MONITORING OF RUSSIA'S ECONOMIC OUTLOOK:

TRENDS AND CHALLENGES OF SOCIO-ECONOMIC DEVELOPMENT

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1. THE IMPACT OF PANDEMIC ON FERTILITY IN RUSSIA: A FEW ASSUMPTIONS FOR THE FORECAST

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The article contains a concise review of the research related to the impact of economic crises and pandemics on fertility in developed countries. The significance of the outcome of these studies is under consideration designed to forecast changes in fertility resulted from the pandemic in Russia, as well as to plan state policies to support fertility under the new circumstances.

The demographic effects of the new coronavirus pandemic are now the subject of active discussion in this country. The probable impact of pandemic on fertility is also under consideration. It is difficult to make any forecasts because the number of pandemic-related factors that may be significant for population reproduction is unclear yet. Some of these factors are evident, such as, for example, the economic downturn caused by quarantine measures, threatening rising unemployment and falling incomes of potential parents. However, it cannot be excluded that other changes will also have an impact on fertility, thus, for instance, public awareness of the future risks of dangerous viral infections outbreaks or changes in the day-to-day routine associated with the long- term switch to the online format of a large number of employees and mass emergence of "home offices". The factors capable to influence the birth rate in Russia under new circumstances have not been yet determined, and the international experience serves as an important source for estimating the potential fertility dynamics in the country, namely, data on the changes in fertility in other countries that experienced a somehow similar situation.

The experience of developed countries is of the greatest relevance for Russia. This article focuses on two issues:

1) The impact of economic crises on fertility rate in the developed countries;

2) The impact of the viral infections outbreaks on fertility rate in these countries.

The article summarizes principal results of existing research on these two issues. The final part of the article focuses on the significance of these results for forecasting changes in fertility due to the pandemic in Russia, as well as for planning state policies to support the fertility amid new conditions.

Economic crisis 2008–2011 and fertility in developed countries

If we aim to assess the impact of economic crises on fertility in developed countries, then, the history of the recent approximately hundred years provides us with seemingly a lot of materials, as economic crises in Europe and North America happened routinely during this period. However, a closer look reveals that the analysis of their impact on the fertility rate is challenging for some of these crises. Particularly, it relates to crises of the second half of the XX century, i.e. the global economic crisis of the 1970s and the Southeast Asia crisis in 1997–1998.

The difficulty is that fertility rate declined steadily in the countries, worst affected by these crises even before their onset. The decline continued during

and after the crisis, however, it is not clear whether this crisis intensified the long-term trend and to what extent.

The 2008–2011 global economic crisis provides more opportunities for the analysis. It differs from its "elder brothers" because it has hit most of the European and North American countries in the period of the fertility growth. This growth followed the fertility dramatic decline in the previous decades with a number of historical "anti-records" have been set. Thus, the total fertility rate fell below the level of 1.3 children per female in a number of European countries for the overall statistical period in 1980–1990s. Researches put forward arguments of a massive delay of childbearing at later ages as the main factor in the decline in fertility in developed countries at the end of the 20th century.

At another point, it can be explained by significant value-based shifts in the European communities, i.e. approving equal relations between the sexes, rejecting the concept of compulsory marriage and having a child by a certain age[1]. As for Central and Eastern Europe, the decline in fertility started mainly in the 1990s and was associated with the collapse of communist regimes and the ensuing economic challenges. Fertility growth, which replaced the decline just before the onset of crisis is associated in some countries with the launch of new governmental programs aimed to support households with children; likewise, it was driven by economic stabilization in the 2000s in post-communist countries.

While the possible explanations of the rise in fertility prior to the crisis are very diverse, the researchers unanimously associated its new decline, which started in most European countries and North America in the late 2000s, with the impact of the crisis. Moreover, *Fig. 1* provides an example of several European countries demonstrating a different scale of the "crisis" decline in fertility. Generally, the decline in fertility after 2008 was more evident in Northern and Southern Europe. However, in Eastern, Central and Western Europe, the situation was different from country to country.

