MONITORING OF RUSSIA'S ECONOMIC OUTLOOK:

TRENDS AND CHALLENGES OF SOCIO-ECONOMIC DEVELOPMENT

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1. TRENDS IN THE WORLD ECONOMIC DEVELOPMENT AND THE PROSPECTS FOR POST-CRISIS RECOVERY

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In Q3 2020, the pace of economic recovery in many countries turned out to be higher than expected. However, this growth only in part offset the deep recession that had been observed in Q2. In the majority of countries, output is well below its pre-crisis levels. The "second wave" of the epidemic has increased uncertainty about the prospects for further economic recovery. According to the latest estimates, the drop in global GDP expected for this year has been downwardly revised, from 5.0% to 4.5%, with an increase of 5% in 2021. The new containment measures introduced this autumn are fraught with the risks of a second significant decline in business activity and a surge in unemployment, and as a result, the forecasts for 2021 may get worse.

The situation in the global economy

In Q3, after the deep economic activity decline observed in most countries over the course of Q2 2020, which saw the peak of the first wave of the pandemic, output partly recovered relative to the previous quarter. Besides, its decline rate became slower compared to Q3 2019.

In the USA, the decline rate slowdown can be explained by the following factors: a) rapid growth in consumer spending, which was sustained by federal transfers (one-time direct payment of $1,200, and $600 extra in weekly unemployment benefits); b) an increase in investment in residential real estate due to the record low mortgage rates.

Among the Eurozone countries, France showed the fastest recovery, as the deviation of output volume relative to the pre-crisis year 2019 decreased from -18.9% in Q2 to -4.3% in Q3 relative to the corresponding periods of the previous year.

Among the developing countries, China's economy was an exception to the global economic development pattern, as it demonstrated growth over the course of Q2 and Q3 of this year. In Q3, output gained 4.9% on the same period of 2019, which happened due to a 5.8% increase in industrial production relative to the corresponding period of the previous year. Thus, in spite of the pandemic, the growth rate of the Chinese economy over the first nine months of 2020 amounted to 0.7% relative to the same period of 2019 (*Table 1*).

In Q3, the labor market saw a gradual recovery, although its progress was faltering and uncertain because of the new outbreaks of the coronavirus infection in several countries. The International Labor Organization (ILO) estimated the decline in working hours globally to be at the level of 12.1% in Q3 compared to Q4 2019, which is equivalent to the loss of 345 million full-time jobs.[1] At the same time, at the end of September, the ILO upwardly revised its estimated global working-hour losses for Q2, from 14% to 17.3% relative to Q4 2019, or 495 million

1 ILO Monitor: COVID-19 and the world of work. Sixth edition. Updated estimates and analysis, 23 September 2020. URL: https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/briefingnote/wcms_755910.pdf /.

full-time equivalent (FTE) jobs. The ILO also noted that in absence of the fiscal incentives, the working-hour losses in Q2 could have shot up to 28%.

Table 1

The growth rates of Russia's and OECD economies in 2020, as % relative to the same quarter of 2019

	Q1 2020	Q2 2020	Q3 2020
USA	0.3	-9	-2.9
Canada	-0.9	-13.0	-4.6
Australia	1.6	-6.3	-
Japan	-1.9	-10.1	-
Germany	-2.1	-11.2	-4.2
France	-5.8	-18.9	-4.3
Italy	-5.6	-17.9	-4.7
Spain	-4.2	-21.5	-8.7
UK	-2.1	-21.5	-
Eurozone	-3.3	-14.8	-4.3
EU	-2.7	-13.9	-3.9
China	-6.8	3.2	4.9
Brazil	-1.4	-11.4	-
Mexico	-2.1	-18.7	-8.7
India	3.3	-23.5	-
Indonesia	3.0	-5.4	-3.6
Russia	1.6	-8.0	-3.8
Turkey	4.4	-9	-
Saudi Arabia	-1.0	-6.1	-
South Africa	-0.2	-17.2	-

Source: OECD, Russia (RF Ministry of Economic Development).

Among the developed countries in Q3, the highest rates of decline in unemployment were observed in the USA and Canada (4.2 p.p. and 3 p.p. relative to Q2, respectively); this was the upshot of the resumption of their jobs by those employees who had been temporarily laid off during the lockdown.

On the contrary, in the Eurozone and the EU member states, unemployment increased from 7.6% and 6.9% in Q2 to 8.2% and 7.5% in Q3, respectively. This employment decline was due, in particular, to the reinstatement of their status of seeking and/or available for work by those individuals who had previously left the labor market because they had to care for their children during the period of social services shutdown.

Unlike the USA and Canada, in the European countries those employees who have been transferred to part-time work or sent on unpaid leave are not included in the number of unemployed. In terms of statistics, this fact, with due regard for the high effectiveness of the government employment support programs, helped prevent a surge in the official unemployment rate during the lockdown and the subsequent recovery period. In the UK, unemployment likewise increased in Q3, from 4.3% in Q2 to 4.8% (*Table 2*) in the wake of the drastic job cuts carried out by enterprises in September in expectation of the end of the government employment support program at the end of October.[1]

Among the developing countries, the labor market situation somewhat improved towards the end of Q3 in India, Mexico, and Russia, where the unemployment rate fell from 8.4%, 5.2%, and 6.4% in August to 6.7%, 5.1%, and 6.3% in September,[2] respectively.

