

MONITORING OF RUSSIA'S ECONOMIC OUTLOOK:

TRENDS AND CHALLENGES OF SOCIO-ECONOMIC DEVELOPMENT

No. 18(120) November 2020

1. DYNAMIC OF INDUSTRIAL PRODUCTION IN Q3 2020 Kaukin A., Miller E.	3
2. PANDEMIC AND REGIONS: JANUARY-AUGUST 2020 TAKEAWAY Zubarevich N.	7
3. SMALL BUSINESS IN THE REPUBLICS OF NORTH CAUCASUS: RISKS AMID THE PANDEMIC AND WAYS TO REDUCE THEM Kazenin K.	12
4. MONITORING THE SPREAD OF THE CORONAVIRUS PANDEMIC AND MEASURES TO CONTAIN IT WORLDWIDE (AS OF NOVEMBER 1, 2020) Ponomarev Yu., Makarov A., Borzykh K., Radchenko D.	15

Monitoring of Russia's Economic Outlook

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1. DYNAMIC OF INDUSTRIAL PRODUCTION IN Q3 2020

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In Q3 2020, the extractive sector observed around zero growth, part of manufacturing sector exhibited a slight increase. Analysis of trend components of production indexes across industry does not give grounds for speaking about a notable industrial recovery following the coronavirus-induced recession seen in H1 2020.

In H1 2020, the unfavorable effect of coronavirus infection and implemented restrictive measures on all indicators of industrial performance was noted.¹ In manufacturing sector the hardest-hit were industries producing foodstuffs and durables which demand significantly depends on the change in incomes and expectations of the population. The breakdown of the OPEC+ deal and later its resumption on tougher production cuts² conditions have also adversely affected the dynamics of extractive sector.

In September 2020, Rosstat revised production indexes for 2019–2020 which was due to the updated information received from respondents.³ According to Rosstat,⁴ owing to the annual reports submitted by microbusinesses information on the whole number of type of activity in the majority of subjects of the Russian Federation were taken into consideration where this sector is predominant or singular. The annual reports of enterprises and organizations reporting on a quarterly basis have also affected the adjustment of 2019 indexes. In addition to that, mistakes made by respondents in relation to identification of products in compiling annual reports have been corrected as well as mistakes made due to inattention of respondents or inefficacy of internal business processes. In January 2020, the divide in production index values in industry as a whole between the previously released data and the revised data to the same month of the previous year came to +0.4 p.p.; in February – +1.5 p.p.; in March-April – +2.1 p.p.; in May – +1.7 p.p.; in June – +2.3 p.p.; in July – +2.1 p.p.; in August – +3.0 p.p.

1 Zhemkova A.M., Kaukin A.S., Miller E.M. Chapter 5.6 Industry, transportation, construction: crisis and support // Society and pandemic: experience and combating COVID-19 lessons from Russia. – Moscow: 2020. – 744 p.

2 Bobylev Yu.N., Kaukin A.S., Miller E.M. Current state and prospects for the global oil market // Russian Economic Developments. 2020. No. 5. Vol. 27. P. 50–57.

3 Revision was conducted on the following grounds:

- Preferential treatment for submission of statistical information for certain producers due to which recalculation to industrial production volumes for these categories of producers was customary conducted on the latest available data. The latter comprises: micro businesses reporting one a year; enterprises that do not pertain to small business and in the course of two previous years their headcount did not exceed 15 persons and their annual turnover did not exceed Rb 800 mn while reporting on a quarterly basis;

- switchover to new basis 2018 from early 2020 due to which the revision of retrospective indexes for 2019 was conducted on the available for that date information on output of products;

- provision of operational reporting by large and medium-sized enterprises on the 4th working day (often imputations) and their update in the following periods;

- in September 2020 Rosstat received annual reports from respondents (large and medium-sized organizations, micro businesses, small enterprises) that adjust earlier submitted operational data on production and shipment of goods, works and services.

4 Rosstat presents comments to adjusted information on industrial production in 2019–2020 // Rosstat. 21.10.2020. URL: <https://rosstat.gov.ru/folder/313/document/103092>.

The same picture is being observed across the industrial sectors. Recording of the new information has overestimated previously released values both on production index as a whole and on its components.

On the basis of adjusted Rosstat statistics, the Gaidar Institute experts carried out decomposition and split trend component in industrial production indexes.¹ At Q3-end, trend component of industrial production index demonstrated growth. The results of series processing are exhibited in Fig. 1.

Trend component in extractive sector exhibited close to zero growth rates due to, firstly, observation of the OPEC+ deal commitments on cutting daily oil production (according to IEA, in July the deal was completed by 96%, in August completed by 98%, and in September completed by 96%); secondly, due to contraction in the global energy demand including triggered by the spread of coronavirus (in detail see Fig.2).

At Q3-end, the manufacturing sector observed growth in trend component. The following industries significantly contributed to the current dynamics: chemical production owing to demand for medicines and materials used for medical

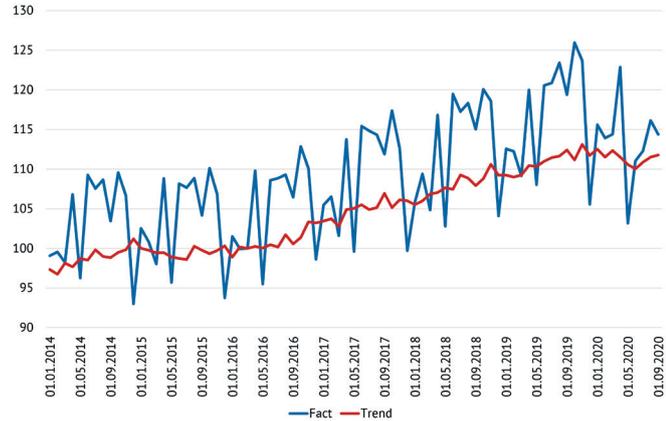


Fig. 1. Dynamics of industrial production index (actual data and trend component), in 2014–2020 to March 2016, %

Sources: Rosstat, own calculations.

