET for the three quarters of this year. The volume of oil and gas revenues from export duties depends to a greater extent on gas exports, whose share in the total volume of oil and gas export duties jumped to 68.3% at the end of Q3 2022 against 46.8% in the same period of 2021. Given

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Table 1

Key parameters of the federal budget for January-September 2021 and 2022

	January-September 2021			January-September 2022			Change, 2022 against 2021	
	Rb bn	% GDP	Cash execution, %	Rb bn	% GDP	Cash execution, %	Rb bn	p.p. GDP
Revenues, including:	17923.9	19.4	70.9	19739.6	18.8	78.9	1815.7	-0.6
-oil and gas, including:	6184.6	6.7	68.3	8506.6	8.1	89.1	2322.0	1.4
- MET	4918.6	5.3	69.2	7662.4	7.3	98.8	2743.8	2.0
- export duties	1266.0	1.4	63.3	844.2	0.8	50.8	-421.8	-0.6
- non-oil and gas, including:	11739.3	12.7	72.3	11233.0	10.7	72.6	-506.3	-2.0
- corporate income tax	1076.8	1.2	69.4	1252.7	1.2	86.5	175.9	0.0
- VAT on goods sold in RF	4030.4	4.4	73.6	4681.6	4.5	88.8	651.2	0.1
- VAT on goods imported to RF	2686.6	2.9	72.0	2221.0	2.1	60.5	-465.6	-0.8
- excises on goods sold in RF without reimbursable excise taxes on oil refining	765.5	0.8	75.6	856.6	0.8	82.2	91.1	0.0
- import customs duties	631.6	0.7	72.2	440.6	0.4	53.1	-191.0	-0.3
- other revenues	2548.4	2.7	77.0	1780.5	1.7	61.6	-767.9	-1.0
Expenditure, including	16298.9	17.6	65.8	19684.9	18.8	83.1	3386.0	1.2
- interest	780.5	0.8	72.0	1017.7	1.0	72.5	237.2	0.2
- non-interest	15518.4	16.8	65.6	18667.2	17.8	83.7	3148.8	1.0
Surplus (deficit) of budget	1625.0	1.8	-	54.7	0.0	-	-1570.3	-1.8
Non-oil and gas deficit	-4559.6	-4.9	-	-8451.9	-8.0	-	-3892.3	-3.1
GDP (in current prices), RB bn	92232			105000*				

* own estimates.

Sources: Ministry of Finance, Rosstat, own calculations.

this factor and the reduction in the average monthly volume of revenues from export duties in Q3 2022, one can expect their further reduction due to the sanctions imposed.

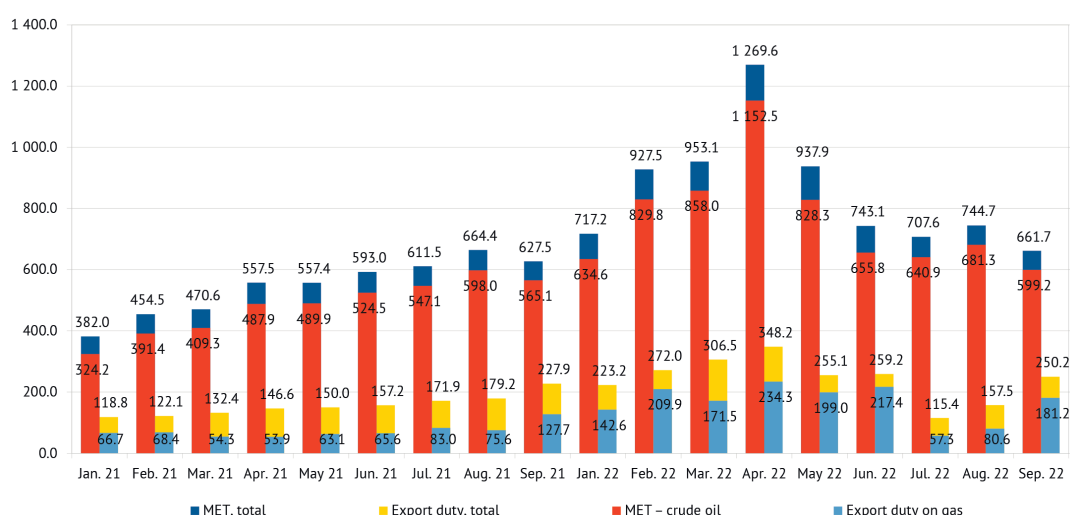


Fig. 1. Dynamic of oil and gas revenues of the federal budget by MET and export duties over three quarters of 2021-2022, Rb bn

Source: Russian Finance Ministry.

1. The federal budget execution over 9 months of 2022

The movement of non-oil and gas revenues was most affected by a drop in imports. As a result, all the revenues related to imports (VAT and excise duties on imported goods, import duties) have decreased. The RF Ministry of Finance has revised its estimates of these revenues by the end of 2022 downwards (*Table 2*). At the same time, the Ministry expects some growth in revenues from other non-oil and gas revenues, which should offset the fall in revenues from imports.

However, the results of the first three quarters of 2022 show that non-oil and gas revenues fell in total. Rosstat points out the reduction of physical volumes of production and retail turnover of non-food goods. In particular, the retail turnover in April-August 2022 *in current prices* did not change against the relevant period of 2021. In this context, there are doubts that the revenues from non-oil and gas revenues will reach the planned values, envisaged in the explanatory note to the draft law “On the federal budget for 2023 and for the planned period of 2024 and 2025”.

Table 2

Estimate of non-oil and gas revenues of the federal budget in 2022, Rb bn

	FZ-3901	Draft law No. 201614-82	Correction of forecast
Non-oil and gas revenues	15479.3	16027.0	547.7
Domestic VAT	5308.2	6264.5	956.3
Internal excises	986.8	1099.3	112.5
Income tax	1447.4	1564.2	116.8
Personal income tax	186.9	140.8	-46.1
Import VAT	3673.2	3159.3	-513.9
Import excises	144.5	100.8	-43.7
Import duties	829.2	609.8	-219.4
Other revenues	2903.0	3088.3	185.3

Sources: Explanatory notes to No. 390-FZ and draft law No. 20164-8, own calculations.