1 The UK employment support program was expanded and prolonged until the end of March 2021 in anticipation of the new lockdown to be imposed from November 5 to December 2. Because the decision to extend the program was adopted with a delay (on November 5, i.e. after the end of the previous support scheme), it could not prevent the increased number of layoffs in September-October.

2 Rosstat. Employment and unemployment in the Russian Federation in September 2020. URL:https://rosstat.gov.ru/bgd/free/B04_03/IssWWW.exe/Stg/d05/200.htm/.

Table 2

The unemployment rates in Russia and OECD states in 2020, as % of labor force

	Q1 2020	Q2 2020	Q3 2020
USA	3.8	13.0	8.8
Canada	6.3	13.0	10.0
Australia	5.2	7.0	7.1
Japan	2.4	2.8	3.0
Germany	3.6	4.2	4.5
France	7.8	7.1	7.5
Italy	9.1	8.5	9.7
UK	4.1	4.3	4.8
Eurozone	7.3	7.6	8.2
EU	6.5	6.9	7.5
South Korea	3.7	4.2	3.8
Mexico	3.5	4.9	4.9
Russia	4.6	6.0	6.3
Turkey	12.7	14	-

Source: OECD; Rosstat (Russia); Office for National Statistics (UK).

The lifting, in Q3, of containment measures in many countries produced a slowdown in the world trade decline. According to UN estimates, in Q3 2020, after a sharp drop of 19% in Q2, the volume of world trade shrank by 4.5% relative to the corresponding period of the previous year.[1] For Q4, the world trade decline is projected at the level of 3%. The global trade recovery over Q3 was driven by the increased supplies of medical goods and the equipment needed for remote work, as well as by a rapid recovery in China's trade turnover (in Q3, its exports gained 10% relative to the same period in 2019).

The Global Composite PMI in October rose to 53.3 points vs 52.5 points in September, thus demonstrating its record high recovery rate of the last 26 months.[2] However, in October, due to the worsening epidemiological situation around the world, the by-country business activity recovery pattern turned out to be uneven. Among the developed countries, the undisputed leader in recovery was the USA, whose Composite PMI index in October stood at 56.3 points (its 20-month record high) vs 54.3 points in September. Besides, a significant recovery rate was observed in Australia: 53.6 points in October vs 51.1 points in September. In the UK and the Eurozone, on the contrary, due to the local restrictions imposed by the authorities in October in response to the new COVID-19 outbreaks, the pace of recovery slackened: the Composite PMI index fell from 56.5 and 50.4 points in September to 52.1 and 50 points in October, respectively.

In the developing countries, the business recovery patterns also differed notably. In Brazil and India, where the epidemiological situation began to improve over recent months, there was an acceleration in the pace of recovery – their Composite PMI amounted to 55.9 and 58 points in October vs 53.6 and 54.6 points in September, respectively. In Russia, due to an increase in the incidence of COVID-19 cases in October and the resulting record-high rate of decline in new production orders since May coupled with the sharply climbing raw materials costs caused by the ruble weakening, the Composite PMI index plunged from 53.7 points in September to 47.1 points in October.

1 UNCTAD Global Trade Update (October 2020). URL: https://unctad.org/system/files/official-document/ditcinf2020d4_en.pdf/.
2 News Release. J.P.Morgan Global Composite PMI™. Global economic growth fastest in over two years in October. URL: https://www.markiteconomics.com/Public/Home/PressRelease/b4b313be908a4d6f97b7f116cc969f98/.

World economic development forecasts

The mounting "second wave" of the pandemic had given rise to a high degree of uncertainty about the future development of the global economy. Meanwhile, in Q3, the majority of international organizations upwardly revised their global economy development forecasts for 2020 due to the faster-than-expected recovery in economic activity in Q2. World GDP in 2020 will decline by 4.5%, according to OECD estimates;[1] and by 4.4%, according to IMF forecasts.[2] Despite the fact that the contraction of the world economy is going to be less pronounced than previously expected, it will nevertheless become an unprecedented development of many decades. The international organizations agree that in most economies, GDP indices in 2021 will remain below their end-of-2019 levels, and significantly below the projections released prior to the pandemic. The IMF expects the global economy to demonstrate a growth of 5.2% in 2021, which is close to the OECD estimate of 5%.

By the end of 2020, the GDP index of the developed countries will drop by 6.5%, according to Moody's Analytics; and by 5.8%, according to the IMF. In 2021, growth in the group of developed countries will amount to 4.9% according to Moody's Analytics; and to 3.9%, according to the IMF (*Table 3*).