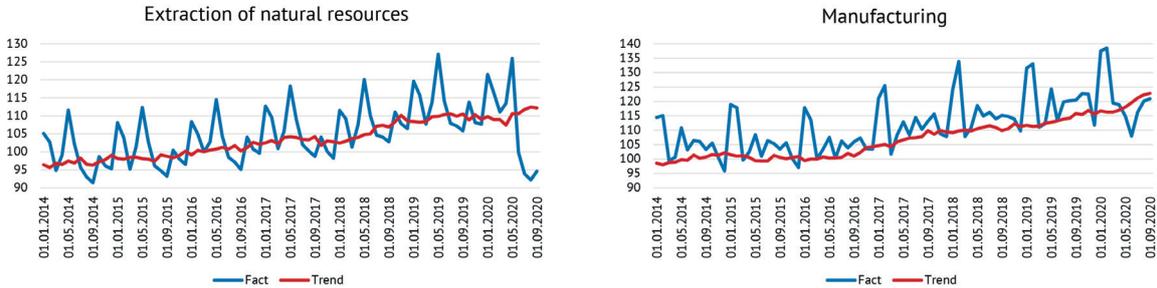


Fig. 2. Dynamics of production indexes across industries (real data and trend component), in 2014–2020 to March 2016, %

Sources: Rosstat, own calculations.

purposes and chemical and mineral fertilizers (mineral fertilizers were included in the freight list to be subsidized in case of rail transportation;² application of a reduced tariff for routes to the Far East raised export deliveries from Russia to China); steelmaking industry on the back of exports to the South-East Asia that faster recovery from the first wave of pandemic as well as due to weak ruble which permitted Russian companies to ramp up deliveries of galvanized

1 In order for better reasoning about the retention and overcoming the negative trends in certain industries, it is necessary to decompose output into calendar variations, seasonal variations, random or irregular, and trend; interpretation of the latter is interesting. Split into trend component is done with Demetra package with the use of X12-ARIMA procedure. Authors are grateful to M. Turuntseva and T. Gorshkova for their help in conducting statistical analysis.
 2 The RF Government Decree dated May 21, 2020 No. 715 "On Amendments to the Resolution of the Government of the Russian Federation of April 6, 2019 No. 406".

1. Dynamic of industrial production in Q3 2020

steel to Europe; manufacture of electrical equipment driven by the growth in production of radio-locating and radio navigation equipment and facilities and medical appliances; manufacture of means of transportation due to growth in production of passenger coaches (in particular, to renew carriage rolling stock on suburban routes in Russian regions), automobiles and minibuses owing to deferred demand and extension of state support.¹

In Q3 2020, manufacture of machinery and equipment exhibited a downward trend. That was driven by contraction in the investment programs aimed at modernization and technical re-equipment of manufacturing facilities as well as losses incurred in H1 2020 due to the imposition of restrictive measures.

According to data released by Rosstat, real incomes of the population continued falling in Q3 2020 which took a toll on the retention of negative dynamic in other sectors of Russian economy: retail sales and paid services to the population. Decline in freight turnover was due to a decrease in crude exports in the wake of global downward trends on demand for energy resources. Growth was demonstrated by such industries as construction on the back of the extension of subsidized mortgages and construction of new roads and crossroads; wholesale commerce driven by deliveries of grains, medicines, and chemical fertilizers.

Consequently, the analysis of trend components does not allow to speak about a notable industrial recovery after a plunge induced by the spread of coronavirus and implementation of restrictive measures. At the moment, one of the main risks of decline in industrial output is the ongoing aggravation in the epidemiological situation, feasible tightening of containment measures in certain industries or regions and formation of corresponding adverse expectations among businesses and the population.

Table 1

Change in the output index across industries, %

Industries	Share in industrial production index, %	September 2020 to June 2020	September 2020 to September 2019	Changes during recent months
The industrial production index		101.58	99.44	Growth
Extraction of natural resources	34.54	101.40	101.56	Slow growth
Manufacturing, including:	54.91	102.69	106.04	Growth
Food production, including beverages, and tobacco	16.34	104.90	113.91	Growth
Textile and sewing industry	1.14	101.15	104.25	Slow growth
Manufacture of leather, leather products, and footwear	0.27	102.89	108.42	Growth
Wood-working and wood products manufacture	2.02	101.55	100.90	Growth
Pulp and paper industry	3.35	96.97	83.97	Recession
Coke and petroleum production	17.25	102.86	102.86	Growth
Chemical industry	7.56	101.82	110.09	Growth
Manufacture of rubber and plastic products	2.14	104.38	104.93	Growth
Manufacture of other non-metallic mineral products	4.02	101.09	100.89	Slow growth
Manufacture of primary metals and fabricated metal products	17.42	106.22	119.60	Growth
Manufacture of machinery and equipment	6.97	101.78	103.55	Sluggish Recession
Manufacture of electric, electronic and optic equipment	6.27	102.67	111.95	Growth

¹ Vladimir Putin announces relief measures for the automobile industry // Kommersant. 24.04.2020. URL: <https://www.kommersant.ru/doc/4331699>.

Industries	Share in industrial production index, %	September 2020 to June 2020	September 2020 to September 2019	Changes during recent months
Manufacture of transport means and equipment	6.75	100.90	111.55	Slow growth
Other industries	2.42	98.37	97.84	Sluggish Recession
Electricity, gas, and water	13.51	98.15	100.12	Recession
Wholesale trade		99.86	99.66	Slow growth
Retail sales		96.43	101.96	Recession
Freight turnover		101.57	100.58	Stagnation
Construction		101.15	99.27	Slow growth
Volumes of paid services for the population		99.99	99.85	Sluggish recession

Sources: Rosstat, own calculations. 

2. PANDEMIC AND REGIONS: JANUARY-AUGUST 2020 TAKEAWAY

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The majority of Russian regions reported decline in industrial production especially linked to the export oriented industries and automotive industry. Decrease in investments came amid their concentration in major agglomerations and oil and gas production areas. Commissioning of housing was declining in the majority of regions. Growth in part-time employment was coupled with a rapid increase in registered unemployment. Decline in the consolidated budgets' proper revenues was offset by federal relief but not for all regions to the full extent. The majority of RF subjects will end 2020 with a deficit due to a rapid growth in regional budgets expenditure on health care, social policy and the economy.

The coronavirus-induced crisis resulted in an economic recession in the majority of Russian regions and build-up of fiscal problems. Contraction in external and internal demand has adversely affected the dynamics of industrial production. Given the nationwide recession for January-August 2020 at 5%, more significantly (by 9–12%) output contracted in regions with export raw material extraction (Yakutia, Krasnoyarsk krai, and Nenets AD), the automotive and shipbuilding industries (Kaliningrad, Nizhny Novgorod, and Ulyanovsk regions, Primorsk krai), jewelry industry and energy production (Kostroma region – decrease by 16%), Decrease by 7% reported in the Khanty-Mansi AD is mainly due to commitments on production cut according to the OPEC+ deal. Growth was ongoing in 34 regions and the most significant (19–26%) one was reported in the Republic of Karelia, the Tyumen region (without AD), the Tula region on the back of putting into operation of new production facilities or increase in state defense order.

