MONITORING OF RUSSIA'S ECONOMIC OUTLOOK:

TRENDS AND CHALLENGES OF SOCIO-ECONOMIC DEVELOPMENT

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1. G20 COUNTRIES TIGHTENED THEIR MONETARY POLICIES IN MAY, GLOBAL ECONOMIC OUTLOOK DOWNGRADED

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The UN and the European Commission have revised downward the global GDP growth estimate to 3.1–3.2% in 2022, a decrease compared with the IMF outlook released in April (3.6%). The economic growth outlooks for China and the US in 2022 were lowered to 4.2–4.6% and 2.4–2.9%, respectively. At the same time, the rate of inflation keeps growing and the monetary authorities of all G20 developed countries which held meetings in May took a decision to tighten their monetary policies. The US Federal Reserve declared that they were going to reduce the balance by $47.5 bn a month starting from June. The central banks of India, Brazil, Mexico and South Africa raised interest rates. At its extraordinary meeting in May, the Central Bank of Russia reduced the key rate by 3 p.p. to 11% on the back of ebbing of inflationary pressures because of sagging demand, appreciation of the exchange rate of the Russian ruble and a decline in inflation expectations.

Global economic forecasts

In May, the European Commission, the UN and S&P Global updated global economic outlooks.

1. The European Commission forecast. The date of publication: May 16, 2022.

In its updated forecast, the European Commission substantiates the slowdown of GDP growth rates in the eurozone in 2022–2023 (*Table 1*) by the

Table 1

Real GDP growth rates (% change relative to the previous year)

Country	Actual	Forecast of May 16, 2022	Deviation from forecast of November 11, 2021	Forecast of May 16, 2022	Deviation from forecast of November 11, 2021
	2021	2022	2022	2023	2023
USA	**5.7**	**2.9**	**-1.6**	**2.3**	**-0.1**
Eurozone	**5.4**	**2.7**	**-1.6**	**2.3**	**-0.1**
Germany	2.9	1.6	-3.0	2.4	+0.7
Spain	5.1	4.0	-1.5	3.4	-1.0
Italy	6.6	2.4	-1.9	1.9	-0.4
France	7.0	3.1	-0.7	1.8	-0.5
UK	7.4	3.4	-1.4	1.6	-0.1
Japan	1.7	1.9	-0.4	1.8	+0.7
China	**8.1**	**4.6**	**-0.7**	**5.0**	**-0.3**
Russia	**4.7**	**-10.4**	**-13.0**	**1.5**	**-0.7**
Turkey	11.0	2.0	-2.0	3.0	-1.0
World	**5.8**	**3.2**	**-1.3**	**3.5**	**0.0**

Source: European Commission Spring Forecast [1].

following factors: higher prices for energy commodities because of the military operation[1]; unfavorable weather conditions for renewable power generation; low reserves of natural gas in UGS facilities. In response to this challenge, the eurozone countries have developed the REPowerEU[2] strategy to reduce by two-thirds natural gas imports from Russia by the end of 2022 and secure complete energy independence from Russia by 2027. According to analysts, the eurozone countries' GDP growth rates will decline by 2 p.p. in 2022 on the back of appreciation of prices for energy commodities.

Analysts of the European Commission and S&P Global believe that a complementary factor affecting the eurozone's GDP growth rates is households' reduced solvency owing to price rises for agricultural products exported from Russia and Ukraine [2]. In its turn, the eurozone's corporate sector has encountered appreciation of prices for cargo transportation between Asia and Europe, delays in deliveries of intermediate and finished goods because of a closure of Black Sea ports and restrictions on air and land carriage via Russia [1].

The European Commission's report highlights a number of GDP slowdown factors which are specific to individual G20 developed countries: in the USA – it is a growing trade deficit on the back of appreciation of the US Dollar, slowdown of employment growth rates and the federal budget's current account deficit; in the UK – it is the private sector's shrinking revenues and fiscal policy tightening; in Japan – it is a depreciation of the Japanese yen and decrease in households' disposable incomes, as well as disruptions in supplies which affect exports. Also, the report specified individual factors specific to G20 developing countries: in China – it is tightening of coronavirus restrictions, the introduction of lockdowns in Shanghai and Shenzhen industrial provinces, a decline in exports amid growth in imports, a decrease in investments in the building industry which accounts for 50% of overall investments in capital assets, a slump in domestic tourism and retail trade, households' growing propensity to saving and a decrease in investments in infrastructure; in Russia – it is the introduction of further sanctions and restrictions on imports, acceleration of the rate of inflation and a decline in households' real incomes; in Turkey – it is a high rate of inflation and stagnation of consumer demand, but companies' relocation and a change in international transit routes from Russia to Turkey can facilitate Turkish GDP growth [1].

In 2023, China will be facing risks of geopolitical conflicts and the private sector's huge debt load. In Russia, investments in the private sector may decrease by 20% on the back of exit of international companies. The flight of human capital and a decline in international trade volumes may worsen further Russian economic outlooks [1].

By the European Commission's estimates, in 2022–2023 the eurozone's GDP growth will be underpinned by the following factors: Germany – it is government transfers to households, employment growth and a pickup in consumer demand in the services sector; France and Italy – it is growth in net exports and tourism,

1 Prices for Brent oil and coal appreciated by 148.5% and 444.7%, respectively, and those for gas, by 420.1% (German TTF futures) and 257.4% (US Henry Hub futures) late in April 2022 on January 2021.

2 REPowerEU is a plan of the EU countries for switching over to alternative energy sources until 2030. URL: https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal/repowereu-affordable-secure-and-sustainable-energy-europe_en

as well as government subsidies under the France Relance Plan[1] and Recovery and Resilience Facility[2].

The European Commission believes that risks to global GDP growth include an extended period of high prices on energy commodities; growth in international trade costs, upward adjustment of interest rates in different countries; depreciation of developed countries' currencies; defaults in the real-estate sector and outbreaks of coronavirus infection in China [1].

Table 2

Inflation (CPI) forecast (average annual, % change relative to the relevant period of the previous year)

Country	Actual	Forecast of May 16, 2022	Deviation from forecast of November 11, 2021	Forecast of May 16, 2022	Deviation from forecast of November 11, 2021
	2021	2022	2022	2023	2023
USA	**4.7**	**7.3**	**+4.0**	**3.1**	**+0.9**
Eurozone	**2.6**	**6.1**	**+3.9**	**2.7**	**+1.3**
Germany	3.2	6.5	+4.3	3.1	+1.4
Spain	3.0	6.3	+4.2	1.8	+1.1
Italy	1.9	5.9	+3.8	2.3	+0.9
France	2.1	4.9	+2.8	3.1	+1.7
UK	2.5	7.0	+3.8	3.6	+1.4
Japan	-0.2	1.6	+1.4	1.5	+1.1
China	**0.9**	**-**	**-**	**-**	**-**
Russia	**6.7**	**20.5**	**+15.7**	**10.0**	**+6.0**
Turkey	19.4	63.1	45.4	54.1	38.7

Source: European Commission Spring Forecast [1].

The European Commission's updated forecast points to the fact that the main factor contributing to inflation growth in G20 countries is appreciation of prices for energy commodities (*Table 2*). For example, a pickup in prices for German TTF natural gas futures (Title Transfer Facility) led to a five-fold increase in electricity prices (euro 100 per 1MW) in Q1 2022 on Q1 2021. By estimates of the European Commission, the contribution of a rise in prices for energy commodities to accelerating inflation is equal to 3 p.p. in 2022, while in 2023 it is to decrease to 1 p.p. [1].

2. The UN forecast. The date of publication: May 18, 2022.

The UN report says that factors slowing down US GDP growth rates (*Table 3*) include inflationary pressures, tightening of the FED monetary policy, strengthening of the US Dollar and worsening of the trade balance. By virtue of high dependance on imports of oil and natural gas from Russia (36.5% and 41.1% of the overall consumption of energy resources, respectively) the eurozone countries will face slowdown of GDP growth rates and acceleration of inflation in 2022 [3]. Among G20 developing countries, the UN believes that in 2022 China's GDP growth constraints include a decrease in demand for export goods, as well as the government policy of zero tolerance to coronavirus infection; in Russia it is financial and trade sanctions; in India: slow recovery of employment; in Mexico: slowdown of GDP growth rates in the US, its key partner-country [3].