Expenditure

At the end of three quarters of 2022, the federal budget expenditures went up by Rb3.4 trillion or by 1.2 p.p. of GDP against three quarters of the previous year (*Table 3*). By the results of three quarters of 2022, expenditures on open items reached 15.8% of GDP, or Rb16.6 trillion. The increase in such items as compared with January-September 2021 amounted to Rb2.5 trillion, or 0.5 p.p. of GDP.

There are no significant changes in the structure of budget expenditures for the period under review on open items. The share of budget allocations by the largest expenditure items for the three quarters of this year (as a percentage of total expenditures) and for the corresponding period of the last year hit the following values: social policy 34.6% and 35.6%; national economy 15.6% and 16.3%.

The volume of closed expenditures in January-September 2022 is estimated to be Rb3.1 trillion against Rb2.3 trillion for the corresponding period of the previous year, which makes 15.7% and 14.1% of the total expenditures,

1 Federal Law “On the Federal Law for 2022 and for the planned period 2023 and 2023” of 06.12.2021 No. 390-FZ.

2 Draft Law No. 201614-8 “On the federal budget for 2023 and for the planned period 2024-2025” (submitted to the State Duma on September 28, 2022).

Table 3

The federal budget expenditures by open items over January-September 2021 and 2022

	January-September 2021			January-September 2022			Change, 2022 against 2021	
	Rb bn	in % GDP	Cash execution, %	Rb bn	in % GDP	Cash execution, %	Rb bn	p.p. GDP
Expenses on open items total, including:	14094.0	15.3	71.1	16614.6	15.8	73.2	2520.6	0.5
Nationwide Issues	843.1	0.9	61.7	956.6	0.9	59.6	113.5	0.0
National Defence	1878.7	2.1	67.2	2277.2	2.2	66.0	398.5	0.1
National Security and Law Enforcement	2298.3	2.5	65.4	2590.8	2.5	60.4	292.5	0.0
National Economy	354.7	0.4	79.3	542.1	0.5	85.4	187.4	0.1
Education	716.3	0.8	63.8	962.0	0.9	74.4	245.7	0.1
Healthcare	950.2	1.0	70.7	1118.8	1.1	74.8	168.6	0.0
Social Policy	4989.0	5.4	79.8	5735.4	5.5	85.9	746.4	0.1
Public Debt Servicing	780.5	0.8	67.5	1052.7	1.0	75.0	272.2	0.2
Intergovernmental Fiscal Transfers	779.5	0.8	71.1	862.1	0.8	79.6	82.6	0.0
Other expenditures	503.7	0.6	65.6	516.9	0.5	68.2	13.2	-0.1

Sources: Federal Treasury, own estimates

respectively. At the end of the year, the volume of closed expenditures may increase to Rb4–4.5 trillion.

The rate of cash execution of the federal budget expenditures for the first nine months of this year amounted to 73.2% of the planned volumes. Expenditures on social policy (85.9%) and housing and communal services (85.4%) are markedly ahead of schedule, the greatest lag is observed in the section “Nationwide Issues” (59.6%).

The federal budget balance


During the three quarters of 2022, the RF Ministry of Finance not only did not borrow in foreign markets, but also seriously limited the volume of securities placed in the domestic market – up to Rb125.3 bn, while the planned annual volume of funds in the foreign and domestic markets was Rb299.6 and Rb3,259.7 bn, respectively.

Since the beginning of autumn this year, the Ministry resumed the practice of placing government bonds. In particular, placement on September 14, 2022 for Rb10 bn was carried out at the average weighted yield of 8.94% per annum; placement on September 21 was “recognized as failed due to the lack of bids at acceptable price levels”; placement scheduled for September 28 was canceled “due to increased volatility in the financial markets”¹. Also, the placement, scheduled for October 5 and 12, has been canceled, and the placement on October 19 was held at the weighted average yield of 10% per annum. Thus, attraction of borrowings in the domestic market is carried out at rather high yields and at relatively low demand.

The volume of domestic public debt in the first nine months of this year decreased by Rb0.2 trillion to Rb16.2 trillion. The volume of external debt has also decreased (by \$3.1 bn due to exchange rate differences), amounting to \$56.6 bn. The source of repayment of the central government's debt obligations

1 URL: https://minfin.gov.ru/ru/performance/public_debt/internal/operations/ofz/auction?id_38=300443-informatsionnoe_sobshchenie_o_neprovedenii_28_sentyabrya_2022_goda_auksionov_po_razmeshcheniyu_ofz

1. The federal budget execution over 9 months of 2022

was mainly the balances in the accounts for the federal budget funds, above all, the funds of the National Wealth Fund. Further active use of the accumulated liquidity as the main source of financing the budget deficit creates the risk of exhaustion of the sovereign reserves in the near future, which may deprive the federal budget of the necessary flexibility in the event of market shocks. Obviously, the risks to budget sustainability are beginning to grow, and the requirements for a more stringent budget policy may be implemented as early as 2023 in the course of the budget rule further adjustment. 

2. BALANCE OF PAYMENTS IN Q3 2022

Alexandra Bozhechkova, Candidate of Economic Sciences, Head of the Monetary Policy Department, Gaidar Institute; Senior Researcher, the Center for Central Banks Issues, IAES, RANEPA;

Alexander Knobel, Candidate of Economic Sciences, Head of the Foreign Trade Department, Gaidar Institute; Head of the Foreign Trade Studies Department, IAES, RANEPA;

Pavel Trunin, Doctor of Economic Sciences, Head of the Center for Macro-Economics and Finance, Gaidar Institute; Director of the Center for Central Banks Issues, IAES, RANEPA

Based on the results of Q3 2022, the current account surplus fell by 32% as compared to Q2 2022 owing to a gradual reduction in exports in value terms and a pickup in imports amid sanctions and establishment of alternative sources of supplies. In Q3 2022, the deficit of the financial account which includes reserve assets decreased somewhat on Q1 2022 and Q2 2022. If in H1 2022 the financial account deficit was formed primarily on the back of a decrease in liabilities to non-residents, in Q3 2022 the negative financial balance was driven by growth in the private sector's foreign assets. In Q3 2022, the appreciation of the Russian ruble was facilitated by trade balance surplus and restrictions on capital movement.