Investments in Russia contracted by 4% in H1, but regional dynamic is mixed. Maximum recession was reported in the Far East (-9%), growth was ongoing in the Tyumen region with oil and gas producing districts (13%) and in the cities of federal importance (Moscow – 8%, and St. Petersburg – 5%). Concentration of investments in regions with the highest competitive advantages was more pronounced amidst the Covid crisis.

Housing commissioning was falling from early 2020 due to high base seen in 2019 when population actively bought residential housing on the back of fears that its price will go up following the introduction of escrow accounts. In Q2 2020, indicators were affected by the lockdown imposed on construction sites. As a result, in January-August, housing commissioning contracted by 5.5%. Two major agglomerations were struggling – the Moscow (-28%) and the Leningrad (-13%) regions as well as the city of Moscow (-16%). The summer decisions on the reduction in the mortgage rate for new constructions raised demand for housing but the reduction in housing commissioning especially in the Moscow agglomeration resulted in the price growth. Rise in prices is less notable in 36 regions with growth in housing commissioning; among the regions which boasted of significant volumes of housing construction the best

dynamic was reported by Kaliningrad, Kaluga, and Samara regions, Tatarstan and Bashkortostan.

The recovery growth in retail sales following lifting of lockdown restrictions already in July-August was hampered by the reduced effective demand of the population, the dynamic did not change in September (-3%). According to Rosstat, only in 25 regions the August 2020 demand returned to the August 2019 level or slightly exceeded it including Moscow and St. Petersburg. Decline in the volume of paid services turned out to be stronger than in commerce, in August it came to 19%, in September – 12%. During January-August, paid services contracted by 20% , including in Moscow – by 30%. The reliability of regional estimates is relative, although obviously that major cities were the hardest-hit where paid services are developed to the utmost.

The fallout from the crisis on regional labor markets was both customary and uncommon. In Q2 2020 compared to Q1, part-time employment went up by two thirds up to 6.3% on the headcount in large and medium-sized enterprises and organizations. This is a common for Russia's way of cost reduction by cutting wages. However, not only industrial workers were shifted to part-time regime but also those employed in market related services. The most significant and maximum growth in part-time employment was reported in the Republics of Crimea and Yakutia, St. Petersburg and Moscow, the Perm krai, the Samara, Kaluga, Nizhniy Novgorod and Moscow regions (9–13%).

The surge in registered unemployment was common– by 5.5-fold from early March till late August 2020 (from 1 to 4.8%). The RF subjects with minimum pre-crisis level of registered unemployment (Moscow, the Moscow region, St. Petersburg, and Tatarstan) rate was still stronger – by 6–7-fold. This was a result of the federal authorities' decisions aimed at raising unemployment benefits to the subsistence minimum and simplification of registration procedure in employment agencies within the anti-crisis policy. As estimated, a significant part of registered in the employment agencies are those who prior to the crisis were employed in the informal sector of the economy. They get a smaller benefit (Rb 4,500) but with a supplement for each child in the family of unemployed (Rb 3,000). In June-August 2020, higher level of registered unemployment apart from the Republics of North Caucasus, Tyva and part of regions in the east of the country was reported in Karelia, Kaliningrad, Vologda, Astrakhan, and Orenburg regions (6–7%). The two major agglomerations of the country boasted of registered unemployment rate growth from 0.4–0.6% to 3–3.5%, and the citizens who lost job in market oriented services asked for benefits.

In Q2 2020, incomes of the population contracted by 8%, during H1 they fell by 3%. Regional data for Q2 which was hit by the coronavirus is difficult to analyze due to low reliability. One can hardly explain why real incomes went on growing in the Republics of Kalmykia and Khakassia, the Yamal-Nenets and Chukotka AO. It is no less difficult to explain why incomes contracted most of all (by 15–17%) in Krasnodar krai, Bryansk region and the Republic of North Ossetia. Obviously, this is due to insufficient volumes of sampling in Rosstat's income surveys as well as due to objective difficulties in estimation of untaxed incomes.

Regional budgets also suffered from the crisis, in April-June 2020 their proper (tax and non-tax) revenues contracted by Rb567 billion compared to the same period in 2019 or by 20%. During January-August tax and non-tax revenues of regional consolidated budgets decreased by only 7%, after all in Q1 there was no recession and in summer after the lifting of lockdown the budget revenues were growing although not fast. The income tax demonstrated the

2. Pandemic and regions: January-August 2020 takeaway

worst dynamics (-18%), due to the fact that its main payers are large export companies and they ran into decline in demand and prices. The small business tax (on aggregate income) decreased by 10%, property tax – by 5%. Only PIT went up by 3% driven by favorable dynamics in Q1.

In January-August 2020, dynamics of proper incomes of regional consolidated budgets differed from growth by 44% reported in Chukotka to decrease by 18–30% in Tyumen, Kemerovo, and Astrakhan regions. Nenets and Yamal-Nenets AD, Perm and Krasnodar krai, the Republics of Komi, Khakassia, and Tatarstan (*Fig. 1*). The main reason was a plunge in proceeds from the income tax in resources extracting regions due to decline in income of export companies and in Krasnodar krai – plus PIT.

The federal authorities provided significant relief for the regions, during January-August the volume of fiscal transfers (grants) went up by Rb785 bn or by 58% against the same period in 2019. Those are the largest growth rates of assistance to the regions for entire 2000s. Allocated by formula equalization transfers went up insignificantly (by 6%), however other grants that can be extended without observing formal rules increased 3.5-fold and nearly equaled in volume with equalization transfers. The volume of subsidies went up 2-fold, they are extended for certain purposes, mainly on national projects. Those are the targeted funds which the region must co-finance otherwise subsidies shall be returned. Other interbudgetary fiscal transfers went up 1.5-fold. Rapid growth of relief designated for the regions was accompanied by the reduction in transparency of allocation of funds.