1 France Relance is a plan for revival of France's economy after the coronavirus pandemic. The overall fund is at euro 100 bn. *Source:* The French Ministry of Foreign Affairs.
2 The Fund for Recovery of Italy's Economy. *Source:* The European Commission.

Table 3

Real GDP growth rates (% change relative to the previous year)

	Actual	Forecast of May 18, 2022	Deviation from forecast of January 13, 2022	Forecast of May 18, 2022	Deviation from forecast of January 13, 2022
	2021	2022	2022	2023	2023
USA	**5.7**	**2.6**	**-0.9**	**1.8**	**-0.6**
Eurozone	**5.4**	**2.7**	**-1.3**	**2.0**	**-0.2**
UK	7.5	3.2	-1.3	1.0	-1.0
Japan	1.7	2.7	-0.6	2.2	-0.5
China	**8.1**	**4.5**	**-0.7**	**5.2**	**-0.3**
Russia	**4.7**	**-10.6**	**-13.3**	**0.0**	**-2.3**
Brazil	4.6	0.5	0.0	2.2	+0.3
India	8.8	6.4	-0.3	6.0	-0.1
Mexico	5.6	2.2	-1.2	3.2	+0.5
South Africa	3.7	2.4	-0.2	2.5	-0.4
Developing countries	5.2	2.8	-0.9	2.1	-0.4
Africa	4.1	3.7	-0.3	3.8	+0.2
Latin America	6.6	2.1	-0.1	2.8	+0.3
South-East Asia	7.0	4.5	-0.5	5.0	-0.4
World	**5.8**	**3.1**	**-0.9**	**3.1**	**-0.4**

Source: The United Nations [3].

3. S&P Global forecasts. Date of publication: May 17, 2022.

The S&P Global updated forecast lowered economic outlooks for most G20 countries (*Table 4*), as well as pointed out that recession was 25—30% likely in the US in the next 12 months.

In 2022, economic growth projections were revised upward only for Brazil because it is justified by the country's prospects of increasing exports of natural resources to China. The reasons for downward revision of economic outlooks for developed countries, China and India overlap with factors specified in the reports prepared by the European Commission and the UN [2].

Table 4

Real GDP growth rates (% change relative to the previous year)

Country	Actual	Forecast of May 17, 2022	Deviation from forecast of March 28, 2022	Forecast of May 17, 2022	Deviation from forecast of March 28, 2022
	2021	2022	2022	2023	2023
USA	**5.8**	**2.4**	**-0.8**	**2.0**	**-0.1**
Eurozone	**5.2**	**2.7**	**-0.6**	**2.2**	**-0.4**
Germany	2.9	1.9	-1.0	2.5	-0.3
France	7.0	2.7	-0.5	1.8	-0.2
Italy	6.6	2.8	-0.3	2.0	-0.1
Spain	5.0	4.7	-1.4	3.3	-0.9
UK	7.3	3.3	-0.2	1.2	-1.1
Japan	1.7	2.3	-0.1	1.9	+0.2
China	**8.1**	**4.2**	**-0.7**	**5.3**	**+0.3**
Brazil	5.0	0.6	+0.2	1.6	-0.1
India	8.9	7.3	-0.5	6.5	+0.5
Mexico	5.0	1.7	-0.3	2.2	-0.2
South Africa	4.9	1.8	-0.1	1.6	-0.1

Source: S&P Global [2].

1. G20 Countries Tightened Their Monetary Policies in May

The S&P Global forecast calls high inflation over a protracted period of time a serious risk which may lead to further tightening of the monetary policy and stagnation (*Table 5*) [2]. S&P Global analysts are unanimous with the UN and the European Commission that forecasts for 2022–2023 may be lowered if the conflict in Ukraine escalates [1], developed countries tighten sweepingly their monetary policies, new outbreaks of coronavirus infection occur [2] and imports to the US grow on the back of appreciation of the US Dollar [3].

Table 5

Inflation (CPI) forecast (annual average, % change relative to the respective period of the previous year)

Country	Estimate	Forecast of May 17, 2022	Deviation from forecast of March 28, 2022	Forecast of May 17, 2022	Deviation from forecast of March 28, 2022
	2021	2022	2022	2023	2023
USA	**4.7**	**6.7**	**+1.1**	**2.6**	**+0.8**
Eurozone	**5.2**	**6.4**	**+1.5**	**3.0**	**+0.8**
Germany	2.9	6.4	+1.4	3.1	+0.7
Spain	5.0	7.0	+1.2	3.3	+0.9
Italy	6.6	6.0	+0.4	2.6	+0.8
France	7.0	5.1	+0.8	2.5	+0.3
UK	7.5	7.6	+1.3	3.6	+1.2
Japan	-0.2	1.8	0.0	1.4	0.0
China	**0.9**	**2.4**	**-0.4**	**2.5**	**-0.1**
Brazil	8.30	10.6	+1.7	4.9	+0.8
India	5.50	6.3	+0.9	4.8	+0.3
Mexico	5.70	7.4	+1.4	4.1	+0.6
South Africa	4.50	5.8	-0.1	4.4	-0.3

Source: S&P Global [2].

Economic policy's monetary and fiscal measures

Central banks of 13 G20 countries out of 15 countries targeting inflation held meetings on monetary policy issues from May 1 through June 1, 2022. The decisions on leaving interest rates unchanged the monetary authorities of developing countries (the People's Bank of China and the central banks of Indonesia and Turkey) (*Table 6*) substantiated by the need to maintain relevant conditions for sustainable economic growth amid prevailing geopolitical risks and economic uncertainties, that is, a sped-up appreciation of prices for energy commodities and food, imbalances between supply and demand and increased disruptions in supply chains [4], [5], [6].

All G20 developed countries' central banks which held meeting from May 1 through June 1 (the US Federal Reserve, central banks of Canada, the UK and South Korea and the Reserve Bank of Australia) made a decision on tightening their monetary policies [7], [8], [9], [5]. The Reserve Bank of Australia declared that they were not going to reinvest funds received from redemption of government bonds and sell securities bough during the pandemic. The Australian central bank's balance is expected to be reduced in 2023–2024 because by that time the Term Funding Facility (TFF) is planned to be over and banks have stopped returning the Central Bank's funds extended to them earlier under the TFF framework [10]. The US Federal Reserve has started to reduce assets on its balance from June 1, 2022. The Bank of Canada has continued quantitative tightening (a month before the regulator refused to buy government bonds and reinvest maturing assets) (*Table 7*) [11].

Table 6

Monetary policy in G20 countries

G20 countries	February	March	April	May 1–June	Inflation target	Current inflation April 2022, % YoY
Developed countries	Monetary policy interest rates, %					
USA	0.25	0.50	*0.50*	1.00	2.0	8.30
Eurozone	0.00	0.00	0.00	*0.00*	2.0	7.40
Australia	0.10	0.10	0.10	0.35	2.0–3.0	5.10*
UK	0.50	0.75	*0.75*	1.00	2.0	9.00
Canada	*0.25*	0.50	1.00	1.50	2.0 (+/-1.0)	6.80
South Korea	1.25	*1.25*	1.50	1.75	2.0	4.80
Japan	*-0.10*	-0.10	-0.10	*-0.10*	2.0	2.50
Developing countries	Monetary policy interest rates, %					
China	3.70	3.70	3.70	3.70	3.0	2.10
India	4.00	*4.00*	4.00	4.40	4.0 (+/- 2.0)	7.79
Brazil	10.75	11.75	*11.75*	12.75	3.75 (+/-1.5)	12.13
Russia	20.00	20.00	14.00	11.00	4.00	17.80
Argentina	Targets monetary base					58.00
Indonesia	3.50	3.47	3.50	3.50	3.0 (+/- 1.0)	3.47
Mexico	6.00	7.68	*6.50*	7.00	3.0 (+/- 1.0)	7.68
Saudi Arabia	Pegged to US Dollar					2.30
Turkey	14.00	69.97	14.00	14.00	5.0 (+/- 2.0)	69.97
South Africa	*4.00*	5.90	*4.25*	4.75	3.0-6.0	5.90

Note. * In Q1 because of quarterly frequency of data collection. 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.

In the period under review, among G20 developing countries the Bank of Brazil, the Bank of Mexico, the Reserve Bank of India and the Reserve Bank of South Africa raised interest rates [12], [6], [13]. At its extraordinary meeting on May 4, 2022, the Reserve Bank of India raised not only the direct REPO rate by 0.4 p.p. to 4.4%, but also mandatory reserve requirements to commercial banks by 0.5 p.p. to 4.5% [14].