According to the Central Bank of Russia's preliminary estimate of the balance of payments, in Q3 2022 the current account surplus is equal to \$51.9bn, an increase of 46% on the relevant index of Q3 2021 (\$35.5bn) and a decrease of 32% on Q2 2022 (\$76.7bn). As the balance of payments released by the Central Bank of Russia has become less detailed than in 2021, the current account pattern can be described in terms of the two main balances: the balance of trade in goods and services and the primary and secondary income balance.

The balance of trade in goods and services was equal to \$68.4bn, an increase of 44% (\$21bn) on Q3 2021 (\$47.4bn) and a decrease of 24% on Q2 2022 (\$90.3bn). A pickup in the value of exports in goods and services from \$146.2bn in Q3 2021 to \$153bn in Q3 2022 (growth of 5%) and a moderate decrease in volumes of imports of goods and services from \$98.9bn in Q3 2021 to \$84.6bn in Q3 2022 (a decline of 14%) played a decisive role in balance growth as compared to the relevant quarter of the previous year. Specifically, exports fell by 6% (from the value of \$162.2bn) as compared to Q2 2022, while imports grew by 18% (from the value of \$84.6 bn).

A pickup in exports on Q3 2021 is substantiated by high prices for basic commodities (oil, gas, petrochemicals, grain, coal and ferrous and non-ferrous metals), as well as a redirection of a portion of export flows earlier meant for EU countries to Asian markets (primarily China). However, by contrast with Q2 2022, in Q3 2022 the value of exports fell on the back of depreciation of prices for a wide range of Russia's export primary commodities.

A decline in imports of goods and services on Q3 2021 is still related with a decrease in the volume of supplies because of sanctions and higher costs of logistics. The observed increase in imports in Q3 2022 on Q2 2022 can be explained by the establishment of supply chains and parallel imports.

The primary and secondary income balance changed substantially in Q3 2022 and was equal to \$16.5bn, an increase in absolute amount on Q3 2021 (-\$11.9bn) and Q2 2022 (-\$13.6bn). At the same time, Q3 2022 saw both a

2. Balance of Payments in Q3 2022

decrease in income receivable (a decline of revenues from capital abroad) and income payable (a decline of income withdrawal and profit repatriation to abroad, particularly owing to restrictions on the cross-border movement of capital). However, income receivable fell substantially by \$14.6bn in Q3 2022 on Q3 2021 (from \$27.4bn to \$12.8bn), while income payable, by \$9.9bn (from \$39.2bn to \$29.3bn). Relative to Q2 2022, both income payable and income receivable changed insignificantly (in Q2 they were equal to \$24.6bn and \$11bn, respectively).

In the coming quarters, owing to limitations on capital movement, problems related with repatriation of foreign investors' profits from Russia and restrictions imposed by the EU and the USA in respect of counteragents from those jurisdictions, primary and secondary incomes payable are most likely to fall. It is noteworthy that income receivable will decrease more substantially than income payable.

The estimate of the balance of payments based on the results of Q3 2022 was published by the Central Bank of Russia in aggregate form; the financial account was represented by aggregated data on net foreign assets and liabilities of all economic sectors and included changes in reserve assets. Such a high level of aggregation complicates the analysis of the financial account's individual components.

In Q3 2022, the financial account of the balance of payments was formed amid growing geopolitical tensions, freezing of a portion of international reserves, as well as continued restrictions on capital movement imposed by the Central Bank of Russia. As the Russian ruble was appreciating, the Central Bank of Russia kept relaxing exchange controls. In particular, from August 8, 2022 non-residents from friendly countries, as well as non-residents whose ultimate beneficiaries were Russian individuals and legal entities, were allowed to participate in trading on the Moscow Exchange.


In Q3 2022, liabilities of all sectors of the Russian economy to non-residents fell by \$2.7bn (+\$32.1bn in Q3 2021). As of September 1, 2022, the share of non-residents on the OFZ market was equal to 17.9%, a somewhat increase as compared to the end of Q2 2022 which was justified by a 2.5% decrease in the OFZ market capitalization with a virtually unchanged nominal volume of OFZ owned by non-residents. Based on the results of Q3 2022, the data on the foreign debt of the Russian Federation point to a decrease in the debt of all sectors of the Russian economy. So, the foreign debt of other sectors of the economy decreased by \$20.9bn as compared to the end of Q2 2022. As stated in the Central Bank of Russia's comments, this was largely caused by repayment of obligations to non-residents, particularly within the frameworks of direct investment. Based on the results of Q3 2022, a decrease in foreign debt of state administration bodies, as well as banks and the Central Bank of Russia was equal to \$7.1bn and \$5.9, respectively.

In Q3 2022, growth in all sectors' foreign assets amounted to \$46.9bn (\$65.7bn in Q3 2021). Taking into account the suspension of purchase/sale of foreign currency within the framework of the fiscal rule, demand for foreign assets was mainly seen on the part of the private sector. What is meant here is growth in the sum of other foreign assets, that is, transactions which are not attributed to direct and portfolio investments, derivatives and reserve assets (primarily, trade loans and advances¹).

1 URL: https://www.cbr.ru/Collection/Collection/File/43419/Balance_of_Payments_2022-3_12.pdf

In April through September 2022, the Russian Federation's international reserves fell by 9% and as of October 1, 2022 were equal to \$540.7 bn. It happened mainly on the back of the negative foreign currency and market revaluation. At the same time, the freezing of international reserves and the impossibility of implementing the fiscal rule mechanism in its previous form led to a higher correlation between prices for oil and the exchange rate, thus increasing the Russian economy's exposure to external shocks.