Table 3

Global economic growth rate projections for 2020, as % relative to 2019

	Moody's		IMF		OECD	
	As of June 22, 2020	As of August 25, 2020	As of June 24, 2020	As of October 13, 2020	As of June 10, 2020	As of September 16, 2020
World		-	-4.9	-4.4	-6	-4.5
Developed countries	-6.4	-6.5	-8.0	-5.8	-	-
USA	-5.7	-5.7	-8.0	-4.3	-7.4	-3.8
Japan	-5.8	-6.1	-5.8	-5.3	-6	-5.8
Germany	-6.7	-6.7	-7.8	-6.0	-6.6	-5.4
France	-10.1	-10.1	-12.5	-9.8	-11.5	-9.6
Italy	-9.7	-10.8	-12.8	-10.6	-11.3	-10.5
UK	-10.1	-10.1	-10.2	-9.8	-11.5	-10.1
Eurozone	-8.5	-9.0	-10.2	-8.3	-9.1	-7.9
Developing countries	-1.6	-1.4	-3.0	-3.3	-	-
China	1.0	1.9	1.0	1.9	-2.6	1.8
Brazil	-6.2	-6.2	-9.1	-5.8	-7.4	-6.5
Mexico	-7.0	-10.0	-10.5	-9.0	-7.5	-10.2
India	-3.1	-3.1	-4.5	-10.3	-3.7	-10.2
Russia	-5.5	-5.5	-6.6	-4.1	-7.4	-3.8
Turkey	-5.0	-5.0	-5.0	-5.0	-4.8	-2.9
Saudi Arabia	-4.5	-4.5	-6.8	-5.4	-6.6	-6.8
South Africa	-6.5	-6.5	-8.0	-8.0	-7.5	-11.5

This year, the GDP index of the developing countries will shrink by 3.3%, according to the IMF forecast; while Moody's expects a decline of 1.4%. In the group of developing countries, positive growth rates are expected only in China, which can be explained by its faster-than-expected recovery in business activity, as well as the massive government economic relief measures; thus, China's GDP growth rate for 2020 is expected to be 1.9% both by Moody's Analytics and the IMF; and 1.8%, according to the latest OECD estimates.

1 OECD Economic Outlook, Interim Report September 2020. COVID-19: Building confidence amid an uncertain recovery. URL: https://read.oecd-ilibrary.org/economics/oecd-economic-outlook/volume-2020/issue-1_34ffc900-en#page1/.
2 IMF World Economic Outlook, October 2020: A Long and Difficult Ascent. URL: https://www.imf.org/en/Publications/WEO/Issues/2020/09/30/world-economic-outlook-october-2020/.

The forecasts for all the other developing countries are far less optimistic because of the ongoing spread of the pandemic and the resulting extremely heavy blow dealt by it to the services sector. At the same time, the gradual opening of borders and the resumed traffic translated into upwardly revised forecasts for the current year for several oil-exporting developing countries. Thus, the IMF adjusted its forecast for Russia from -6.6% to -4.1%, and that for Saudi Arabia, from -6.8% to -5.4%.

The pace of economic recovery for the developing countries in 2021 is projected by the IMF and Moody's to be 6.0 and 5.9%, respectively. It is expected that the fastest recovery rate will be observed in China, where the economic growth rate, according to the IMF, Moody's, and OECD estimates, will be 8.2%, 7.0%, and 8.0%, respectively. At the same time, it is emphasized that the level of GDP across the developing countries will remain slightly below its pre-crisis level of 2019.

Among the key prerequisites that these forecasts rely upon, the following ones are noteworthy. First, it is assumed that the social distancing measures will continue in 2021. Second, vaccination will not become widely available to the population until the end of 2021. And finally, local outbreaks of COVID-19 will still happen, but the strict stay-at-home measures adopted in H1 will no longer be introduced.

The progress in developing vaccines and drugs to treat COVID-19 could make it possible to return to the pre-crisis levels of economic activity earlier than it is expected in the forecasts. Besides, the extension of fiscal stimulus measures over next year may also accelerate the economic growth recovery. However, in the event of repeated waves of the pandemic, or a slower progress in the development of or unequal access to the vaccines and drugs against COVID-19, the pace of economic recovery may become slower than projected in the forecasts as a result of newly introduced containment measures. In its turn, the toughening situation in the global financial market may push up the borrowing costs for the world's most vulnerable economies, thus also seriously compromising the prospects for their recovery.

The sharp deterioration, in late October and early November, of the epidemiological situation in a number of countries, and in particular in the Eurozone, has also increased the uncertainty about the future development of the world economy (which is high as it is), and it may trigger a further downward revision of the forecasts. Thus, the new lockdown imposed in the UK will last from November 5 to December 2; while those imposed in France and Germany will last from October 30 to December 1, and from November 2 to 30, respectively.[1] The reintroduction of containment measures implies the shutdown of businesses in the catering, sports, culture and entertainment sectors, as well as non-food retail outlets. However, according to the new regime, the operation of building construction enterprises will not be suspended, thus mitigating the negative impact of restrictions on business activity. Besides, it is assumed that after the "first wave", many firms have managed to adapt to selling through online channels, which is also expected to soften the negative effects of the new lockdowns.

1 Moody's Outlook. News and analysis. November 5, 2020 (pp. 33-35). URL: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1252273/.

2. THE FEDERAL BUDGET EXECUTION FOR 9 MONTHS OF 2020: RECORD BORROWINGS, GROWING EXPENDITURE

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At nine months-end 2020, the federal budget revenues contracted by Rb1,818.6 bn and expenditures went up by Rb3,040.9 bn against the same period of the previous year; the budget has been executed with a deficit to the tune of Rb1,773.3 bn. Contraction of revenues and ramping up of expenditures resulted in record non-oil and gas deficit which resulted in raising debt financing.