Among central banks of all G20 countries targeting inflation, only the Central Bank of Russia made a decision at its extraordinary meeting on May 26 to ease its monetary policy by reducing the key rate straight by 3 p.p. to 11.0%. By estimates of the Central Bank of Russia, as of May 20, 2022 the annual inflation slowed down from 17.8% to 17.5%, that is, faster than the regulator predicted in April [15]. The Central Bank of Russia's measures taken in February-May facilitated the influx of funds to fixed-term deposits in Russian rubles, reduced households' inflation expectations and stabilized the Russian ruble/US Dollar exchange rate on the domestic market.

On May 23, 2022, the RF Ministry of Finance reported that the requirements on mandatory sale of foreign currency earnings were eased from 80% to 50% [16], while the Central Bank of Russia extended the period of sale of foreign currency earnings to 120 days [17]. As of May 1, 2022, the Russian ruble/US Dollar exchange rate was equal to Rb71.02 per $1, while as of May 31, 2022, to Rb63.1 per $1. The average Russian ruble/US Dollar exchange rate in May was 17% stronger than in April (Rb64.78 per $1 against Rb77.69[1] per $1) [18].

1 Average on the basis of daily values of the exchange rate.

Table 7

G20 countries' monetary policy measures

Country	Monetary policy rate, %		Inflation, % YoY		Summary	Source
	April	May – June 1	Target	Actual		
USA	0.50	1.00	2.00	8.30	The US Federal Reserve raised the interest rate on federal funds by 0.5 p.p. to 0.75–1.00% annually. From June 1, the regulator started to reduce assets on its balance: government bonds, government agencies' debt instruments and mortgage-backed debt securities.	[11]
Australia	0.10	0.35	2.0–3.0	5.10	The Reserve Bank of Australia raised the target interest rate (for the first time in 11 years) by 0.25 p.p. to 0.35% and the interest rate on foreign currency operations balances to 0.25%. Also, the regulator does not plan to reinvest funds received from redemption of government bonds and sell securities bought during the pandemic. The Central Bank expects its balance to be largely reduced by 2024 because the Term Funding Facility (TFF) is going to be over. Within the TFF framework, the Central Bank extends funds to Authorized Deposit-Taking Institutions (ADI) at a fixed rate for the term of three years. June 30, 2024 is the deadline for banks to return funds borrowed under TFF.	[10]
UK	0.75	0.10	2.00	9.00	The Bank of England raised the key rate by 0.25 p.p. to 1.00% (maximum since 2009).	[7]
Canada	1.0	1.5	2.0 (+/-1.0)	6.80	The Bank of Canada increased the key rate by 0.5 p.p. to 1.5% annually, the bank rate by 0.25 p.p. to 1.5% and the rate on deposits by 0.5 p.p. to 1.5%. The regulator still pursues the quantitative tightening policy (QT).	[21]
South Korea	1.5	1.75	2.00	4.80	The Bank of Korea lowered the inflation forecast (from 3.1% to 4.5%) and GDP forecast (from 3% to 2.7%) and increased a seven-day REPO rate by 0.25 p.p. to 1.75%.	[8], [22]
China	3.70	3.70	3.00	2.10	The People's Bank of China left unchanged the base medium-term lending interest rate for prime borrowers (LPR) for the terms of 1 year and 5 years at the level of 3.7% and 4.6%, respectively.	[4]
India	4.00	4.40	4.0 (+/- 2.0)	7.79	At its extraordinary meeting on May 4, the Reserve Bank of India raised the REPO rate by 0.4 p.p. to 4.4% and mandatory reserve requirements to commercial banks by 0.5 p.p. to 4.5%. The regulator adjusted the 2022 inflation forecast from 4.5% to 5.7%.	[14]
Brazil	11.75	12.75	2.0-6.0	12.13	The Bank of Brazil increased the key rate by 1 p.p. to 12.75% annually.	[9]
Russia	14.00	11.00	4.00	17.80	At its extraordinary meeting, the Central Bank of Russia cut the key rate by 3 p.p. to 11% annually because sagging composite demand, appreciation of the Russian ruble exchange rate and a decline in households' and businesses' inflation expectations reduced inflationary pressures.	[15]
Indonesia	3.50	3.50	3.0 (+/- 1.0)	3.47	The Bank of Indonesia left unchanged the seven-day reverse REPO rate at the level of 3.50%, the rate on deposits (DF) at 2.75% and the medium-term lending rate (LF) at 4.25% annually.	[5]
Mexico	6.50	7.00	3.0 (+/- 1.0)	7.68	The Bank of Mexico raised the key rate by 0.5 p.p. to 7% annually. The regulator adjusted the inflation forecast for the end of 2022 to 6.4% from 5.5%.	[12]
Turkey	14.00	14.00	3.0-7.0	69.97	The Bank of Turkey left the key rate unchanged at the level of 14% annually.	[6]
South Africa	4.25	4.75	3.0-6.0	5.90	The Reserve Bank of South Africa raised the interest rate by 0.5 p.p. to 4.75% annually.	[13]

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

The RF Government continued to take measures to support households and business amid a complicated economic and geopolitical situation. It is noteworthy that the RF Government spent over Rb37 bn out of the reserve fund on financing favorable credit facilities for buying priority import goods (pharmaceuticals, vehicles, building materials, electronics and other); Rb153 bn on favorable credit facilities for agricultural producers; Rb150 bn on building schools; Rb49.6 bn on subsidizing preferential mortgage programs [19].

On June 1, 2022 the RF Government carried out a 10% indexation of pensions, the minimum wage and the minimum subsistence level. As a result, insurance payments to non-working pensioners, the minimum wage and the minimum subsistence level are equal to about Rb19,400 per month, Rb15,300 and Rb13,900, respectively. Overall, about Rb510 bn are to be spent on these purposes in 2022 [20].

Also, the RF Government expanded the list of equipment which imports are exempt from VAT (equipment for manufacturing large-size reinforced concrete units for housing development, medium density fiberboard slabs (MDF) and other). From June 1, 2022, the RF Government introduced tariff quotas on exports of scraps and waste of ferrous metals: for export volumes below 540,000 tons a duty of euro 100 per ton is charged, but if exceeded – euro 290 per ton [19].

Thus, in May the global economic situation was marked by high uncertainties owing to a complicated geopolitical situation, accelerated inflation and monetary policy tightening by central banks of all developed countries and most developing countries.

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2. FEDERAL BUDGET PERFORMANCE FOR Q1 2022

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In the first three months of 2022, federal budget revenues increased by 4.2 p.p. of GDP compared to the same period of the previous year due to oil and gas revenues, reaching 31.2% of the projected annual volume. A moderate increase in federal budget expenditures by 1.5 p.p. of GDP in the first 3months of the current year relative to the 3 months of 2021 and the budget surplus of Rb 1140.5bn were additional factors of budgetary sustainability. Significant management solutions amid sanctions imposed on the country were the early repayment of the foreign debt, as well as the suspension of new borrowing.

The federal budget revenues in January-March 2022 amounted to Rb 7169.5bn, or 23.8% of GDP (*Table 1*) with cash execution at 28.7% of the forecasted annual amounts. Oil and gas revenues for 3 months of this year have increased by Rb 1695bn or by 5 p.p. of GDP against Q1 2021 at an average oil price at $88.9 per barrel against $59.8 per barrel in January-March 2021. Additional oil and gas revenues in Q1 2022 amounted to Rb 1399.5bn compared to Rb 240.2bn in Q1 2021. With the oil production forecast[1] at 490 mn tons for 2022 and oil prices at $80.1/barrel, oil and gas revenues may be expected to amount around Rb 11 trillion.

Non-oil and gas revenues grew by Rb 171.5bn or 0.4 p.p. of the GDP in Q1 this year versus January-March 2021; domestic and import VAT was up by Rb298.5bn and Rb 189.9bn or 0.5 and 0.3 p.p. of GDP respectively; import customs duties grew by Rb 29.1bn. However, the total volume of non-oil and gas revenues for January-March 2022 increased in nominal terms by only Rb 174.6bn and declined as a share of GDP by 0.8 p.p. against the same period of 2021 due to a 1.6 p.p. GDP drop in domestic excise revenues or by Rb 486.2bn. According to the scenario conditions of the Ministry of Economic Development,[2] non-oil and gas revenues will amount to about Rb 8.4 trillion at the 2022 year-end.