In Q3 2022 amid trade balance surplus and restrictions on capital movement, the Russian ruble kept appreciating. In Q3 2022, the average nominal US dollar/Russian ruble exchange rate was equal to Rb59.4 per \$1, an increase of 10% on Q2 2022. In September, the appreciation of the Russian ruble was facilitated by sales of unfriendly countries' currencies because of risks of sanctions against the financial market infrastructure and a complete suspension of US dollar and euro trading on the Moscow Exchange.

The current levels of the ruble exchange rate smooth out the shock of a sudden appreciation of imported goods for Russian economic agents, but affect revenues of the budget and exporters. A return of the Russian ruble to the level of about Rb70 per \$1 in the mid-term will be facilitated both by imports growth as new logistics chains are established and parallel imports gain momentum and a decrease in exports revenues to the Russian Federation as prices for relevant commodities depreciate and sanctions expand. 

3. THE LABOR MARKET IN THE SUMMER OF 2022: TRENDS AND PROSPECTS

Victor Lyashok, Candidate of Economic Sciences, Senior Researcher, Department of Pension Systems Research and Actuarial Forecasting of Social Sphere, INSAP, RANEPa

The unemployment rate continued declining in the summer of 2022, hitting 3.8% by August, which can be explained by the weak effect of sanctions and the outflow of some unemployed men to voluntary military service during the summer months. Despite the fact that the number of vacancies is decreasing, by mid-September the share of respondents who assessed the risks of losing their job next month as low increased. Compared with March of this year, the share of workers who believe it is difficult or very difficult to find a job with similar wages and working conditions declined in September. Unemployed workers were generally more positive about the likelihood of finding a job.

In June-August 2022, the unemployment rate remained at its lowest level, as is usual for the summer months (Fig. 1). In August, the rate stood at 3.8%, once again reaching an all-time low. The last summer month also saw a spike in the number of employed and economically active people in general: up to 72.6 mn and 75.5 mn respectively. Such dynamics reflects, on the one hand, the weak economic effect of sanctions in the summer months and the high degree of sustainability of Russian business and the labor market. However, according to forecasts, the greatest impact of the sanctions should be expected later, in the second half of this year and next year. A certain contribution to the reduction of unemployment could be made by additional recruitment for voluntary contract

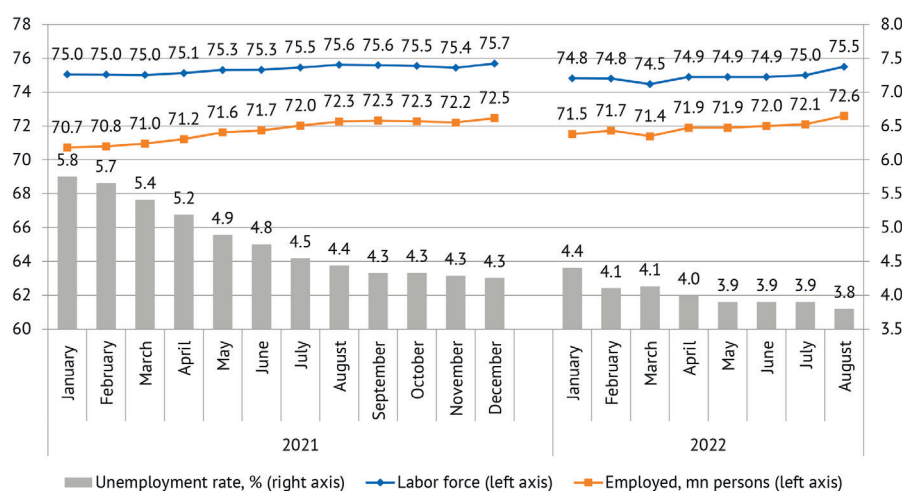


Fig. 1. Labor force, employment, and unemployment rate in 2021–2022, %

Source: Russia's Socio-Economic Situation / Rosstat. Series of reports for 2020–2022.

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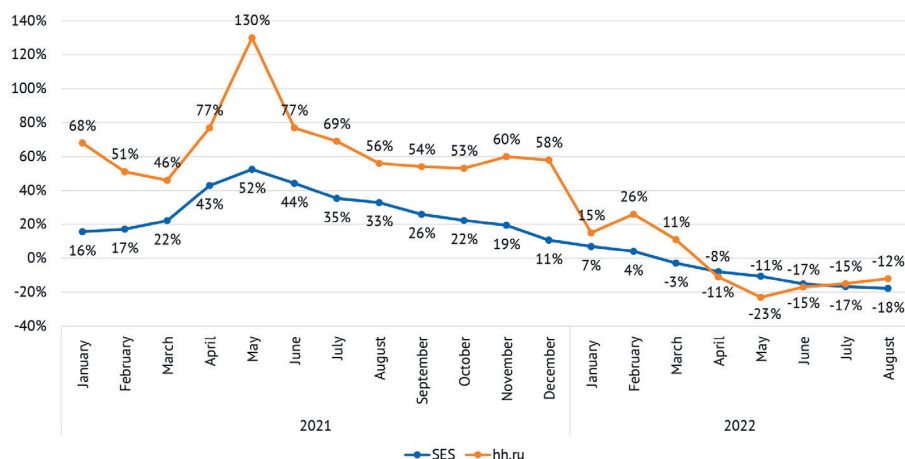


Fig. 2. Dynamics of the number of vacancies relative to the same period of the previous year, %

service in the army, where men who lost their jobs in the summer months could enroll.

The partial mobilization announced in the country on September 21 will also lead to a drop in unemployment, which will smooth out the situation in the Russian labor market at the end of the year. Mobilization may lead to unexpected changes in certain statistical indicators, such as hiring and attrition. Mobilized employees will most likely not be reflected in the statistics as dropouts, while those employed in the vacated jobs will be considered hired.