According to the RF Finance Ministry operational data, the federal budget revenues for January-September 2020 decreased by 1.9 p.p. of GDP on 9 months of 2019 down to 16.8% of GDP (*Table 1*) with a small underperformance of the federal budget cash execution to the tune of 74.5% for January-September 2019 against 64.2% for the same period of the current year.

The highest decrease by 2.8 p.p. of GDP has been recorded on oil and gas revenues of the federal budget including on MET down by 2.1 p.p. of GDP and on export duties by 0.7 p.p. of GDP. Basic oil and gas revenues for January-September 2020 amounted to Rb4,031.6 bn against Rb3,744.8 bn for 9 months 2019.[1]

The amount of additional revenues for January-September is negative to the tune of Rb177.5 bn. However, the difference between the actually received and basic oil and gas revenues in monthly values has been shrinking: in May this year it amounted to Rb248.3 bn, in July Rb140.3 bn, in August and September decreased to Rb48.0 and Rb28.8 bn, respectively. Obviously, at the year-end the volume of basic revenues will equal the volume of actual oil and gas revenues.

Table 1

The main parameters of the federal budget for 9 months of 2020

	January-September 2019			January-September 2020			Deviation, 2020 to 2019	
	Rb mn	% GDP	Cash execution, %	Rb bn	% GDP	Cash execution, %	Rb bn	p.p. of GDP
Revenues, including:	1 5034.7	18.7	74.5	13 216.1	16.8	64.2	-1 818.6	-1.9
–oil and gas, including	5 961.7	7.4	72.3	3 652.0	4.6	51.2	-2 309.7	-2.8
–MET	4 550.7	5.7	76.2	2 861.1	3.6	49.5	-1 689.6	-2.1
– export duties	1 411.0	1.7	62.0	790.9	1.0	45.5	-6 20.1	-0.7
–non-oil and gas, including:	9 073.0	11.3	76.0	9 564.1	12.2	71.6	491.1	0.9
–corporate income tax	918.0	1.1	77.5	820.1	1.0	67.4	-97.9	-0.1
–VAT on goods sold in RF	3 160.1	3.9	74.2	3 001.1	3.8	65.9	-159.0	-0.1
– VAT on goods imported to RF	2 031.9	2.5	71.6	2 007.9	2.6	66.5	-24.0	0.1
–excises on goods sold in RF	395.0	0.5	75.7	775.9	1.0	70.1	380.9	0.5

1 With adjustments to excise refund.

	January-September 2019			January-September 2020			Deviation, 2020 to 2019	
	Rb mn	% GDP	Cash execution, %	Rb bn	% GDP	Cash execution, %	Rb bn	p.p. of GDP
–import customs duties	521.9	0.7	72.8	475.5	0.6	70.8	-46.4	-0.1
–other revenues	2 046.1	2.6	84.4	2 483.6	3.2	93.5	437.5	0.6
Expenditures, including:	11 948.5	14.9	62.4	14 989.4	19.1	63.2	3 040.9	4.2
– interest	532.2	0.7	65.0	532.6	0.7	59.4	0.4	0.0
– non-interest	11 416.3	14.2	66.0	14 456.8	18.4	77.0	3 040.5	4.2
Surplus (deficit) of budget	3 086.2	3.8		-1 773.3	-2.3		-4 859.5	-6.1
Non-oil and gas deficit	-2 875,5	-3,6		-5 425,3	-6,9		-2 549,8	-3,3
GDP (in current prices), Rb bn	80 230			78 500				

Sources: Ministry of Finance, Federal treasury, own calculations. GDP for H1 2020 – own calculations.

Non-oil and gas revenues of the federal budget for 9 months of 2020 went up by 0.9 p.p. of GDP or by Rb491 bn against 9 months of the previous year. Having said that, there was a decrease in revenues by 0.1 p.p. of GDP on income tax, domestic VAT and import duties, VAT on imports, and domestic excises by 0.1 and 0.5 p.p. of GDP, respectively. Growth was mainly due to non-oil and gas revenues and owing to the deal on purchase of Sberbank block of stocks.

Growth of the federal budget revenues has been ongoing. If at the period-end of January-March, they moved up by Rb693.8 bn (to the corresponding quarter of 2019) and for 6 months of 2020 to 6 months of 2019 up by Rb2,060.9 bn then at 9 months-end of 2020 to the same period of the previous year expenditures went up by already Rb3,040.9 bn (*Table 2*) or by 4.2 p.p. of GDP at the comparable level of cash execution of the budget (62.4 and 63.2%, respectively).

Table 2

The federal budget expenditures for 9 months of 2019–2020.