The federal budget expenditures for 3 months of 2022 compared to January-March of the previous year have increased by Rb 1015.7bn or by 1.5 p.p. of the GDP (*Table 2*); cash execution for Q1 2021 and 2022 amounted to 22.3% and 25.4% of the approved annual amount, respectively. Rhythmic execution of the federal budget in the first 3 months of the current year has been noted in most sections with the minimum value in the section "National Economy" (14.8%)

1 Ref: "Key parameters reflecting the forecast scenario conditions of the RF socio-economic development for 2023 and for the planning period of 2024 and 2025." Ministry of Economic Development of the Russian Federation, 18 May 2022.

2 Ref: "Key parameters reflecting the forecast scenario conditions of the RF socio-economic development for 2023 and for the planning period of 2024 and 2025." Ministry of Economic Development of the Russian Federation, 18 May 2022.

2. Federal budget performance for Q1 2022

Table 1

Federal budget key parameters for Q1 2021 and 2022

	January-March 2021			January-March 2022			Changes in 2022 vs 2021	
	Billions of rubles	% GDP	Cash execution, %	Billions of rubles	% GDP	Cash execution, %	Billions of rubles	p.p. GDP
Revenues, including:	5299.9	19.6	28.2	7169.5	23.8	28.7	1869.6	4.2
- Oil and gas revenues, including:	1704.4	6.3	27.2	3399.4	11.3	31.2	1695.0	5.0
- MET	1331.0	4.9	21.8	2597.7	8.6	33.4	1266.7	3.7
- Export duties	373.4	1.4	29.9	801.7	2.7	48.3	428.3	1.3
- Non-oil and gas revenues, including:	3595.5	13.3	28.8	3770.1	12.5	27.1	174.6	-0.8
- Corporate income tax	263.5	1.0	22.0	435.0	1.4	30.1	171.5	0.4
- VAT for goods sold in Russia	1419.9	5.2	31.7	1718.4	5.7	32.6	298.5	0.5
- VAT for goods imported to Russia	785.0	2.9	25.3	974.9	3.2	26.5	189.9	0.3
-Excise on goods sold in Russia*	111.6	0.4	22.8	-374.6	-1.2	26.3	-486.2	-1.6
- Import customs duties	190.1	0.7	26.5	219.2	0.7	26.5	29.1	0.0
- Other revenues	825,4	3,1	37,8	797,2	2,6	22,5	-28,2	-0,4
Expenditure, including:	5013.3	18.5	22.3	6029.0	20.0	25.4	1015.7	1.5
- Interest	238.5	0.9	19.8	348.8	1.1	24.1	110.3	0.2
- Non-interest	4774.8	17.6	23.9	5680.2	18.9	25.5	905.4	1.3
Budget surplus (deficit)	286,6	1.0		1140.5	3.8		853.9	2.8
Non-oil and gas deficit	-1417.8	-5.2		-2258.9	-7.5		-841.1	-2.3
GDP (in current prices), billions of rubles	27091			30100**				

* In 2021–2022 including the reverse excise tax on petroleum raw materials.
** Own estimates.

Source: Ministry of Finance of Russia, Federal Treasury, Rosstat, own estimates.

and the maximum in “Housing and Utilities” (47.7%), which is associated with accelerated utilization of funds under “Housing and Utilities” (57.2%).

There was a reduction of (-) 0.3 p.p. of GDP in expenditures only in the section “Social Policy” for January-March 2022 compared to the same period of 2021 and growth in “Healthcare” – by 0.7 p.p. of GDP, “National Defense” and “National Economy” – by 0.3 p.p. of GDP, “Nationwide Issues” and “Public Debt Servicing” – by 0.2 p.p. of GDP, “Education” – by 0,1 p.p. of GDP.

At 3 months-end of 2022, the federal budget was executed with a surplus of Rb 1140.5bn. In terms of cash flow, accounted as sources to cover the budget deficit, the Q1 2022 was marked by a significant slowdown in borrowing in the domestic and foreign markets by Rb 116.4bn and Rb 2.7bn respectively, which constitutes 3.6% and 0.9% of the approved annual amounts. In fact, new FLB placements were interrupted after February 9, 2022.[1] The amount of Rb143.8bn or 75.4% of the approved annual volumes was allocated to settle an external debt. According to the RF Ministry of Finance,[2] on March 31, 2022, 72.4% of the “Russia 2022” bonds has been bought back in advance from Russian investors for rubles, resulting in the reduction of payment from $2045.0 mn to $564.8 mn already in April.

1 URL: https://minfin.gov.ru/ru/perfomance/public_debt/internal/operations/ofz/auction/
2 URL: https://minfin.gov.ru/ru/press-center/?id_4=37866-kommentarii_minfina_na_publikatsiyu_cnn_o_defolte_rossii

Table 2

Federal budget expenditures for Q1 2021 and 2022

	January-March 2021			January-March 2022			Changes in 2022 vs 2021	
	Billions of rubles	% GDP	Cash execution, %	Billions of rubles	% GDP	Cash execution, %	Billions of rubles	p.p. GDP
Total expenditures, including:	5013.3	18.5	22.3	6029.0	20.0	25.4	1015.7	1.5
Nationwide Issues	354.6	1.3	17.5	437.7	1.5	24.,1	83.1	0.2
National Defence	903.6	3.3	28.0	1053.9	3.6	28.7	150.3	0.3
National Security and Law Enforcement	467.3	1.7	19.3	501.6	1.7	18.1	34.3	0.0
National Economy	409.7	1.5	12.1	532.0	1.8	14.8	122.3	0.3
Housing and Utilities	183.9	0.7	46.4	223.2	0.7	47.7	39.3	0.0
Environmental Protection	102,0	0,4	30,2	134,6	0,4	27,7	32,6	0,0
Education	234.9	0.9	20.8	286.7	1.0	22.1	51.8	0.1
Healthcare	237.2	0.9	19.4	477.5	1.6	34.7	240.3	0.7
Social Policy	1614.3	6.0	28.2	1719.1	5.7	29.2	104.8	-0,3
Public Debt Servicing	238.5	0.9	19.8	348.8	1.1	24.1	110.3	0.2
Intergovernmental Fiscal Transfers	222.0	0.9	20.6	234.7	0.9	22.6	12.7	0.0
Other expenditures	45.3	0.0	13.3	79.2	0.0	17.3	33.9	0.0

Source: Federal Treasury, own estimates.

Thus, amid the projected decline of non-oil and gas revenues and growing expenditures, a budget deficit of up to 5% of GDP should be expected. In a situation where new borrowing has been suspended, growth in federal budget balances in January-March 2022 by Rb3.7 trillion becomes a factor contributing to budget sustainability.

3. RETAIL LENDING IN JANUARY-APRIL 2022

Sergey Zubov, Candidate of Economic Sciences, Docent, Senior Researcher, Structural Studies Department, IAES RANEPA

The changing macroeconomic satiation resulting from the introduction of anti-Russian sanctions had a restraining effect on retail lending. The retail lending segment saw a slowdown in lending activity, primarily with regard to unsecured loans, while mortgages were more resilient thanks to the government preferential lending programs with their attractive interest rates. The government measures helped stabilize the situation on the consumer loan market and translated into partially restored lending volumes. However, in face of inflation and declining real personal income, the risk of an overdue debt growth remains high.

As of May 1, 2022, the total volume of retail bank loans stood at Rb25.5 trillion. Over the first four months of this year, the volume of retail lending increased by Rb458 bn, or 1.8%, which is significantly below its last year's growth index (Rb1.685 bn, or 8.4%).

In January, the rate of growth in the retail loan portfolio, which had started in autumn 2021 in response to the Bank of Russia's measures that had been introduced earlier (raised macroprudential requirements for unsecured consumer loans) and the increasing interest rates, continued to decline. In February, the total retail lending volume demonstrated a more robust growth, especially over the last few days of the month, the reason being the increased demand for imported goods (primarily household appliances and automobiles) in response to the ruble's sharp depreciation, as well as the withdrawal of foreign companies from Russia's domestic market. Another factor was the increased demand for mortgages demonstrated by potential retail borrowers, who began to feverishly invest their savings in real estate after the launch of Russia's special operation in Ukraine on February 24.