A certain impact of sanctions can be observed through a decrease in the number of vacancies (Fig. 2). According to both the state employment services and information from hh.ru, the number of vacancies continues to decline. Thus, in August 2022, the number of vacancies according to the state employment services (SES) was 18% lower than in August last year, on the website of the employment agency HeadHunter (hh.ru) such vacancies were 12% lower. The outflow of specialists from Russia, whose work is not possible remotely, may lead to an increase in the number of vacancies in the fall months of 2022.

Wages continued declining in real terms in the summer months, but the rate of decline slowed down (Fig. 3). In July 2022, average nominal accrued wages amounted to Rb 62200, which is 3.2% lower than in the corresponding month last year. Growth rates of nominal wages have remained constant since the beginning of the year (with the exception of March) and, accordingly, inflationary fluctuations mainly contribute to the dynamics of real wages. If the inflation rate continues declining, employers may be forced to resort more often to other mechanisms of cutting labor costs, such as transferring employees to part-time work.

The largest increase in salaries in July 2022 compared to July last year was observed in transport, mining and processing industries: coal mining (by 22.5% in nominal terms), petroleum products (by 43.2%), water transport (by 61.5%), railways (by 20.2%) and pipelines (by 22.6%). Wages and salaries decreased in the automotive industry (by 7.2%), fishing and fish farming (by 8.7%), oil production (by 1.1%).

During the period September 20–23, INSAP RANEPa conducted a new wave of monitoring of the social situation and behavior of the population in the current conditions. The survey was conducted by telephone interview, the respondents

3. The labor market in the summer of 2022: trends and prospects

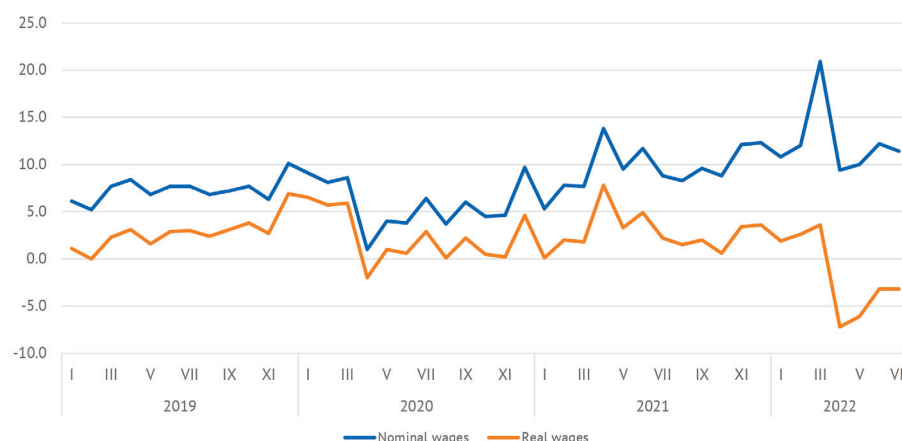


Fig. 3. Increase in real and nominal wages relative to the corresponding indicator of the previous year, %

Source: Russia's Socio-Economic Situation. / Rosstat. Series of reports for 2019–2022.

were Russian citizens aged 18 years and older. A total of 1,606 people were interviewed. A number of questions were asked, including the characteristics of employment and opinions about the state of the labor market.

Despite the commenced partial mobilization, respondents assess the state of the Russian labor market as relatively calm. 85% of the employed believe that the risk of losing their job next month is low or very low, whereas in March–April this indicator stood at 78–79% (*Fig. 4*). This is largely due to the fact that most employed respondents in September continued to work as usual, solely about 2% were transferred to reduced working hours, and 0.7% were sent on vacation at their own expense or with partial pay. 88% of respondents were confident that they would also work as usual next month, an increase from the June (83%) and March (80%) surveys.

At the same time, respondents remain confident in the limited labor market and the high difficulty of finding a job with conditions and wages similar to the current one (*Fig. 5*). 58% of respondents in September were confident that it is difficult or very difficult to find such work, which is similar to the results of April and June. In March, workers' perceptions were even more pessimistic, with 69% of workers choosing this answer.

At the same time, compared with June, assessments of the possibility of finding a new job among unemployed respondents have significantly improved (*Fig. 6*). While there is still an overwhelming majority who believe it will be difficult or very difficult to find one, the proportion inclined to such an opinion dropped from 76% in March to 54% in September. At the same time, the share of those who think it is easy or very easy to find a new job has doubled. Such dynamics confirm official statistics on the decline of the unemployment rate and improvement of the labor market situation by early fall.¹

Thus, according to many indicators, the Russian labor market survived the summer months of 2022 relatively well. The respondents' assessments of the

¹ It should be noted that such answers of respondents do not contradict the dynamics of the number of vacancies presented in *Fig. 2*, because in this figure the dynamics is presented as year to year. Due to seasonal fluctuations, the number of vacancies usually increases in the summer months compared to the beginning of the year. Similar dynamics were observed in 2022, but the growth was significantly lower than the year before.