	January-September 2019			January-September 2020			Deviation, 2020 to 2019	
	Rb bn	% GDP	Cash execution,%	Rb bn	% GDP	Cash execution,%	Rb bn	p.p. of GDP
Expenditures, total, including:	11 948.5	14.9	62.4	14 989.4	19.1	63.2	3 040.9	4.2
Nationwide Issues	853.1	1.1	52.3	1 017.7	1.3	67.7	164.6	0.2
National Defense	2 018.1	2.5	62.8	2 190.2	2.8	66.1	172.1	0.3
National Security and Law Enforcement	1 333.4	1.7	59.1	1 473.1	1.9	62.4	139.7	0.2
National Economy	1 430.8	1.8	49.5	1 785.6	2.3	51.1	354.8	0.5
Housing and Utilities	152.6	0.2	54.2	281.8	0.4	73.5	129.2	0.2
Environmental Protection	145.4	0.2	74.2	182	0.2	60.3	36.6	0.1
Education	555.6	0.7	62	631.9	0.8	62.3	76.3	0.1
Culture and Cinematography	72.3	0.1	51.7	86.1	0.1	59.4	13.8	0.0
Healthcare	482.3	0.6	65.1	928.1	1.2	71.3	445.8	0.6
Social Security Policy	3 599.4	4.5	74.1	4 768.9	6.1	81.6	1 169.5	1.6
Physical Culture and Sports	38.2	0.0	42.9	40.7	0.1	54.7	2.5	0.0
Mass Media	63.1	0.1	69.9	66.9	0.1	60.2	3.8	0.0
Public Debt Servicing	532.2	0.7	65	532.6	0.7	59.4	0.4	0.0
Intergovernmental fiscal transfers	671.5	0.8	64.5	1 003.7	1.3	77.7	332.2	0.4

Sources: Finance Ministry of Russia (operational data), Federal Treasury, own calculations.

The heist growth is reported on expenditures allocated for support of the economy and social sphere in the wake of pandemic including lines: "social policy" up by 1.6 p.p. of GDP (Rb1,169.5 bn), "healthcare" by 0.6 p.p. of GDP (Rb445.8 bn), and "national economy" by 0.5 p.p. of GDP (Rb354.8 bn). Considering the fact that the total relief package earmarked for the economy and social sphere in the wake of the pandemic was estimated at Rb3 trillion[1] and the impact of factors hindering economic recovery is ongoing, one can suppose that at the year-end expenditures would increase by another Rb1 trillion compared to the previous year. Consequently, total expenditures will hit Rb4 trillion without taking into account support for certain public companies from the NWF funds.

At the period-end of January-September 2020, the federal budget deficit hit 2.3% of GDP against surplus of 3.8% of GDP for the same period of 2019. Non-oil and gas deficit moved up from 3.6% of GDP to 6.9% of GDP.

In January-September 2020, Rb2,822.6 bn was borrowed on the domestic market up by 1.2-fold against the approved annual amount of borrowing. It should be noted that at October-end and in early November the Finance Ministry raised borrowing to Rb5 trillion which is rather predictable taking into consideration the level of non-oil and gas deficit of the federal budget at 9 months-end. As on October 1 of this year, the amount of the National Wealth Fund in ruble equivalent amounted to Rb13,733.0 bn, in last two months of Q3 part of the funds to the tune of Rb60.8 bn were earmarked to deficit financing of the federal budget.

In view of this, significant contraction in the revenue part of the federal budget and somewhat ramp up in its expenditure part resulted in a record high non-oil and gas deficit. This, in its turn, determines the need of raising deficit financing. Despite the fact that large scale borrowings effected in autumn 2020 did not result in a serious growth rates on public borrowing, the government bond yields come to above 6% (taking into account the maturity dates on raised debt from 7 years and above). The economy should grow at 3-4% per year in order to avoid sharp increase in expenses on debt servicing. Ramping up of the public debt poses risks for the budget sustainability in the future because recovery of the revenue part will be going expectedly slowly due to several factors. Firstly, slow recovery of the world economy determines low rates of oil price recovery to the pre-crisis level. Secondly, unclear prospects of pandemic end and, consequently, recovery of the Russian economy. Thirdly, emerging trend of corporate losses can create problems with proceeds from the corporate tax income in the future.

1 URL: http://covid.economy.gov.ru.

3. REGIONAL BUDGETS IN THE CONTEXT OF THE CRISIS

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At first three quarters-end 2020 in relation to the corresponding period in 2019, revenues of the consolidated regional budgets rose by 5.1%. Despite the unfolding "second wave" of pandemic, own tax and non-tax revenues of the consolidated budget of Russia's subjects have been sustainable and do not reveal high rates of decline in autumn this year. By contrast with previous crisis periods current regional policy of the RF Government opts for provision of additional fiscal transfers against budget loans which allows subjects to execute all current expenditure commitments practically without raising the debt burden. Change in the expenditure structure of regional consolidated budgets has an obvious anti-crisis character. Expenditures have been growing significantly faster than inflation. Regional debt burden stays at a rather low level.

Revenues

According to data released by the Federal Treasury on the budget execution at first three quarters-end 2020, overall amount of revenues of the consolidated budget of Russia's subjects compared to the same period in 2019 moved up by 5.1% amounting to Rb9.97 trillion. At the same time, proper tax and non-tax revenues contracted by 5.2% and growth in total volume of the consolidated budget revenues of the RF subjects was ensured by transfers from the federal budget which increased by 57.3%. All types of intergovernmental fiscal transfers have been growing: grants (up by 50.2%), subsidies (up by 98.2%), subventions (up by 51.6%), and other intergovernmental fiscal transfers (up by 36.9%).

Meanwhile, tax and non-tax-revenues dynamic starts changing in recent months: if during H1 2020 against H1 2019 contraction stood at 7.2%, then in Q3 they decreased by merely 1.1% and September saw growth by 17.2%. Even in October when the morbidity rate commenced growing and surpassed string rates, according to preliminary data tax and non-tax revenues of consolidated regional budgets contracted by merely 5.5% against 29.3% and 19.8%, respectively in April and May 2020.