As the geopolitical crisis unfolded, the total consumer lending volume fell sharply in March, being pushed down by the shrinking demand for bank loans in response to the rising interest rates. The conditions for issuing loans became more difficult because of the increasing debt burden caused by a decline in disposable personal income in the context of accelerating inflation and the resulting uncertain market prospects. However, different market sectors were demonstrating multidirectional trends: mortgage loans were on the rise alongside shrinking retail loans and car loans.

April saw a reduction in the retail loan portfolio in response to a sharp decline in mortgage application approvals, while there was a sevenfold shrinkage in the mortgage loan segment (because the loans were no longer issued at the previously approved interest rates), as well as a twofold shrinkage in the preferential mortgage segment. This process affected mortgage loan programs, where the interest rate was increased from 7% to 12%, and family mortgage

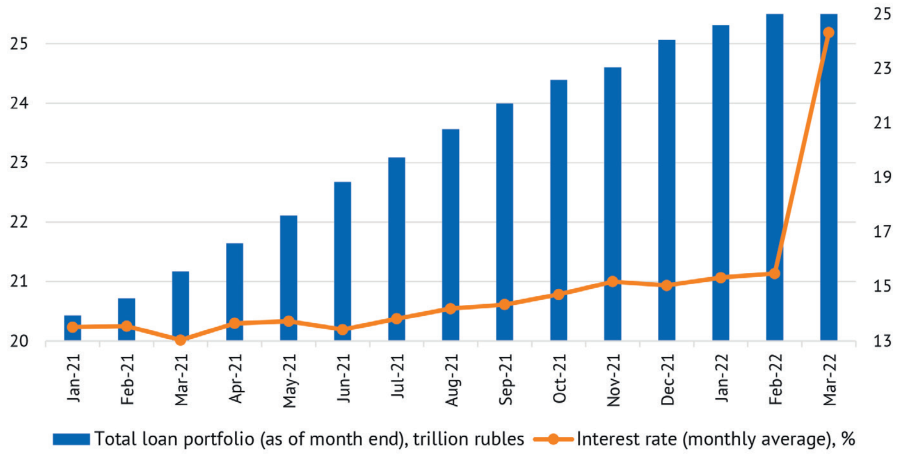

Fig. 1. The volume of retail loans (including acquired rights of claim) and the interest rates on up-to-one-year retail bank loans, including demand loans

Source: Bank of Russia Statistical Bulletin, No. 1 and No. 5, 2022.

programs, where the interest rate remained at the comfortable level of 6%. However, this decline was relative to the rush demand observed in March. From April 30, the interest rate for the preferential mortgage program was reduced from 12% to 9%, while the maximum loan amount was increased, and so, over May and June, the demand for loans issued under the preferential program slightly rose.

Retail lending continued to decline, primarily due to a shrinkage in unsecured consumer loans.

The departure of non-residents coupled with an increasing uncertainty had pushed up the Russian market volatility and interest rates even before the introduction of sanctions. In late February and early March, the banking sector had to cope with an active withdrawal of deposits (denominated both in rubles and in foreign currency). Under these conditions, the Bank of Russia temporarily raised the key rate to 20%, which helped in easing the inflationary pressure and preventing a bank run, thus stabilizing the liquidity situation in the banking sector. These measures made it possible to play down inflation expectations and move on to a gradual reduction in the key rate.

In order to stimulate lending, the RF Government and the Bank of Russia modified their existing programs and launched some new preferential lending programs (mortgage loans, loans for SMEs and backbone organizations), as well as implemented regulatory measures designed to support the financial sector (dissolving the accumulated macroprudential capital buffer by Rb0.9 trillion and reducing the debt service-to-income (DSTI) ratio for new loans; and easing the requirements for bank reserves under debt restructuring programs).

Credit risks soared in response to the crisis triggered by the sanctions. The share of loans restructured by banks now amounts to about 6% of the corporate loan portfolio, which is largely due to the restructuring of loans at floating rates. In the retail segment, 0.6% of debt has been restructured so far, but the demand for loan restructuring in H2 may be pushed up by rising unemployment.

From April 1, the RF Government introduced a moratorium on initiating bankruptcy procedures at the request of creditors. The moratorium will last over the next six months, until October 1, 2022. It applies to individuals, individual entrepreneurs, and all organizations, with the exception of real estate developers who have fallen in debt (if the relevant apartment buildings and other real estate complexes are already entered on the unified register of problematic objects (ERPO)). The purpose of the moratorium is to enable the debtors to cope with their current problems, find some new income sources, and improve their financial situation without closing their company or business or laying off their employees.[1]

Russia's top 5 banks by capital (Sberbank, VTB, and Alfa Bank) insist that during the moratorium on bankruptcy, the enforced collection of debts that arose prior to that period should be continued, and the penalties and fines for non-fulfilment of obligations by the relevant debtors should still be charged. Besides, they suggest that a mechanism for creditors to deprive the debtor of the moratorium protection in a court procedure should be created. Banks have been arguing against a universal moratorium: in their opinion, this may result in a suspension of enforcement proceedings, while unscrupulous debtors will be able to delay the debt recovery process. Banks estimated the total potential losses only from the restrictive measures applied in 2022 to individuals to amount to Rb31 bn (Sberbank, about Rb20 bn; VTB, Rb7 bn; and Alfa Bank, Rb4 bn.[2]

In its turn, the RF Central Bank generally supports the initiative of banks, in particular with regard to the issues of waiving the moratorium on bankruptcy for individuals and creating a mechanism for creditors to deprive their debtors of moratorium protection in a court procedure.

According to the Bank of Russia, the purpose of the moratorium is to safeguard the property of enterprises and provide them with opportunities for restructuring their business processes, so the moratorium should not apply to individuals, because in the context of the current economic satiation they have already been protected by a number of social support measures. The RF Central Bank believes that a more effective way to frustrate potential abuses on the part of debtors would be to handle such situations in the framework of the insolvency law.

Overall, it can be said that the period of extremely high interest rates ended rather quickly, and this was facilitated by the reduction in the key rate. The interest rate corridors for consumer loans will remain quite wide, depending on borrowers' qualities and the additional services provided to them. In addition to the individual credit policy characteristics of each bank, these will be determined by differences in loan structure, average debt maturity, and the cost of funds for credit institutions. In early May, due to the improved lending conditions, the number of applications for consumer loans increased significantly. In the near future, one should expect a further reduction in the key rate; and, provided that there are no new shocks, towards the end of Q3, the volume of bank retail loans will fully recover.

1 URL: http://government.ru/docs/45003/
2 URL: https://www.interfax.ru/business/840277

4. REGIONAL BUDGET OUTLOOKS FOR 2020 GOT BETTER, BUT ARE STILL NEGATIVE

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Amid uncertainties, consensus forecasts based on leading experts' opinions in this field are a feasible option of short-term projecting Russia's consolidated regional budgets.[1] *The government measures aimed at stabilizing the financial situation changed considerably for the better experts' expectations in respect of regional budgets in May relative to March, but the overall outlook remains negative. Though expectations increased as regards the momentum of tax and non-tax revenues and public debt volumes and remained unchanged as regards expenditures, experts made a cautious forecast of growth in inter-budget transfers. Experts predict a more complicated situation in regions with a high concentration of foreign business, including automaking and metallurgy, as well as in metropolitan agglomerations.*

Amid remaining uncertainties, experts' projections vary considerably. It concerns particularly estimates of regional budget revenues because of uncertainties about inflation expectations. Notably, the divergence of experts' expectations has only increased since March 2022. Based on results for May, the amplitude of the revenues growth rates projections was equal to 37% (from -13% to +24%), with the March survey pointing to a 30% divergence of opinions. It is noteworthy that the share of experts expecting nominal revenues growth increased considerably: in March it was equal to 50%, while in May, to two-thirds of the surveyed. Nearly all experts were unanimous that nominal expenditures would not decrease with variability in growth forecasts ranging from -5% to +30%.

Forecasts' median values point to the fact (*Fig. 1*) that experts have largely adjusted upwards their projections. Instead of expectations of a 5% decrease in revenues, the surveyed experts believed that revenues were likely to remain at the 2021 level, while expenditures were to grow faster (by 7% or Rb1244 bn to Rb18.1 trillion).

The forecast of regional budget deficit is still negative (*Fig. 2*). Deficit growth to Rb505 bn or up to 3% of the volume of the 2021 budget expenditures is expected.