The main principle for extending assistance – the richest regions received minimum, they should manage themselves. For example, in Moscow shortfall in budget revenues for January-August amounted to Rb95 bn compared to the same period in 2019 while additional fiscal transfers totaled only Rb12 bn. In Tyumen region the ratio between the shortfall in budget revenues and additional fiscal transfers comes to Rb48 bn and Rb5 bn, in YNAD – Rb42 bn and Rb5 bn, in St. Petersburg – Rb26 bn and Rb6 bn, and in Tatarstan – Rb34 bn and Rb24 bn. However, among the regions whose proper budget revenues losses were not fully compensated from the federal budget are rather poor subjects – the Republic of Komi, the Arkhangelsk, Vologda, Murmansk, Astrakhan, and Kemerovo regions, the Krasnodar and Perm krai. It is difficult to explain why they were helped less. The same refers to why they so sumptuously extended fiscal transfers to Chechnya (Rb4 bn), although proper revenues of the republic did not decrease in Dagestan (Rb20 bn) although its shortfall in revenues amounted only to Rb2 bn. Transparency and justification of decision making on relief for the regions in the coronavirus crisis has been clearly diminished.

Regional budgets expenditure for January-August increased by 18% although the revenues went up only by 3% mainly due to a sharp growth in fiscal transfers. Expenditures mainly increased on health care especially in Moscow by nearly 2.5-fold, in other regions minus Moscow growth was less – by 2/3. The capital spent additionally more than Rb200 bn on health care from its budget in order to contain the pandemic. Other regions lacked such funds. To compare, St. Petersburg ramped up expenses in health care only by Rb22 bn or by 47%.

Despite the plunge in proper revenues, regions ramped up spending on the national economy, Moscow ranked first – by 34%. Without Moscow, other regions ramped up such expenses by 10%, meeting commitments on national projects. Another priority – growth in spending on social policy (social protection) by 22% due to the need to finance social payments to the population. Expenses on

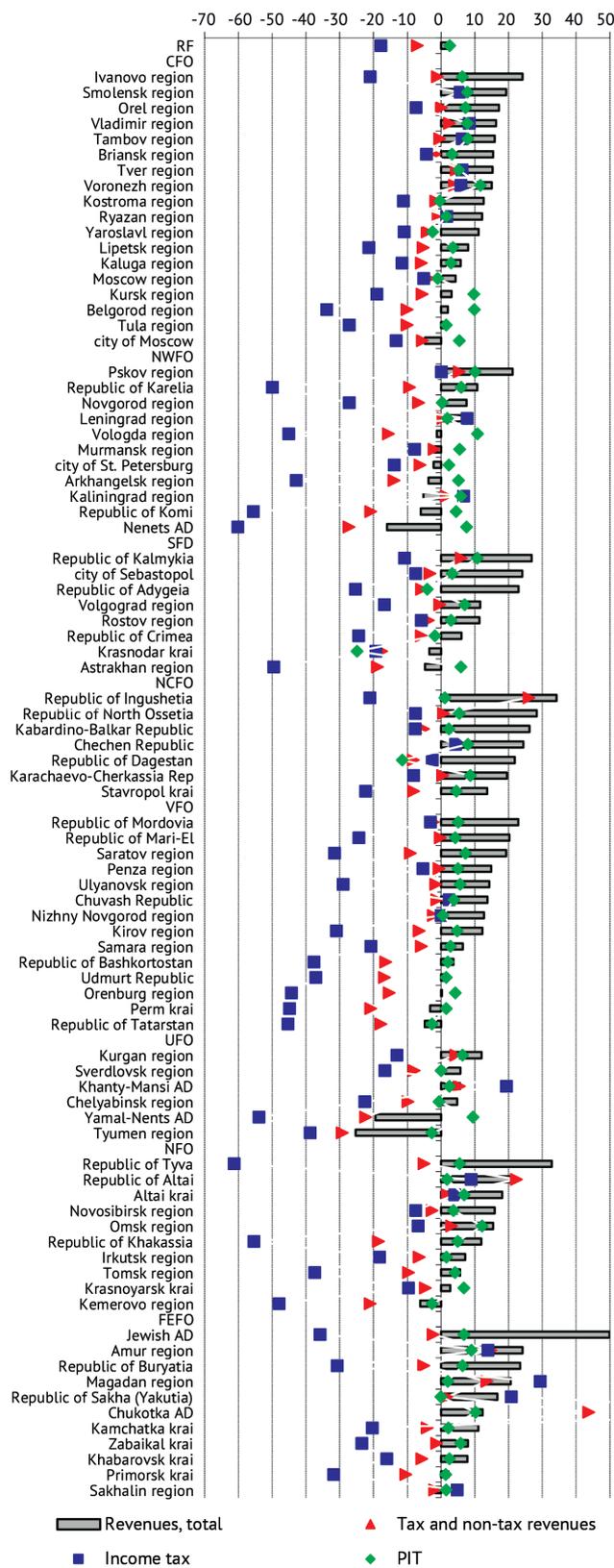


Fig. 1. Dynamics of incomes of RF subjects consolidated budgets, January-August 2020 to January-August 2019, %

Source: calculated on data released by the Federal Treasury.

2. Pandemic and regions: January-August 2020 takeaway

education (6%) and Education (4%) went up very modestly. Different dynamics of regional budgets expenditure exhibits that it is affected by two factors – priorities of regional authorities and financial possibilities of the regional budgets.

Imbalance of dynamics of revenues and expenditure has resulted in budget deficit in many regions. In January-August, 35 RF subjects had it (for the same period in 2019 – only 13 regions). The highest deficit was recorded in the Arkhangelsk region (16% of revenues), the Nenets AD, the Kemerovo region and the Republic of Komi (11–13%), Moscow and the Moscow region (8–9%). Although the capital and the Moscow region can borrow on the market relatively cheaply, the other regions possibilities to borrow are limited. If the federal center does not increase fiscal transfers to RF subjects at the end of the year, then at 2020 year-end the number of regions with the budget deficit will significantly grow. 

3. SMALL BUSINESS IN THE REPUBLICS OF NORTH CAUCASUS: RISKS AMID THE PANDEMIC AND WAYS TO REDUCE THEM

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In 2020, economic crisis and COVID-19 pandemic have been a trial for small business in all Russian regions. In the North Caucasus some types of entrepreneurship provide mass employment and recession in that sector threatens with serious social issues and emergence of new depressed territories (a number of industries are highly concentrated in certain cities or regions). Given that small business largely remains in the gray economy, the opportunity to receive state relief amidst crisis can stimulate them to exit from the gray sector.

In November 2020, in the framework of the development of Strategy of socio-economic development of NCFO the author conducted express survey that polled entrepreneurs engaged in knitwear manufacture (Karachaevo-Cherkassia) and shoemaking (Dagestan). This sample was due to the fact according to preliminary estimates based on the open sources data, these two sectors of small business in North Caucasus were marked by the highest employment rate. Ten in-depth interviews with entrepreneurs were taken for each sector.

Below we describe issues which, according to survey findings, today face these sectors and then we propose general recommendations on state relief measures for socially important segments of small business in North Caucasus.