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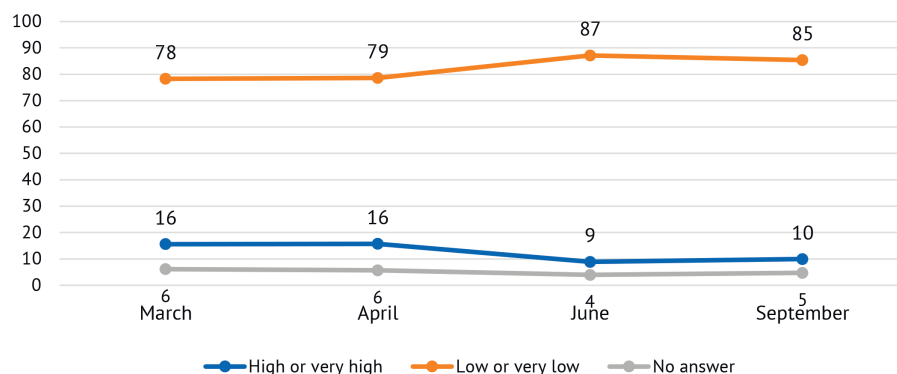


Fig. 4. Estimates of job loss risks in the next month for working respondents, %

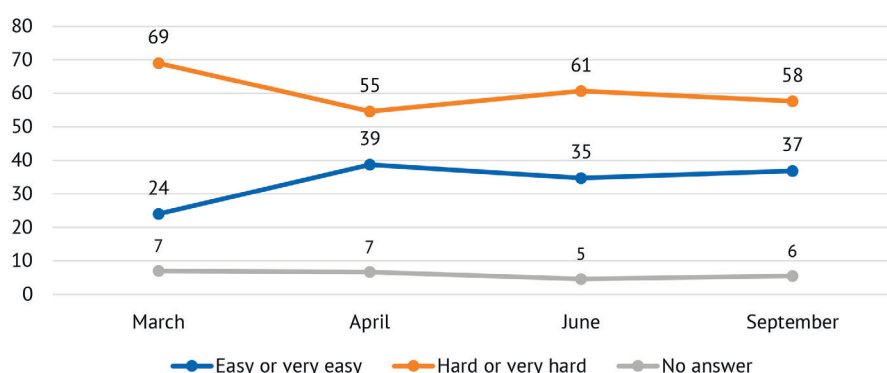


Fig. 5. Estimates of the possibility of finding a new job with the same conditions and wages as in the current job for working respondents, %

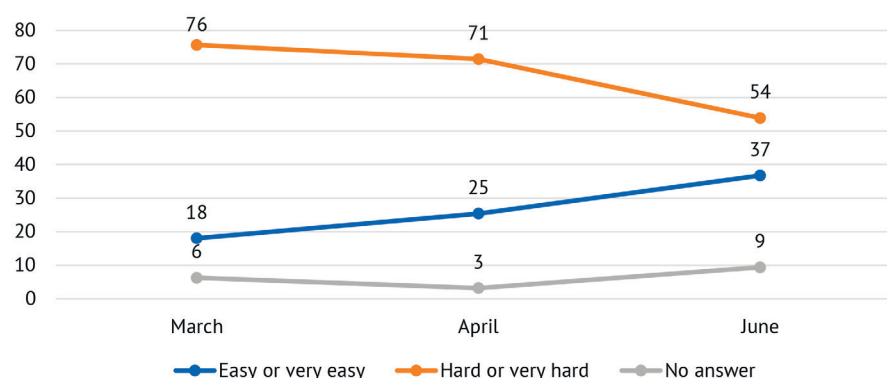


Fig. 6. Estimates of the possibility of finding a new job for unemployed respondents, %

state of the labor market are characterized by a positive trend compared to the beginning of the year. Nevertheless, there are a number of signs that confirm the growing complexity of the situation on the Russian labor market: wages continue to fall and the number of vacancies is decreasing. ▀

4. MASTERS ARE THE LEAST LIKELY TO BE UNEMPLOYED

Mark Agranovich, Candidate of Economic Sciences, Director, Research Center for Monitoring and Statistics of Education, Federal Institute for Educational Development (FIRO), RANEPa;

Julia Ermachkova, Senior researcher, Research Center for Monitoring and Statistics of Education, Federal Institute for Educational Development (FIRO), RANEPa;

Marina Livenets, Senior researcher, Research Center for Monitoring and Statistics of Education, Federal Institute for Educational Development (FIRO), RANEPa

Economic activity of the population aged 25–34 with tertiary education as well as their employment increase along with the improvement of education level. However, while there is little difference between graduates of short tertiary programs and bachelors, holders of master's degrees are significantly more economically active than those with lower levels of education, even in the crisis caused by the COVID-19 pandemic.

Youth unemployment and the decline in economic activity among young people around the world have become a pressing social and economic issue. As of 2019, the share of unemployed young people in developed countries constitutes on average from 13 to 5% depending on their level of education, while from 31 to 10% are economically inactive (*Fig. 1 and 2*).

Russia's youth unemployment and economic activity rates as shown by *Fig. 1 and 2*, are slightly better than in developed countries.

The COVID-19 pandemic has significantly deteriorated the position of young people in the labor market. In 2020, youth unemployment rate in OECD countries rose by 20% and economic activity fell by 10%. However, pandemic is a force majeure and the results are only to show that when things get worse, young people are the first to suffer, as it was the case in the economic crisis of 2008–2009. In order to achieve comparable results, data for the most recent pre-pandemic year 2019 is used in the following analysis.

One of the main reasons for the deteriorating situation of young people in the labor market is the mismatch between the level and content of education, and the graduation structure does not correspond to the demands of the labor market.

At the same time, there has been an explosive global growth in the share of population with tertiary¹, especially higher education: since 2005, the share of youth having tertiary education has increased almost by half (*Fig. 3*).

It is therefore important to try to understand the relationship between these two trends: the growth of tertiary education and the deterioration of young people's position in the labor market.

¹ The term 'tertiary education' is defined as programs including advanced content compared to secondary education levels and corresponding to levels 5 to 8 of the International Standard Classification of Education (ISCED). Tertiary education comprises short-cycle programs, bachelor's, master's (or equivalent) and postgraduate/doctoral programs. Short-cycle programs in Russia include vocational education and training programs for mid-career professionals.