Projections vary by revenue sources (*Fig. 3*). According to experts, the situation will be made worse particularly on the back of a reduction in corporate profit tax revenues (a decrease of Rb529 bn or -12% relative to 2021). This is the only

1 This forecast was prepared on the basis of a survey of 13 experts of the RANEPA, the Accounts Chamber of the Russian Federation, the Central Office of the State Duma of the Russian Federation, the Financial Research Institute of the Ministry of Finance of the Russian Federation, the "Center for Strategic Research" Fund, the Ministry of the Development of the Russian Far East and Arctic, the Russian Academy of Sciences, the ICSER Leontief Centre and the Institute for Public Finance Reform. The survey was carried out on May 16–20, 2022. The previous one was carried out on March 18–20, 2022.

4. Regional Budget Outlooks for 2020 Got Better, but are Still Negative

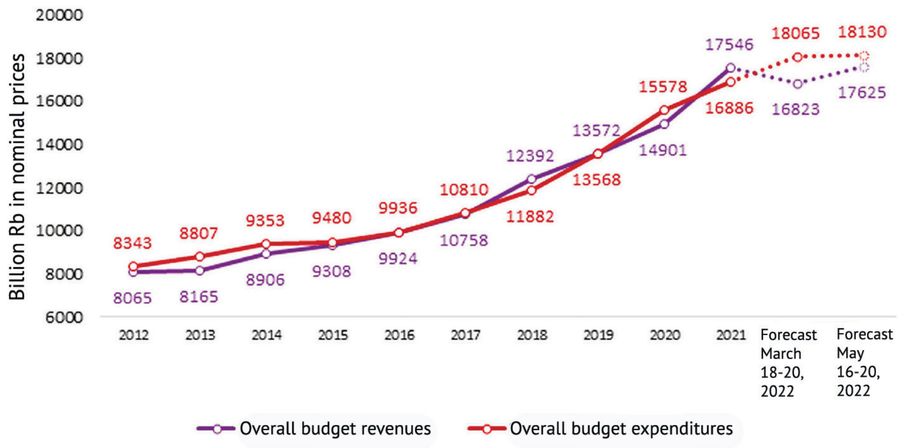

Fig. 1. Russian regions' consolidated budget revenues and expenditures, billion rubles

Source: actual values are based on the data of the Federal Treasury, projected ones – on a survey of experts.

item in respect of which the surveyed experts did not adjust their predictions. As regards the personal income tax, the forecast was largely revised upward. The median forecast saw growth of Rb207 bn (+4%) mostly owing to a stable labor market situation. A decrease in total tax revenues is expected to be equal to the mere Rb9 bn (-1%, though as far back as March the expectations were at the level of -13%). Also, the forecast of property tax revenues was revised upwards: instead of a decrease of Rb72 bn (March 2022 forecast), experts expect to see an increase of Rb55 bn (+10%).

Many experts believe that non-repayable receipts are expected to increase, but not substantially (an increase of 10% on average by all the surveyed or nearly Rb386 bn). The surveyed experts note that the role of credit instruments of support to regional budgets has increased and the federal authorities'

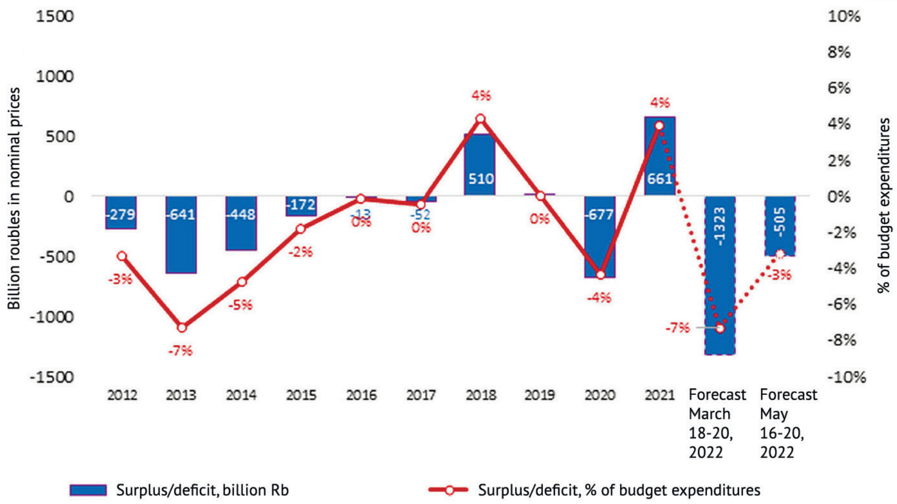

Fig. 2. Surplus/deficit of Russian regions' consolidated budgets

Source: actual values are based on the data of the Federal Treasury, projected ones – on a survey of experts.

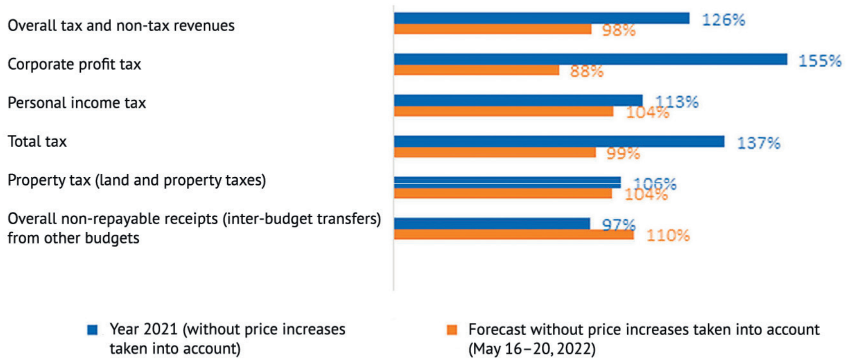

Fig. 3. Growth rates of the main consolidated budgets revenues of the subjects of the Russian Federation, % change on the previous year

Source: actual values are based on the data of the Federal Treasury, projected ones – on a survey of experts.

activity to provide additional transfers to regions has not been very high so far. Overall, experts expect subsidies and other inter-budget transfers to growth and subventions to decline.

Experts are not unanimous on any major income source. So, there were the following spreads in projection values: profit tax (74%), total tax (53%), personal income tax (38%), property tax (21%) and inter-budget transfers (38%).

If the rate of inflation is taken into account (the expected high indicators of the consumer price index), an actual decline in revenues may amount to 18% on the previous year, while that in expenditures, to 12% (*Fig. 4*).

Experts note that the fiscal situation is getting worse in most Russian regions. Regions with advanced manufacturing industry (particularly those specializing on automaking) and a substantial share of foreign capital in the economy (the Kaluga Region, the Kaliningrad Region, the Leningrad Region, the Samara Region and the Moscow Region); major cities (Moscow and St. Petersburg); metallurgical regions which may be affected apart from restrictions on exports to unfriendly countries also by the sanctions pressure on owners of major enterprises (the Lipetsk Region) are going to face more new challenges. All surveyed experts expect worsening of the situation in the Kaluga Region, the two-thirds of experts predict downturns in the Kaliningrad Region and the Leningrad Region, while a third of experts project adverse changes in budgets of the Moscow, the Belgorod Region and the Lipetsk Region.

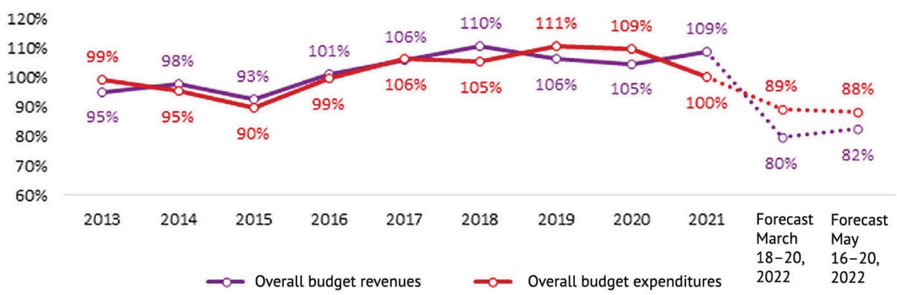

Fig. 4. Growth rates of Russian regions' consolidated budgets revenues and expenditures with price changes taken into account, % change on the previous year

Source: own calculations based on the data of the Federal Treasury, Rosstat, the Central Bank of Russia and a survey of experts.