Karachaevo-Cherkassia: knitwear manufacture

According to respondents' estimates, all in all the knitwear manufacture currently employs no less than 12,000 persons. Around 150 knitwear workshops operate with the number of machines varying from 3–4 to 50–60. Given the family members of workers and entrepreneurs, at least 15% of the republic's population depend on this manufacturing sector. It is especially important in the densely populated rural region of Karachaevo-Cherkassia – Malokarachaeovsk where the sector employed around half of entire working population. The republic's capital Cherkessk is ranked second in concentration of knitwear manufacture. The annual average volume of raw yarn processing is estimated by entrepreneurs to hit 10,000–12,000 tons over recent five years.

Amidst pandemic and economic crisis, the knitwear business in Karachaevo-Cherkassia faced serious difficulties both in purchasing raw yarn and in marketing the products. As a result, the seasonal break in the majority of workshops which previously lasted two months in the summer period increased 2-fold or more, many workshops switched over from a dual shift regime to one shift regime, and the majority of entrepreneurs' preliminary estimate contraction in marketing against last year by at least 20–30%.

3. Small business in the Republics of North Caucasus: risks amid the pandemic ..

The raw yarn is being delivered to Karachaevo-Cherkassia nearly totally from abroad, mainly from Turkey (China comes second). The regional entrepreneurs are engaged in deliveries of the raw yarn. They sell it on deferred terms. Marketing of local knitwear products has a strongly marked seasonal character and the producers repay the suppliers after the peak seasonal sales. This being said, repayment amounts depend on the USD exchange rate. Depreciation of the ruble seen this year has notably cut the producers' income, it is hard for many of them to settle accounts with suppliers on deadline date.

Significantly shrank opportunities for marketing through the channel that was the main one prior to the pandemic, that is through wholesale markets located in several multi-million-strong cities. Multiple wholesale traders who sold products from Karachaevo-Cherkassia following the spring lockdown exited from the business or notably cut its volumes fearing of the new restrictive measures. In the wake of shrinking purchasing power of the population, that region's products are being edged out from the wholesale trade by cheaper Chinese alternatives.

Having said that, the majority of entrepreneurs assess marketing of products through large distribution networks as unsuccessful because networks dictate low prices and often demand excessively large for local workshops delivery volumes as well as insist on signing annual contracts with a fixed price which threatens producers with losses due to fluctuations in the ruble exchange rate. They see online sales as a more lucrative way for diversification of marketing their products with an advantage in lower price for end buyers and in independence from possible anti-epidemic restrictions. The owners of the workshops estimate their output in the current year to be marketed online at 20–40%. The lack of experience represents a barrier to entry to the online market whereupon the online market is dominated by the intermediaries buying up their products on the cheap for further sale online.

Dagestan: shoemaking business

According to the survey participants, currently the region boasts of no less than 17 factories with the number of workers between 50 and 100 persons and several hundreds of small workshops. In September 2020, the Ministry of Industry and Trade of Dagestan estimated “unofficial” shoemaking output at 5 mn pairs and the number of “unofficial” workers totals 15,000 persons. Footwear workshops concentrate in Makhachkala which along with Rostov-On-Don is the main center of footwear production in the south of Russia. The local producers mainly target handmade footwear and therefore technological processes change little. Leather and accessories arrive from outside of the republic and from abroad.

Entrepreneurs note that the output marketing through the wholesale markets has markedly decreased on the back of the pandemic and the lockdown measures. However, the reduction in marketing of locally produced footwear through markets was happening during previous 3–5 years which the survey participants explained by a general reduction in footwear share marketed through that channel. In the course of this reduction, a growing number of small producers become “subcontractors” of several large Dagestan shoemaking workshops on the order from two prominent brands. Those large workshops carry out part of the orders themselves and the remaining part send to small workshops providing them with raw materials and accessories and, as a rule,

prepaying to the wages amount. According to survey participants' estimates, this work pattern is the main one for 3–50% of small workshops. It should be noted that this work pattern in large measure contributed to partial exit from the gray sector due to the fact that all transactions on the fulfillment of orders from big brands have been carried out according to official contracts. However, small producers acknowledging their dealings with large workshops as the main way for the retention of business assess contracts with them as “enslaving” permitting rather to “survive” than to develop production due to dictated by large workshops low purchasing prices. Such situation can generate social tension due to the fact that the owners of large workshops are mainly from the narrow circle of powerful regional families (primarily born in the same mountain district).

The respondents see a possible way out from the current situation not in ramping up of common trade through wholesale markets but in extending the number of large customers, and creation for them a more competitive environment. In a way, preconditions for that are emerging. For example, the number of orders for small workshops have been growing from the producers from other regions, first of all from the Rostov region. The same scheme of “subcontract” is being implemented with the difference that raw materials and accessories small workshops do not get from the customer but purchase by installments themselves. The surveyed also see the future in the development of online sales, however the majority of small producers have not mastered its technology and mainly entrepreneurs-intermediaries market products through internet sales who buy wholesale the small workshops' output at low prices.

* * *

The following state support measures for the socially important sectors of small business in North Caucasus can be proposed in the context of current economic hardships on the example of examines industries.

Firstly, the entrepreneurs need assistance in signing direct contracts with the owners of big brands for the production of their products and with distribution networks for marketing the output. Privileged access to the production exhibitions and training in efficient products display is the main toll for this (currently many survey participants assess participation in such exhibitions as unreasonably expensive and unprofitable).

Secondly, it would have been fruitful to provide free training in internet marketing and internet sales skills.

It should be noted that these measures can contribute to exiting out of the gray economy if this will be a condition for their provision. However, another important condition for exiting from the grew economy is an increased trust of entrepreneurs to the control authorities and observation by the latter of restrictions on checks of entrepreneurs imposed in the wake of the pandemic. It is obvious that attempts to ensure exit of small business from the shadow economy through exclusively the use of force in the context of current economic hardships will only lead to mass closure of businesses and, as a result, to significant social risks. 

4. MONITORING THE SPREAD OF THE CORONAVIRUS PANDEMIC AND MEASURES TO CONTAIN IT WORLDWIDE (AS OF NOVEMBER 1, 2020)

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In October 2020, the epidemiological situation has been deteriorating in many countries including Russia. A number of countries resume the lockdown measures. Russia recorded during the month a sizable increase in morbidity rate. Decision making on the introduction of the restrictive measures was carried out at the regional level given epidemiological situation and the state of the economy.