At 9 months-end, among the principal sources of revenue growth for the consolidated budgets of the RF subjects the highest decline was reported on corporate profit tax down by 14.8%. Proceeds from the corporate profit tax somewhat accelerated decline (-16.9% in Q3 against -13.9% in H1). Proceeds from aggregate income tax contracted to a lesser degree (-6.4% for 9 months of which +5.3% - in Q3, and -11.4% for H1) and from property tax (-5.5%, -2.3%, and -7.2%, respectively), but PIT (+3.7%, +10.6%, and -0.1%, respectively) and excises (+6.5%, +12.2%, and +3.2%, respectively) demonstrated aggregate positive growth.

Speaking of tax and non-tax revenues dynamic of consolidated budgets of Russia's subjects, it should be noted that mostly they contracted in worse-off regions. Calculation demonstrate that correlation coefficient between growth rates of tax and non-tax revenues during 9 months 2020 and the level of imputed fiscal capacity of regions[1] equals -0.4. Thus, as it was observed during previous crises now there is a contraction in differentiation in fiscal capacity of well-off and worse-off regions.

In its turn, when distributing additional transfers among Russia's subjects in 2020, the current dynamic of tax and non-tax revenues was taken into account (more additional funds received those regions that faced the higher decline in proper revenues). For example, correlation coefficient between growth rates of tax and non-tax revenues of consolidated regional budgets for 9 months 2020 and increment during the same period of the total volume of intergovernmental fiscal transfers without subventions constitute -0.5 per capita. When distributing additional transfers, they also took into account the level of fiscal capacity (shortfall in revenues at more well-off regions were offset to a lesser extent). Clear negative dependence has been traced between the level of fiscal capacity of regions and growth rates of consolidated regional budgets for 9 months 2020 (corresponding correlation coefficient stands at -0.7).

Only 14 subjected have faced current decrease in consolidated budgets revenues. Having said that, half of them are regions with high fiscal capacity (with fiscal capacity over 1) boasting of sufficient safety margin allowing to bridge through a period of decrease in revenue by 10–20% without great problems, and another half faced relatively small decrease in revenues (from -0.3 to -4.4%). The latter it is not critical either because, firstly, tax and non-tax revenues of regions on the whole commence recovering and, secondly, out of Rb300 bn of additional financial assistance to the regions in 2020 earmarked for ensuring fiscal sustainability of the subjects at 9 months-end was allocated solely Rb200 bn and another Rb100 bn is expected to arrive before the end of the year.

Consequently, by contrast with the previous crisis periods, the Policy of Russia's Government this year in relation to regions envisages allocation of additional intergovernmental fiscal transfers which allows subjects to execute all current expenditure commitments practically without raising loans.

In the context of decline in proper tax and non-tax revenues the issue of sources of income base growth for regional and local budgets arises. According to RANEPA experts' calculations made in the framework of research on the impact of transfer of tax deductions ratios to the local level on tax base growth, ensuring local budgets with additional ratios of tax deductions levying due to a simplified taxation procedure as well as on PIT positively affect the tax base across corresponding taxes.[2] At the same time, there was not obvious positive effect in case of ensuring corporate profit tax and corporate property tax deductions.

These estimates speak in favor of hypothesis that having financial incentives (that emerge at taxes transfer to the local level) the local authorities can more efficiently that the regional ones influence the4 development of small and medium-sized business. Calculations findings can be used in formation of intergovernmental relations and determination of structure of financial assistance to regional budgets.

1 Level of fiscal capacity of RF subject is determined according to methodology approved by Decree of the RF Government dated November 11, 2004 "On Distribution of Equalization Transfers of RF Subjects."

2 Calculations were made within Research Project "Study of Impact of Regional Interbudgetary Policy on Economic Growth" in the framework of state order for 2020.

Expenditures

Consolidated budgets expenditure of Russia's subjects during 9 months 2020 compared to the same period in 2019 increased by 17.4% hitting Rb10.3 trillion. This being said, in Q3 growth rates slowed down somewhat compared to H1 – 14.7% against 18.9%. Deceleration was unfolding in October (increment to October 2019 by 14.0%). Expenditure growth was observed in 84 regions and only in the Kaliningrad regions (-0.8%) they decreased slightly.

The structure of expenditure of the consolidated budgets of Russia's subjects at 9 months-end 2020 compared to the same period in 2013–2019 saw a decrease in the share of expenses on nationwide issues (5.9% although previously the share was always above 6.2%), agriculture and fisheries, education (the lowest level from 2013). This being said, the proportion of expenses on social policy (mainly on item "family and childhood protection" from 3.2% during 9 months 2019 to 4.8% over the same period in 2020), as well as health care (from 8.3% to 12.8%) which is obviously due to the implementation at regional level of package of anti-crisis measures.

Fiscal equilibrium and public debt

The federal center attempts in financial assistance to Russia's subjects reflected on the regional public debt dynamic: as of October 1, it amounted to Rb2.18 trillion up by 9.4% for the same date in 2019.[1] During the 2008–2009 crisis, as well as in 2013-2015 annual growth rates of public debt constantly exceeded 20%.

Owing to a reduction in revenues of Russia's subjects' budgets, the average debt burden of regions[2] also went up from 21.2% in late 2019 to 24.2% in late September 2020. However, it remains below the level reported in September 2018 and is far from September maximum of 34.2% seen in 2015.