4. Regional Budget Outlooks for 2020 Got Better, but are Still Negative

Table 1

The consensus forecast of the main parameters of consolidated budgets of the subjects of the Russian Federation in 2022. Survey outputs as of May 16–20, 2022

Revenues and expenditures items	Actual, billion Rb			2022 forecast, median value of experts' estimates (shown in brackets are the survey outputs in March 2022)			
	2019	2020	2021	Forecast, billion Rb	Increase on 2021, billion Rb	Increase on 2021, %	Increase on 2021 (with adjustment by the projected CPI*), %
Overall budget revenues	**13572**	**14901**	**17546**	**17625** (16742)	**79** (-804)	**0** (-5)	**-18** (-20)
Overall tax and non-tax revenues	10993	10798	13652	13326 (12514)	-325 (-1138)	-2 (-8)	-20 (-24)
Including:							
Corporate profit tax	3358	2927	4529	4000 (4000)	-529 (-529)	-12 (-12)	-28 (-26)
Personal income tax	3956	4253	4793	5000 (4554)	207 (-240)	4 (-5)	-14 (-21)
Overall non-repayable receipts (inter-budget transfers) from other budgets	2453	3776	3676	4044 (4779)	368 (1103)	10 (30)	-10 (8)
Overall budget expenditures	**13568**	**15578**	**16886**	**18130** (18065)	**1244** (1180)	**7** (7)	**-12** (-11)
Public debt of subjects of the Russian Federation (at year-end)	**2113**	**2496**	**2475**	**2700** (2800)	**226** (326)	**9** (13)	**-11** (-6)
Result (surplus/deficit)	**5**	**-677**	**661**	**-505** (-1323)	**-1166** (-1984)	**-176** (-300)	**-163** (-267)

* Adjustment by the consumer price index in accordance with the RF Central Bank's macroeconomic forecast as of April 2022: 22.0%.

Source: compiled by the authors according to the survey outputs.

Almost one-third of experts do not see regions where the situation could improve at year-end. However, with the current favorable price environment taken into account the rest of experts assess positively the prospects of a budgetary situation in regions specializing on production of oil and gas, that is, the Yamal-Nenets Autonomous Area, the Khanty-Mansiisk Autonomous Area, the Tyumen Region, as well as regions oriented on Eastern Asia markets (the Republic of Sakha (Yakutia), the Khabarovsk Territory, the Kemerovo Region and other).

5. SOCIOLOGY AND STATISTICS SHOW NO NEGATIVE TRENDS IN LABOR MIGRATION

Julia Florinskaya, Candidate of Geographical Sciences, Leading Researcher, Department of Demography, Labor Market and Migration Studies, INSAP, RANEPA

In the context of negative economic development, it is reasonable to expect a reduction in labor migration into Russia. At the same time, there exist some concerns about a possible increase in competition in the labor market between native and foreign workers, and it has been suggested that the government should adopt a targeted policy to replace foreign workers with Russians. So far, an analysis of statistical and sociological data has not revealed any serious changes in the labor migration market in the Russian Federation.[1]

Foreign citizens in Russia's territory

In the pre-pandemic year 2019, the number of foreign citizens staying simultaneously in RF territory ranged from 9.6 mn to 11.2 mn. In 2020 when, after the onset of the pandemic, state borders were completely closed for entry or exit, the number of foreigners in Russia declined significantly, towards the year's end plunging to 7.1 mn. In 2021, when the previously imposed travel restrictions were not completely lifted, the number of foreigners in Russia remained low, fluctuating between 5.5 mn and 6.9 mn; at the beginning of 2022, their number stayed at approximately the same level *(Fig. 1)*. As of May 1, 2022, there were 5.99 mn foreigners in Russia (vs 5.66 mn as of May 1, 2021), most of them having arrived as labor migrants or for private purposes. Compared to the pre-pandemic year 2019, tourist trips decreased by 80%; trips for private purposes, by 60%; and commercial trips, by half.

The share of citizens of the member states of the CIS in the total number of foreigners staying in Russia has hit its all-time record high of 91% (vs 86% in 2019). Most of them are citizens of the Central Asian republics and Ukraine, and the number of Ukrainian citizens is already noticeably below[2] that of citizens of Kyrgyzstan (a year ago the ratio was reversed) (*Table 1*).

Compared to pre-pandemic data (as of May 1, 2019), the deepest decline is demonstrated by the number of foreigners from Moldova (by 76%), Ukraine (by 65%) and Azerbaijan (by 66%); the numbers of those from Kyrgyzstan and

1 The study is based on data released by the Main Directorate for Migration of the RF Ministry of Internal Affairs and the Border Service of the Federal Security Service (FSB Border Service), and the results of a pilot survey of labor migrants conducted by the INSAP RANEPA (March 23–25, 2022) at the Sakharovo Multifunctional Migration Center.

2 Most of these statistics do not include the hundreds of thousands of refugees from Ukraine, because an overwhelming majority of them do not apply for an official refugee status (as of May 1, there were only 31,100 people in Russia with temporary asylum status; as of February 1, 2022, their number was 10,200) and do not obtain the migration registration. According to statistics released by the RF Ministry of Internal Affairs, between March 1 and May 1, the number of Ukrainian citizens who underwent the migration registration increased by only 86,000.

5. Sociology and statistics show no negative trends in labor migration

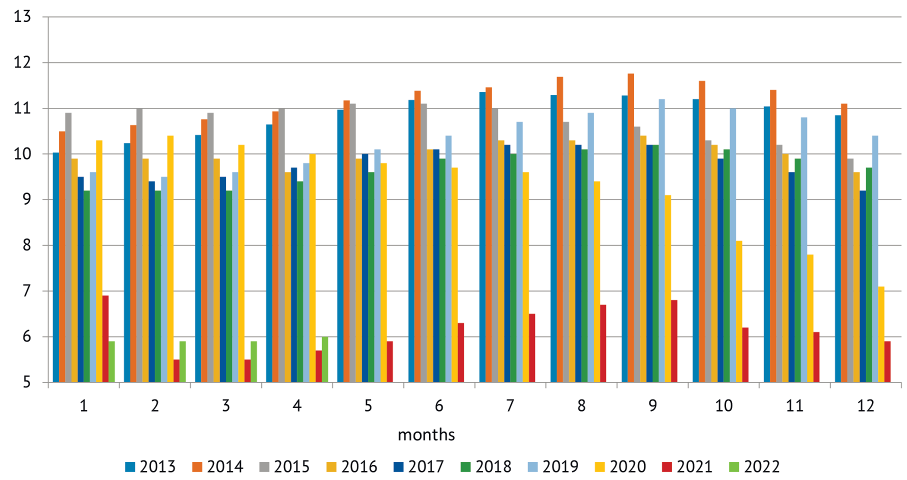

Fig. 1. The number of foreign citizens in Russia's territory as of month end, mn, 2013–2022

Source: Federal Migration Service of the Russian Federation; Main Directorate for Migration of the RF Ministry of Internal Affairs.

Table 1

The number of foreign citizens from the CIS in the Russian Federation, as of each date, million people

	May 4, 2014	May 1, 2016	May 1, 2019	May 1, 2020	May 1, 2021	May 1, 2022
Azerbaijan	600,096	483,830	636,957	701,614	299,081	215,481
Armenia	491,501	490,850	488,260	446,403	347,680	280,520
Belarus	404,218	704,297	648,523	659,418	562,961	428,239
Kazakhstan	559,379	553,491	479,588	466,464	263,491	228,142
Kyrgyzstan	539,108	561,756	713,001	757,652	623,043	681,165
Moldova	562,939	489,694	320,115	270,082	132,875	76,645
Tajikistan	1,137,939	947,251	1,255,165	1,242,629	809,166	1,262,695
Uzbekistan	2,509,998	1,726,198	2,099,835	2,046,189	1,190,634	1,626,308
Ukraine	1,606,186	2,325,673	1,700,775	1,386,103	654,920	597,051
CIS, total	8,411,364	8,283,040	8,342,219	7,976,554	4,883,851	5,396,246

Source: departmental statistics released by the Federal Migration Service of the Russian Federation and the Main Directorate for Migration of the RF Ministry of Internal Affairs.

Uzbekistan declined the least (by 4% and 23%, respectively); and the number of citizens of Tajikistan even exceeded its 2019 level (by 1%). The number of citizens from all the three countries of Central Asia increased on last year: Tajikistan, by 56%; Uzbekistan, by 37%; Kyrgyzstan, by 9%. The number of foreigners from all the other member states of the CIS staying in Russia decreased.