Current COVID-19 situation worldwide

Morbidity rate

According to the updated data as of November 1, 2020, the number of COVID-19 cases worldwide totaled 46.36 mn persons (as of October 1 – 34.1 mn) and the death toll exceeded 1.2 mn persons. Over 11.7 mn persons continued to be ill, and around 34.7 mn have recovered. If in September over 300,000 daily cases were frequently reported around the globe, then by the end of October that toll exceeded 500,000 persons.

The major increase in cases accounted for the USA, India (ranked 2nd in the world on the number of cases), followed by the European countries where the second wave of infection is getting momentum (France, Italy, Great Britain, and Poland). As of October 31, those six countries report over half of all new cases. A significant number of cases is reported in the Latin American countries (Brazil, Colombia, and Argentina). Russia retains 4th position regarding the total number of cases (as of October 31 – over 1.62 mn persons).

The rate of coronavirus spread R_t went up significantly¹ (Fig. 1) in many countries compared to summer on the back of the number of social contacts (resumption of tourist travel, office work, opening of educational organizations).

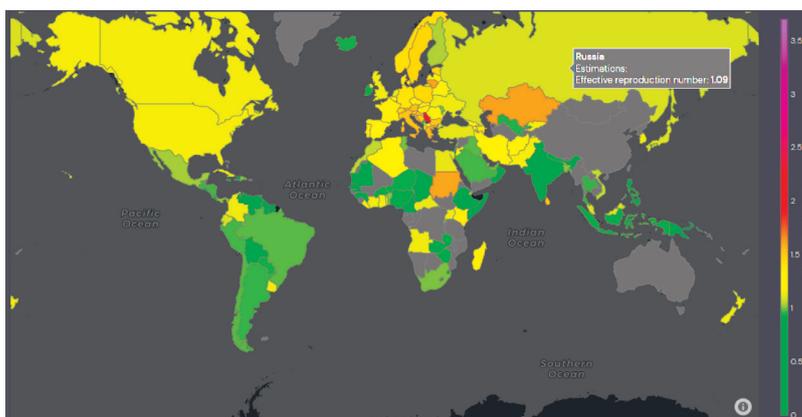
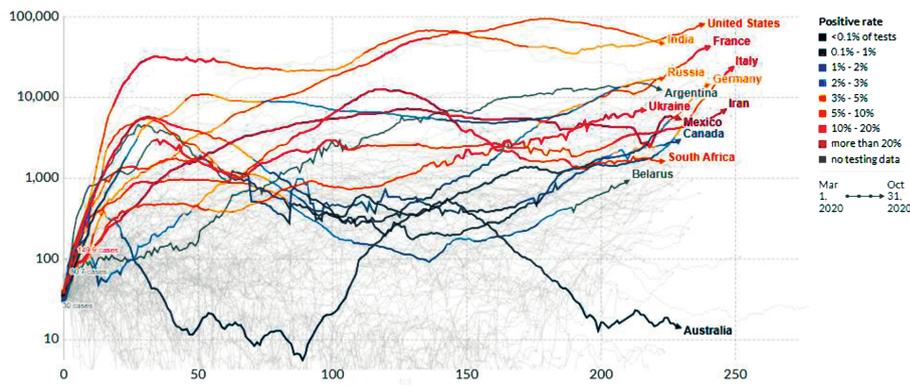


Fig. 1. Estimate of R_t rate (estimate for the last week of October)

Source: MIT.

1 URL: <http://epidemicforecasting.org/global-rt-map>, data released by Future of Humanity Institute, University of Oxford in cooperation with other organizations.



Note: Across horizontal axis – number of days from the date when 30 cases per day were registered in the country, color range (see legend) exhibits the share of positive coronavirus tests.

Fig. 2. Dynamic of the number of the new infection cases in certain countries (logarithmic scale)

Source: ECDC.

Mortality rate

In October, the mortality rate from coronavirus increased worldwide: if in September it varied in the range of 3.5–3.6 thousand persons per day, then at October-end it exceeded 7,000. The highest daily mortality rate was observed in the USA (914 deaths per day on October 31), Mexico (516), India (468), Iran, Brazil, the EU countries (*Fig. 3*). In Russia the mortality rate remains at a relatively low level (around 1.7%).

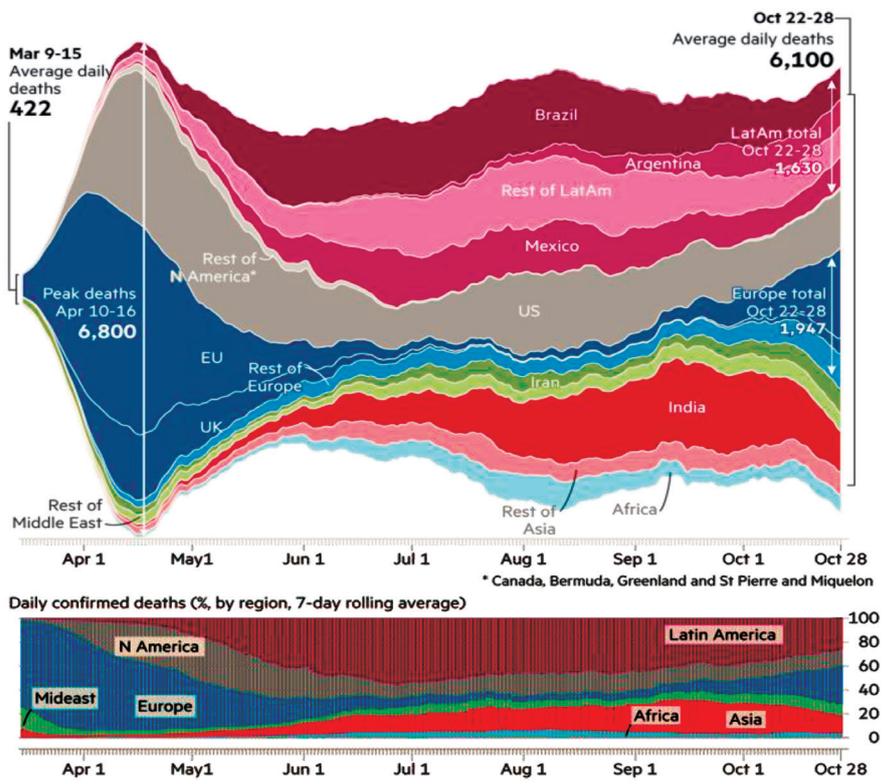


Fig. 3. Distribution of death toll per day worldwide (as of November 28)

Source: Financial Times.