Taking into account changes in the federal policy in relation to regions revealed during the 2020 crisis, one can project an absence of debt problems at the regional level in the coming three years.

1 Due to seasonality, it is inexpedient to analyze the level of regional public debt dynamic for a period non-divisible by 12 months (for example, from the start of the year).

2 Debt burden of a region is determined as a ratio of its public debt to the volume of tax and non-tax budget revenues over last 12 months.

4. INTEGRATION OF YOUNG PEOPLE INTO THE LABOR MARKET AND THE SPECIFIC FEATURES OF THEIR EMPLOYMENT DURING A PANDEMIC

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During a pandemic, the majority of young people find a job by using their connections. The relative share of those who believed that it was difficult to find a job that matched their chosen specialty was 40% among the surveyed young people who had received a high-quality education and worked outside of their specialty. 14.2% of the respondents experienced delays in their salary payments. Most of all, young people are afraid of not meeting the expectations of their future employers, not finding a job, and not finding a well-paid job.

In the survey conducted by the RANEPA's Center for Lifelong Learning Economics, the sample consisted of 903 graduates of secondary vocational schools (SVS) and 1,014 graduates of higher educational establishments (HEE). The survey took place in July-August 2020 in urban settlements across three regions ranked by their socio-economic development criteria (Volgograd, Samara, and Sverdlovsk regions). Some of the respondents included in the sample graduated from SVSs and HEEs in previous years.

The situation faced by SVS graduates in the labor market during the current pandemic

Regardless of their own estimation of the quality of education that they had received,[1] young men estimated the degree of difficulty experienced by them while finding a job similarly: half of them believed that they had found a job with sufficient ease; a little more than a third of them thought that they had experienced sufficient difficulty while doing so; and 13% were sure that it had been very difficult. In contrast, among the young women who had trouble finding a job, the relative share of those who had received a high quality education was smaller (*Table 1*).

The respondents, regardless of the estimated quality of education that they had received, pointed out their acquaintances to be their main employment channel. The second channel turned out to be an independent job search, and it was used by 21.5% of respondents with high-quality education and by 19.4% of respondents with low-quality education (20% overall). Among the survey participants, 13.5% of those with high-quality education and 9.3% of those with low-quality education were helped in finding a job by the recruitment service of their educational establishment. 5.4% of the graduates found a job with the help of a government employment service.

1 28.8% of the respondents rated their education quality to be high; 64.9% of them considered it to be average; 6.3% of respondents thought their education quality to be low.

Table 1

First job characteristics, by self-estimated education quality and gender groups, % by column

Characteristics	Received high quality education		Received low quality education	
	young men	young women	young men	young women
Hardships when searching for job				
Sufficiently easy	50.0	70.8	51.0	52.6
Sufficiently difficult	34.2	25.6	38.8	35.6
Very difficult	17.9	3.7	10.1	11.7

The share of those satisfied with the terms of their first job among those who had received high-quality education turned out to be twice as high as among those who had received a lower-quality education (41% vs 23%).

The relative share of those who believed that it was difficult to find employment in their chosen specialty was 40% among those young people who had received high-quality education and were working outside of their specialty. 37% were employed outside of their specialty because of the low remuneration offered by the organizations and companies corresponding to their educational profile. A quarter of the respondents with high-quality education chose a job outside of their specialty because they found it to be more interesting. Thus, the respondents with low-quality education and those employed outside of their specialty (with both high- and low-quality education) were distributed almost evenly across the groups composed depending on the reasons for getting a job that did not match their specialty.

The pandemic dramatically changed the situation in the Russian labor market. The tools of adapting to it were job cuts, and changes in working conditions and remuneration levels. Overall, 19.8% of the respondents with secondary vocational education were switched over to remote work; 27.4% of respondents noted a reduction in their workload; and 25.9% of respondents, on the contrary, said that it had increased. For 19.7% of respondents, their remuneration was reduced significantly; for 23.7%, it was reduced only slightly. 14.2% of respondents experienced delays in their salary payments. At the same time, 9.5% of respondents noted an insignificant growth in the amount of their remuneration, and 4.2% said that it increased significantly.

Among the respondents with secondary vocational education, 25.8% of young women and 14.3% of young men switched over to a remote work format. A switchover to remote work was reported in the main by young women employed in the education sector (25.0%), trade and services (22.3%), and in the financial sector (11.6%). The young men who worked remotely were employed in the main in the field of ICT (26.9%), trade and services (17.9%), and the technical sphere (9.0%). Overall, in the group of respondents with secondary vocational education, a switchover to remote work was reported by 16.8% of those employed in trade and services, 64.7% of those employed in the education sector, and 44.4% of those employed in the culture and recreational services sector.

The workload was decreased for young women employed in trade and services (32.0%) and the education sector (19.5%); these were kindergarten tutors and tutors at extracurricular educational services for children. Among young men, the workload decreased primarily for those employed in the building construction (21.0%) and services (22.7%) sectors.

Overall, a workload increase during the pandemic was noted by 33.9% of respondents employed in the ICT sector, 61.4% of those employed in the health care sector, and 29.4% of those employed in the education sector. In the health care sector, the increased workload of nursing personnel was predetermined by the growing number of patients with COVID-19; in the education sector, the workload of primary school teachers increased due to the switchover of students to a remote learning format.