Labor migration: recovering volumes alongside reducing geographic diversity

If the statistical data on foreign citizens in the Russian Federation are analyzed on the basis of the purposes of their entry into Russia, labor migrants (the people who stated the purpose of their entry into Russia to be "work for hire") have remained the category that had shrunk the least as of the beginning of the year 2022 (relative to the pre-pandemic indices). According to the FSB Border Service's data for Q1 2022, a total of 842,000 foreigners entered Russia for the purpose of employment, which is more than 4 times above the corresponding index for 2021, and only 27% below the level of the pre-pandemic year 2019. As of May 1, there were 3.35 mn labor migrants in Russia, which is only 18% less than the corresponding index for the pre-pandemic year 2019, and 25% more than the corresponding index as of the same date of last year *(Table 2)*.

Table 2

The number of people arriving in the Russian Federation for the purpose of "work for hire", as of each date, million people

Year	January 1	March 1	May 1	August 1	October 1	December 1
2022	3.07	3.27	3.35			
2021	2.97	2.50	2.68	3.37	3.55	3.17
2020	3.90	4.11	4.12	3.99	3.67	3.10
2019	3.76	3.97	4.11	4.46	4.39	4.11

Source: data released by the RF Ministry of Internal Affairs.

Meanwhile, labor migration has been steadily losing diversity: 83% of all labor migrants are the citizens of three Central Asian states, namely Uzbekistan, Tajikistan and Kyrgyzstan (in 2019, the share of migrants from these three countries in the total number of labor migrants was 72%, and in 2015 it amounted to 65%). The number of migrants from these three Central Asian republics declined by only 12% on 2019, while that of labor migrants from Moldova and Ukraine plunged fivefold; from Azerbaijan, nearly twofold; and from Armenia, by 40%. Labor migration from these countries shrank even relative to the rather modest indices of the year 2021 (from Armenia, by 20%; from Ukraine, by 44%; and from Moldova, by 40%).

So far, labor migrants in Russia have been feeling truly confident

In spite of the deteriorating economic situation in Russia after February 24, 2022, troubles with bank transfers to other countries, and falling earnings (in foreign currency terms), the current labor migration statistics are not yet showing a massive labor outflow from Russia. Over two consecutive months of 2022 (March 1 – May 1), the number of labor migrants from Ukraine, Kazakhstan, Moldova and Kyrgyzstan slightly decreased (by 10%, 9%, 6%, and 3%, respectively); the number of labor migrants from all the other member states of the CIS increased, but also just slightly, by 3-5%. According to our estimates, the traditional spring-summer influx of seasonal migrants is going to be less than in the pre-pandemic years, but those who are already in Russia are in no hurry to leave the Russian labor market.

Similar conclusions can be drawn on the basis of the pilot survey of labor migrants conducted by the INSAP RANEPA on March 23–25, 2022 at the Sakharovo Multifunctional Migration Center.

Only 6% of all employed respondents said that they had lost their jobs after February 24 (that is, over the course of the previous month). Another 5.5% complained that their salary had been reduced, and 8% were no longer able to transfer money to their families at home because of the sanctions. However, the most common answer to the question about the specific consequences of the recent events was that there had been no changes (62.4%).

Labor migrants also felt optimistic about their future in Russia: so far, a very small percentage of respondents (4%) expected their situation to worsen in the near future, and only 20% of respondents said that their plans had somehow changed in response to what had been happening in the Russian Federation (and they did not mean that they were going to leave). The majority of labor migrants intended to carry on working in Russia (41%), and some of them even planned to become permanent residents in this country (30%). Only one-fifth of them expressed their desire to return to their home countries after a few months of work.

In this connection, the statistics on the legalization of their status point to the serious intention of the majority of labor migrants to stay in Russia for a long time (as a rule, those migrants who have arrived for a short stay are less law-abiding). Out of all the labor migrants remaining in the Russian Federation as of May 1, 2.2 mn had valid documents allowing them to work (work permits or patents); another 877,000 enjoyed the right to work without such documents (the migrants from the EAEU member states). Thus, approximately 93% of all labor migrants who were in Russia at that time had the right to legally enter the Russian labor market. Such a high level of potential legalization has been observed since late 2021 (in the previous years, this index had been at the level of 70%), which, in our opinion, largely serves as clear evidence of the more positive impact of permissive measures compared with restrictive ones.[1]

Over the first four months of 2022, the regional budgets received Rb31.1 bn (vs 2.5 times less over the same period of 2021) generated by the patent fees paid by migrant workers. Most of these payments come from migrants from two Central Asian countries, Uzbekistan and Tajikistan, who took more than 97% of all patents issued within these 4 months of 2022.

There is no acute competition between native and foreign workers

So far, the number of labor migrants in Russia has not been declining, but neither has it grown; the input of migrants to employment in the labor market does not exceed 5%. Most likely, the situation will remain unchanged over the coming months, if the position of foreign workers on the labor market and their employment opportunities do not become worse (the risk of such consequences will increase towards autumn, when seasonal employment is over). Given the small volume of labor migration, there is no reason to expect their competition with native workers on a massive scale.

At the same time, it should be taken into account that the main sectors where foreigners and native workers are commonly employed differ markedly (*Fig. 2*).

We believe that jobs in a number of sectors such as building construction, agriculture, housing amenities are unlikely to be in high demand among the Russian population, even in face of rising unemployment. Competition for jobs between Russian citizens and migrants is likely to become pronounced in the retail sector, industry, services, and household employment. However, even now these sectors employ both migrants and Russians, while the employers, all other things being equal, prefer to hire Russians, because the formal employment procedures for them are easier, and they are less likely to attract the attention of supervisory bodies.

World experience has shown that in times of crisis, migrants are the first to lose their jobs, while the possibilities for wage dumping are now limited, because the system for the residence and employment of foreigners in Russia is complex and expensive. Therefore, there is no need for creating any special mechanisms for ousting foreigners from the Russian labor market; they will leave on their

1 These are the measures designed to extend the opportunity for "coming out of the shadows" for the foreign citizens already present in the territory of Russia: Executive Order of the President of the Russian Federation No. 364 dated June 15, 2021 "On Temporary Measures to Regulate the Legal Status of Foreign Nationals and Stateless Persons in the Russian Federation Until the Consequences of the Novel Coronavirus (COVID-19) Are Overcome."

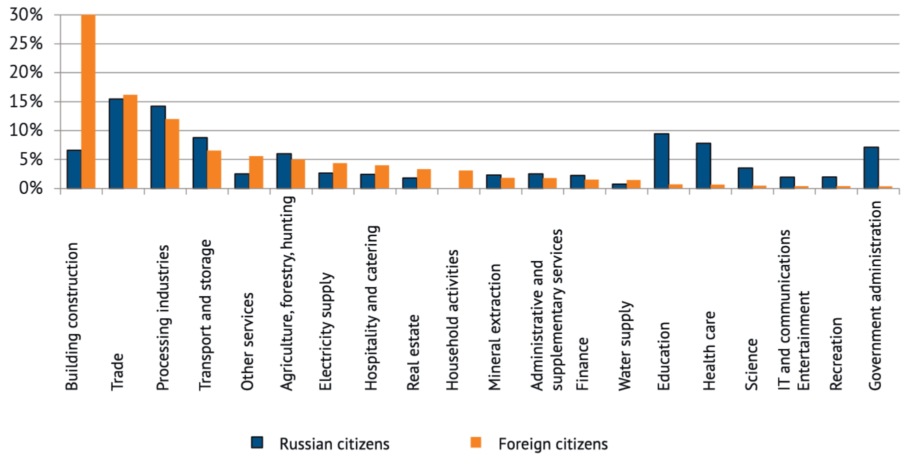

Fig. 2. The employment structure of Russian and foreign citizens in 2020, %

Source: data released by the Main Directorate for Migration of the RF Ministry of Internal Affairs (based on employers' statements) and Rosstat.

own in the event of job cuts or a drastic shrinkage in earnings. The goal is to do everything possible to promote the legalization of those migrants who are still in demand on the Russian labor market, because this process directly affects the amount of tax-generated revenues in regional budgets. This means, first of all, that the cost of a patent should be maintained at its current level, with the possibility of patent renewal for an unlimited period of time without leaving the Russian Federation.