18(120) 2020

4. Monitoring the spread of the coronavirus pandemic ...

Implemented measures

The response to the deteriorating epidemiological situation is different and depends on specific situation in either country (Fig. 4):

- Italy announced extension of the state of emergency through the end of January 2021 with mandatory use of personal protection gear in the streets, a penalty to the tune of 1,000 euro is envisaged.

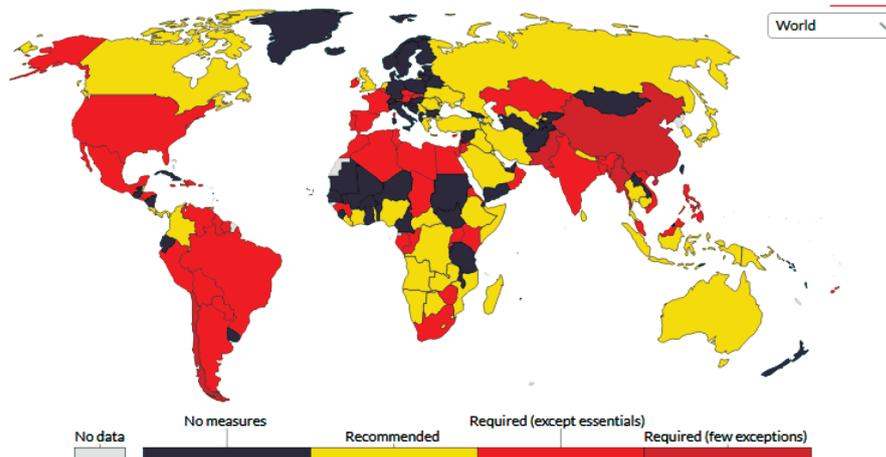


Fig. 4. Requirements for self-isolation observation

Source: OurWorldInData, 31.10.2020.

- Belgium imposed curfew applying to the catering facilities.
- France and Germany resumed lockdowns at the nationwide level including travel restrictions, holding of mass events and meetings.
- Great Britain introduced lockdown with self-isolation, restaurants and non-food stores closure.
- Ireland imposed ban on movement from home by more than 5 km (fine up to 500 euros) and public transportation occupancy should not exceed 25%; catering facilities operate solely for takeaway, non-essential goods stores are closed.
- The Czech, which during the last week in October registered the highest per capita morbidity rate in Europe, stringently regulates leaving place of residence limited by work needs, purchase of foodstuffs, health care assistance, and walks in parks.
- Sweden announced cancellation of Christmas fairs.

Some countries eased earlier introduced measures. For example, Israel following the resumption of stringent lockdown measures in September, somewhat eased them in October: kindergartens opened, beaches and parks opened, distance that one can move from the place of residence was extended. Australia eased restrictions following 100-day lockdown. Japan allowed entrance to the country of foreign citizens for education and long-term residence.

Current COVID-19 situation in Russia

As of November 1, Russia reported 1636781 Covid cases (October reported 38%) (Fig. 5). The rate of coronavirus spread rate in Russia demonstrated a downward trend: as of November 1 it stands at 1.09 *1.10-1.16 on average for the previous period – November 1).

The number of new cases, recoveries, and deaths from early March in Russia

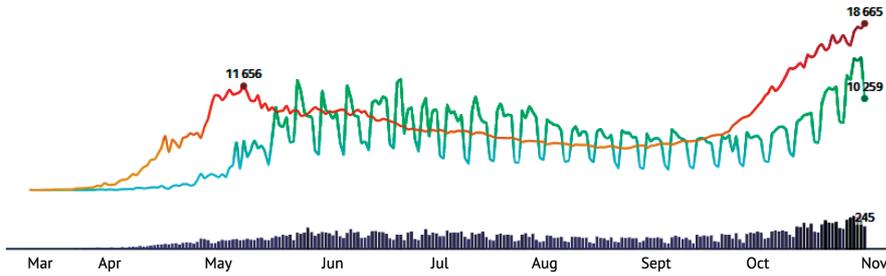


Fig. 5. The number of new cases, recoveries and deaths from early March in Russia

Source: Yandex, according to data as of November 1.

The current situation differs from the spring one by a more significant spread of infection in the regions (Fig. 6). Having said that, as during the spring period, the first signs of stabilization of the epidemiological situation emerged in late October (Fig. 7).

Region	Number of new cases by day	R _t	Cases Total	Cases per 100,000 persons	Deaths total	Death per 100,000 persons
Moscow		1.15	429 409	3433.5	6 820	54.5
Moscow region		1.06	87 366	1164.4	1 617	21.6
St. Petersburg		1.15	62 272	1163.5	3 872	72.3
Nizhny Novgorod region		1.04	41 960	1297.2	796	24.6
Sverdlovsk region		0.99	36 487	843.6	777	18.0
Rostov region		1.00	30 932	732.9	844	20.0
Khanty-Mansi AO		1.01	28 465	1719.9	248	15.0
Krasnoyarsk krai		1.06	26 741	929.6	676	23.5
Voronezh region		1.07	25 370	1087.1	332	14.2
Irkutsk region		1.08	24 549	1021.1	430	17.9

Fig. 6. Top-10 regions on the number of cases

Source: Yandex, according to data as of November 1.

The number of new cases, recoveries, and deaths from early March in Moscow

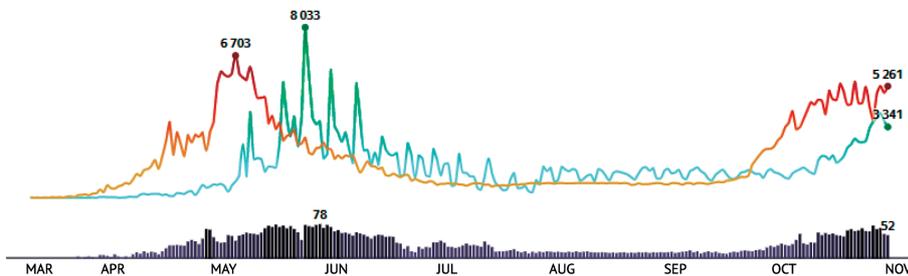


Fig. 7. The number of new cases, recoveries and deaths from early March in Russia

Source: Yandex, according to data as of November 1.