According to the survey results, 23% of young women on average said that their salary during the pandemic shrank either significantly or slightly. A tangible remuneration shrinkage was noted by 27.5% of the respondents employed in the education sector, by 37% of those employed in the culture and recreational services sector, by 29% of those employed in the ICT sector, and by 26.4% of those employed in trade. A slight remuneration decrease was reported by 27.5% of the respondents employed in the education sector, by 25.8% of those employed in the ICT sector, and by 28.7% of those employed in the building construction sector.

16% of young men were faced with a noticeable decrease in their remuneration, and 24% of them reported a slight decrease. The young women whose remuneration was reduced were mainly employed in the services sector (40.4% among those whose remuneration shrank significantly) and the education sector (11% on average). A significant plunge of their remuneration was also noted by 9% of those young women employed in the health care sector whose work did not involve providing medical care to patients diagnosed with the coronavirus infection. The young men who pointed to a significant shrinkage of their salary were in the main those employed in the ICT and transport sectors (15.8% each), as well as in the services sector (13.7%). The young men who reported a slight decrease in their remuneration worked in the building construction sector (23%), and in the trade and services sector (18.6%).

At the same time, 10.6% of young women noted that their salary increased insignificantly; among these, a third were employed in the health care sector, and another third, in services and trade. A remuneration increase was also noted by some young men: 8.6% of the respondents noted that it was insignificant, and 4.5%, that it was significant.

Thus, the main employment channel was the reliance on acquaintances. Higher quality education contributed to the respondents' greater job satisfaction. At the same time, many young men and women experienced difficulties in finding a job that matched their specialty. A higher or reduced workload, similarly to an increase or reduction in remuneration during the pandemic, depended on their being employed in a particular field of activity (health care, trade and services, ICT).

The employment of university graduates during the current pandemic

According to HeadHunter's surveys, in a pandemic, young people are more likely than other groups of respondents to experience employment anxiety. Only 11% of young people under 25 years of age do not report that particular fear.[1] Most of all, young people are afraid of not meeting the expectations of their future employer (40%), of not finding a job (39%), and of not finding a well-paid job (39%). In April and May, compared to February 2020, the total number of vacancies shrank by 26%. At the same time, there was not such a major decline in vacancies as during the 2008–2009 and 2014–2015 crises; and by June 2020, in many Russian regions, the demand for workforce not only returned to its previous level, but even increased.[2]

1 Over August 14-24, 2020, the survey team at hh.ru conducted a survey of more than 8,500 Russian job seekers, asking them about their fears associated with the process of finding a job. URL: https://hh.ru/article/27424.
2 URL: https://hh.ru/article/27176.

According to the results of the youth employment survey conducted in July-August 2020, 35.1% of the young people with higher education found their first job with the help of their relatives, friends and acquaintances; 15.5% them responded to a job vacancy advert; and 10.3% of them found their first job by sending out a resume. If these data are compared with the results of the previous surveys, it can be found that in 2017, 37.3% of young people with higher education found their first job with the help of their relatives, 18.1% of them responded to job vacancy adverts, and 13.2% of them looked for and found a job by sending out a resume.

Thus, most often, young people get their first job by taking advantage of their acquaintances. Consequently, successful employment for young people during the pandemic, as before, was largely determined by the available vacancies in the labor market and their social connections.

On average, during the first wave of the pandemic, 38.1% of the employed young people with higher education participating in the survey switched over to remote work. The largest shares of young people working remotely were employed in the culture and recreational services sector (80%), as well as in the education sector (71.4%). In most cases, young people with an education in natural sciences (75%) and humanities (72.7%) likewise switched over to remote work. Among the young people with higher education who switched over to remote work, only a minority were employed in the health care sector (8.3%), in the police and law enforcement agencies (9.1%), and in the building construction and repair services sectors (11.9%)

Slightly less than a third of respondents (32%) said that their workload had increased as a result of the pandemic, while a quarter of those surveyed said that it had been reduced. The highest workload increase was noted by the respondents who were employed in the following sectors: health care (83.3%), education (45.7%), police and law enforcement (45.5%). According to the survey results, the largest workload shrinkage was observed in the sectors of culture and recreational services (80%); psychology, sociology, PR and advertising services (52%); and sports (41.7%).

A significant remuneration growth was noted by 3.4% of respondents (18.8% in the health care sector), while 10.2% of young people reported a slight increase in their remuneration level (this opinion was expressed by a third of the surveyed young people employed in the police and law enforcement agencies, as well as in the health care sector).

A significant remuneration shrinkage during the pandemic was pointed out by 16.4% of respondents; a slight remuneration decrease was noted by 22.9% of respondents. Most often, remuneration was reduced in the sectors of sports (this was reported by 50% of those employed there), culture and recreational services (40%), trade, catering, and services to the population (29%). Delays in their salary payments were experienced by 8.6% of respondents. Most frequently, salary payments in arrears were noted by the young specialists with higher education employed by private organizations (10.4%). Only 5.7% of those who worked in government or budget-funded organizations reported delays in their salary payments.

Thus, the group of university graduates displays approximately the same trends as does that of graduates of secondary vocational schools: they find a job primarily by using their acquaintances; and their workload and remuneration depend on a specific field of activity.