Monitoring of Russia's Economic Outlook

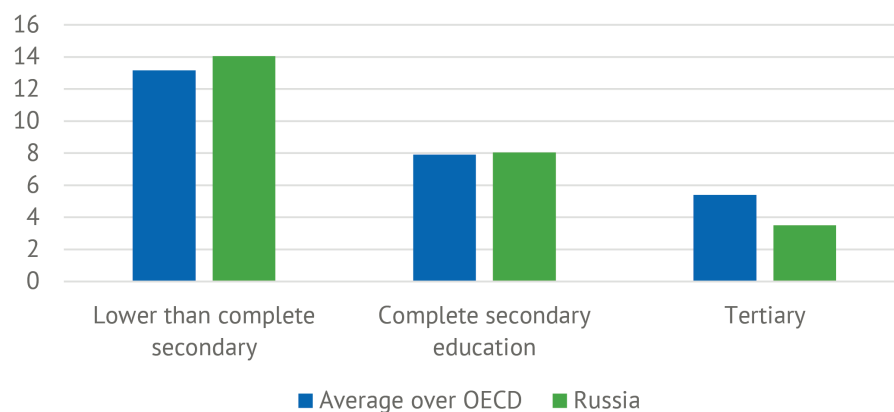


Fig. 1. Share of unemployed aged 25–34 according to level of education, 2019, %

Source: Education at a Glance-2020.

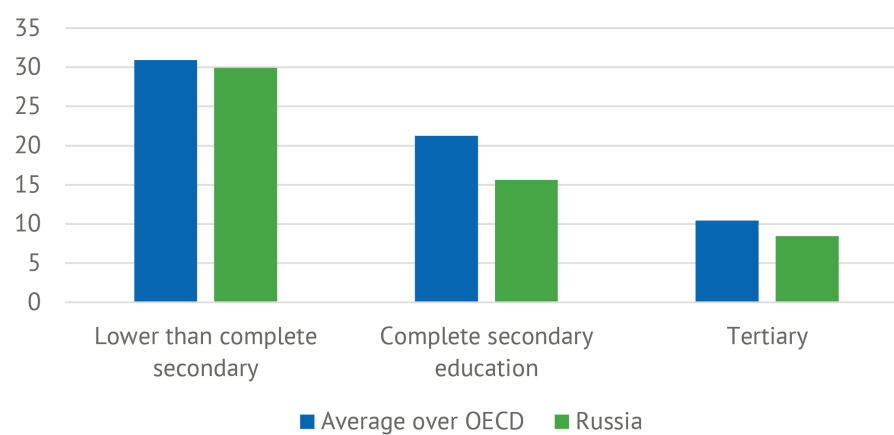


Fig. 2. Share of economically inactive aged 25–34 by level of education, 2019, %

Source: Education at a Glance-2020.

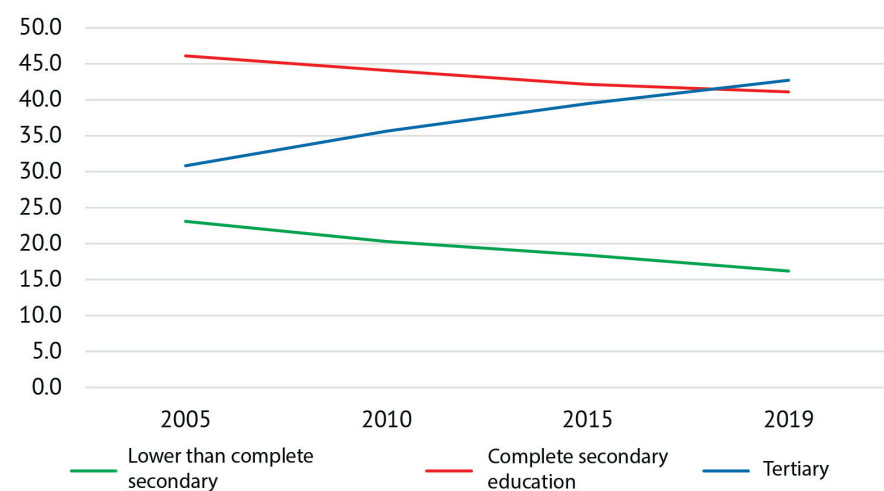


Fig. 3. Changes in the educational structure of the population aged 25–34 in OECD countries

Source: Estimates based on OECD data bank stats.oecd.org

4. Masters are the least likely to be unemployed

Modifying the education characteristics of the population and youth unemployment

It is natural to assume that youth unemployment is related to the unemployment rate of the population on the whole. Indeed, the unemployment rates of young people with tertiary education and those aged 25 and over correlate significantly, and this relationship has grown over the past 15 years from a correlation coefficient of 0.45 in 2005 to 0.9 by 2019. Further calculations take this relationship into account.

Over the past 15 years, the share of young people aged 25–34 in OECD and partner countries has risen by an average of 38%, while the unemployment rate for this group has risen by 26% (Fig. 4). At the same time, the unemployment rate has remained virtually unchanged since 2010, while the share of highly educated young people continued to rise.

It can be assumed that the labor market and education systems in the group of countries under consideration have linked up, and education became more relevant to the labor market in terms of structure and content compared to early 2000s.