A number of factors point to arrival of the next wave in Russia which will exceed in scale and timeline the spring spike:

4. Monitoring the spread of the coronavirus pandemic ...

- The number of reported new infection cases in Russia in October exceeded the May values and often hits record;
- the number of official cases hit the maximum high level (i.e. reported infected citizens with positive PCR test minus deaths from coronavirus and discharged from hospitals);
- October exhibited a twofold growth in the number of cases reported in the Republic of Altai, the Jewish autonomous okrug, Zabaikalsky krai, the Republic of Crimea; a record number of new cases was reported in Voronezh (296) and Rostov (353) regions, St. Petersburg (801) (*Fig. 6*); the hard-pressed situation is observed in regions where the current spike in infection is coupled with the unfinished “first wave” which primarily accounted for the summer period (the Stavropol krai, Orenburg, Ulyanovsk, Saratov, and Kemerovo regions);
- Peak mortality indexes were updated across Russia as a whole (+366, October 29) and in regions. In particular, in Moscow indexes are comparable with those seen in May; significant growth (twofold and more) in mortality toll in October was reported in the Kemerovo and Kurgan regions, Sebastopol, Republics of Tatarstan and Udmurtia.

October saw an upward trend in pressure on the health care system, hospital beds occupancy went up: as of October 29, the proportion of vacant beds decreased to 19.1% (against 31% a month earlier). Aggregate expansion of the number of beds totaled 223,100 and in the number of regions reserve infectious military hospitals were assembled (Moscow, Primorsky and Kamchatka krai, Rostov and Tyumen regions). Mounting pressure on the health care system in October was due to a record-high growth in recoveries compared to values seen in May-June: 14,854 (October 31) against 12,393 (June 24).

Containment measures against the spread of coronavirus in Russia

By its regulation Rospotrebnadzor introduced universal face masks regime, from October 28 similarly to international practice it proposed to introduce regional restrictions on time limit of operations of catering facilities as well as on organizations that provide entertainment. Moscow extended the effective from October 28 restrictive measures, namely, recommended self-isolation regime for the citizens of 65+ (the Moscow region introduces mandatory self-isolation¹) and those who have chronic diseases, extension of remote work for 30% of employees and distant learning for schoolchildren. Regions universally conduct large scale inspections and strengthen control over the observance of sanitary regulations. In order to reduce mass contacts, regions put into operation additional public transportation capacity at rush hours (the Samara region), operations of culture and leisure institutions are limited (the Perm krai).

Resumption of international travel is unfolding, the number of flights on several routes has grown. From October 15, on reciprocal basis were launched regular passenger flights between Russia and Cuba as well as between Russia and Serbia, from November 1, aircraft traffic resumed with Japan. Unilaterally borders have been opened for Russian in Croatia, the Czech Republic (except tourism), and Kenya. At the same time, the majority of countries require observation of such requirements: 14-day self-isolation or presentation of Covid test results.

1 URL: <https://tass.ru/obschestvo/9881967>.

Projections for further development of the situation

The Sberbank model¹ (Fig. 8) exhibits that in the coming month growth in the number of daily cases will continue and will hit peak values in mid-November (although the projected peak was already overcome on November 4).



Fig. 8. Projection of new coronavirus cases

Source: Sberbank, according to data as of November 1, 2020.

The Johns Hopkins University² projects a far higher growth in new cases (up to 25,500 cases per day on November 15) in Russia during coming two weeks.

The IHME³ Institute in its base scenario (late introduction of 6-week lockdown and use of face masks at the current level) envisages that the number of daily mortality rate will increase in Russia in January 2021 to 1,600 with further rapid decrease (Fig. 9). Scenario that does not envisage stringent restrictions with easing of already existing measures the projection gives more than 4,000 deaths per day at the beginning of February. Scenario with a universal use of face masks by 95% of the population and 6-week lockdown envisages retention of mortality rate at the current level with subsequent slight growth (about 500 deaths per day at the end of January – early February).

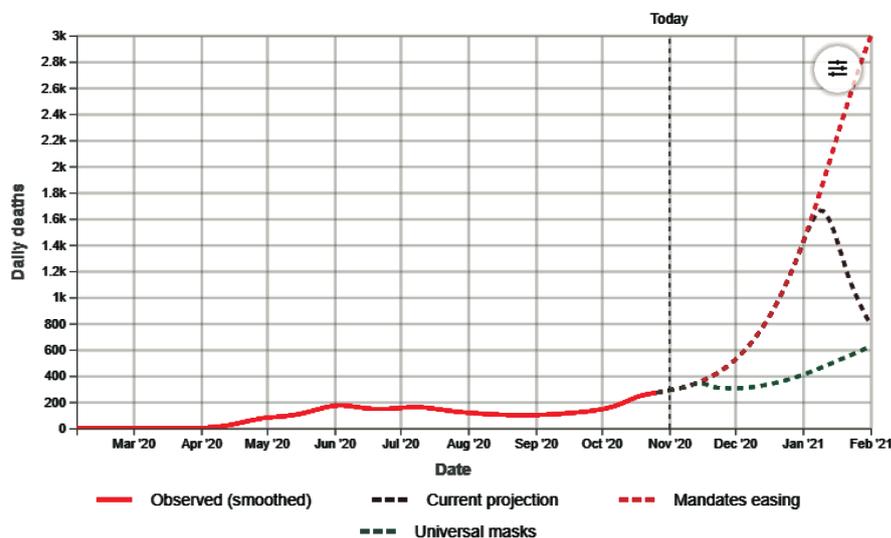


Fig. 9. Projection in death cases growth

Source: IHME Institute, according to data of October 29, 2020.

1 URL: <https://www.sberindex.ru/ru/dashboards/model-zabolevaemosti-dlya-rossii?partition=8>.
 2 URL: <https://pandemicnavigator.oliverwyman.com/forecast?mode=country®ion=Russia&panel=baseline>.
 3 URL: <https://covid19.healthdata.org/russian-federation>.

4. Monitoring the spread of the coronavirus pandemic ...

Further spread of coronavirus will be affected by the fall in temperature in Northern hemisphere. According to research, flue strengthens the adverse effect of COVID-19, increasing ACE2 receptor expression in the cells of airway epithelia as well as lung parenchyma,¹ and people infected with flue and coronavirus die 2-fold+ oftener than people infected by coronavirus alone.²

Reinfection with coronavirus as sources demonstrate is possible already 4–8 months later,³ cell immunity remains for half-year on average. 

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- 1 URL: <https://www.sciencedirect.com/science/article/pii/S0092867420305006>.
 - 2 URL: <https://www.medrxiv.org/content/10.1101/2020.09.18.20189647v2> (research at the Preprint stage).
 - 3 URL: <https://www.kommersant.ru/doc/4541426?fbclid=IwAR1jh1a2NWMtF-0vW6x5VqPXEMr5jVRp3YxxbNza6N3vEeYwDaKsp4jNYw>.