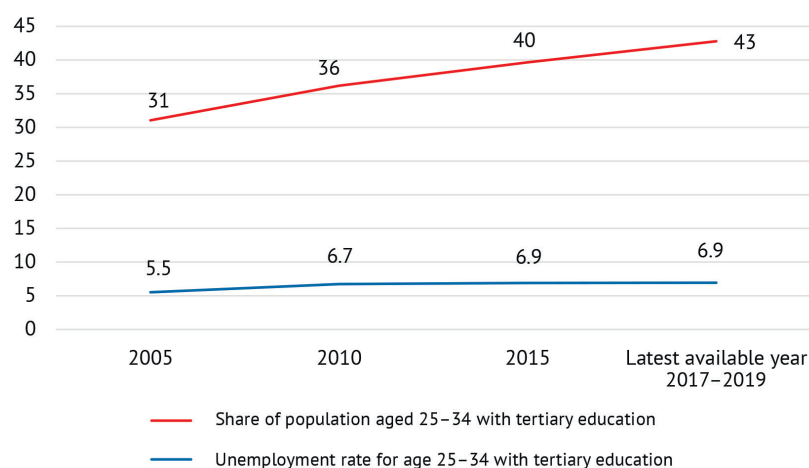


Fig. 4. Dynamics of youth unemployment with tertiary education

Source: Estimates based on OECD data bank stats.oecd.org

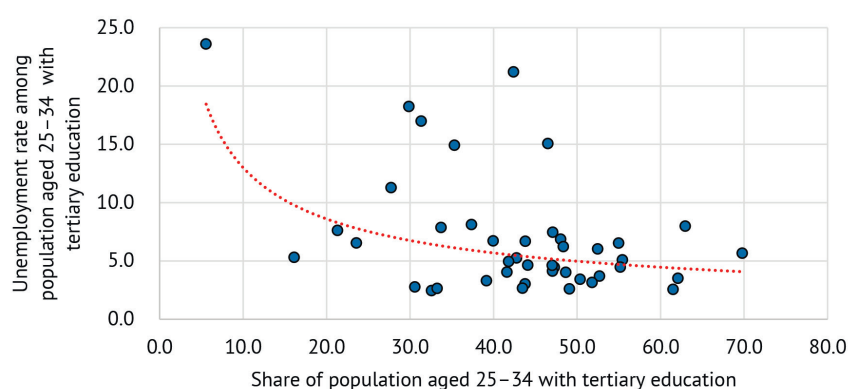


Fig. 5. Relationship between share of population with tertiary education and youth unemployment in OECD countries

Source: Estimates based on OECD data bank stats.oecd.org

This assumption is indirectly confirmed by the negative correlation between the share of population aged 25–34 with tertiary education and the unemployment rate for this group. *Fig. 5* shows that the higher the share of highly educated young people in a country, the lower their unemployment rate.

Let us take a closer look at youth unemployment for different levels of tertiary education. *Table 1* shows the unemployment dynamics of tertiary-educated youth in the group of countries under consideration.

Table 1

Dynamics of unemployment among youth with tertiary education by level of education, 2019 compared to 2005, %

Level of tertiary education programs	Unemployment rate	Share of population with tertiary education
Short tertiary education programs	151	81
Bachelor's program	101	103
Master's program	74	290

Source: Estimates based on OECD data bank stats.oecd.org

Table 1 clearly shows that short tertiary programs are the least relevant to economics and labor market demand and the most relevant to master's programs: the unemployment rate among young people with this level of education has fallen by more than 25%, while the share of young people with a master's degree has almost tripled. For holders of short tertiary diplomas the situation is the opposite: while the share of young people with this level of education has fallen by 20%, their unemployment rate has increased by 1.5 times.

Linking dynamics of youth education level and their economic activity

The economic activity of people aged 25–34 with tertiary education, as well as employment, increase with the level of education. However, while there is little difference between graduates of short tertiary programs and bachelors, holders of master's degrees are significantly more economically active than those with lower levels of education even in the crisis caused by the COVID-19 pandemic (*Table 2*).

Table 2

Share of economically inactive population aged 25–34 in developed countries by education levels, %

Type of tertiary education programs	2019	2020
Short tertiary education programs	12,7	13,4
Bachelor's program	12,3	12,8
Master's program	8,9	9,5

Source: Estimates based on OECD data bank stats.oecd.org

Fig. 6 shows dynamics of this indicator for developed countries, on average.

Fig. 6 shows that, firstly, the level of economic activity has varied differently over the last 15 years for holders of tertiary education degrees, secondly, the higher the level of education, the higher the economic activity, and thirdly, with the general declining trend in youth economic activity, a significant reduction occurred in 2020.

4. Masters are the least likely to be unemployed

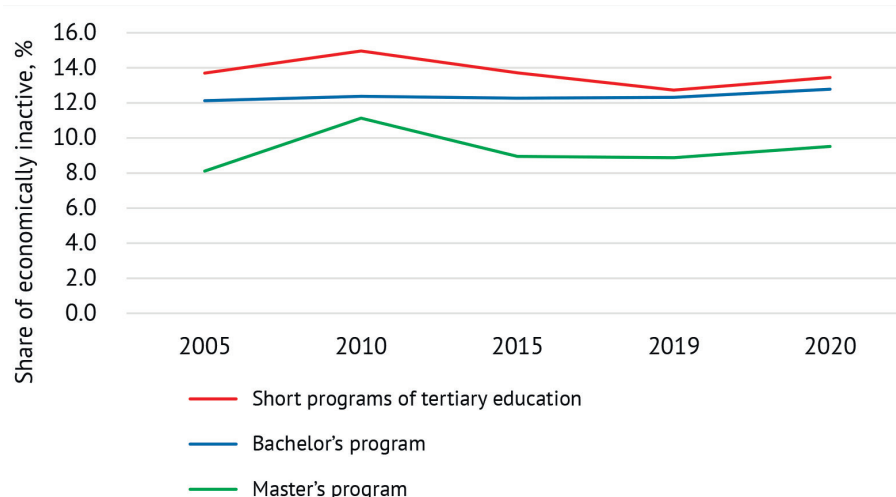


Fig. 6. Dynamics of youth economic inactivity by level of education

Source: Estimates based on OECD data bank stats.oecd.org

* * *

The unemployment among young people with tertiary education has been rising overall, but at a much slower pace than the share of the population in this age group with a bachelor's, master's or short tertiary degrees. Young masters' graduates were in a relatively better situation than holders of other tertiary degrees, even in the wake of crisis caused by the COVID-19 pandemic.

The dynamics of economic activity of young people with a tertiary education in the last 15 years was not as pronounced as the dynamics of unemployment, however, even here young masters show better employment rates and better dynamics of adaptation to the labor market.

The results of this study show that in terms of improving the labor market position of young people, education policy should focus primarily on increasing the enrolment of the population in master's degree programs or their equivalent (specialist program).

It is also important to expand the educational inclusion at the high school level by reducing admission to vocational organizations after the 9th grade. This will result in a delay to select professional and/or educational route and, consequently, to take a more informed decision. 