For example, the birth rate in Estonia started to gradually shrink after the year 2010; Czech Republic experienced a short-term decline in the birth rate at the same period and quickly returned to growth; the pre-crisis fertility growth stopped in France but did not result in decline; growth continued in Germany even during the crisis.

These differences in the fertility dynamics between the countries in time of crisis seem partially "illogical". The fact is that the Scandinavian countries, unequivocal leaders in the fertility decline, survived the crisis more successfully than many other countries: a decrease in GDP, an increase in unemployment in 2009–2011 were one of the smallest there among European countries. This "Scandinavian fertility paradox" remains eventually unexplained in current demographic studies. In any case, it confirms that the fertility pathway of this country does not "blindly" follow the path of economic changes and is determined by a complex variety of factors.

Nevertheless, the overall role of economic downturn in declining fertility after 2008 has been confirmed by numerous studies in respect of developed countries. At the same time, the unemployment was found the most notable economic factor affecting fertility. Studies that examined fertility not only in terms of countries but also regions provided significant confirmation. Thus, statistical modeling for all 258 regions of the EU member countries proved that decline in the fertility on the regional level was more evident in the regions affected by growth of unemployment [2]. The importance of unemployment vs fertility grew precisely during the crisis, and this was a significant conclusion:

a similar study arranged in 2001–2007 found a much weaker connection between the dynamics of unemployment and the fertility across the regions of European countries. Moreover, during the crisis years, the relationship between the fertility dynamics and unemployment was most evident in the countries of Southern, Central and Eastern Europe, i.e. exactly in those European countries most affected by the crisis [3].

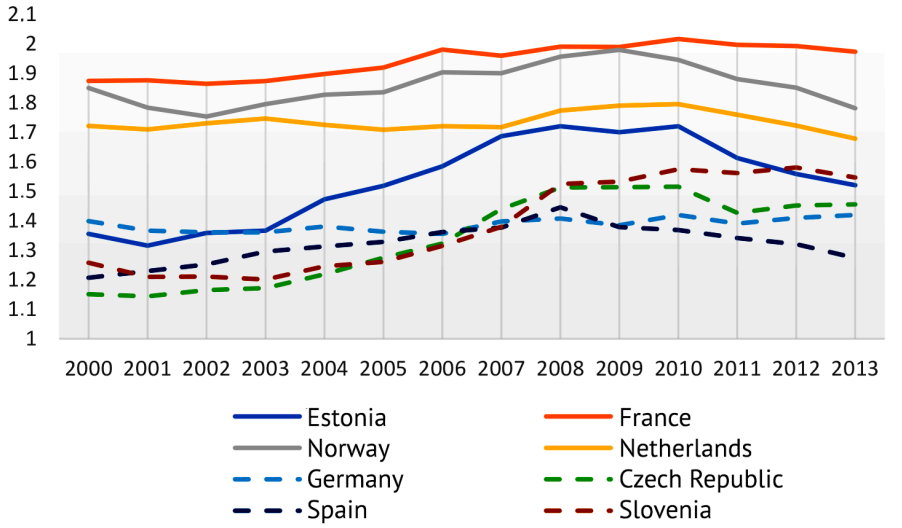

Fig. 1. Aggregate fertility in some European countries, 2000–2013

Source: Human Fertility Database (www.humanfertility.org).

Interestingly, it is not only the aggregate unemployment country rate but also the rate of unemployment among women that was important for fertility amidst crisis [4]. This confirmed that families in the developed countries are simply not prepared yet to return to the traditional gender scheme, where "husband is a breadwinner and wife is a guardian of the hearth." It is frequently more important in the modern societies that both parents have prospects at the labor market, so that to decide about childbearing.

The crisis had a different impact on fertility in various age groups: thus, generally, the fertility of females under thirty years old declined stronger in the period of crisis. *Fig. 2* shows the average percent changes in the age fertility rates across EU countries in 2008 compared to 2003 and in 2013 compared to 2008. It is apparent that growth in fertility rate of the females 30+ slowed down, however, continued during the crisis, while fertility rate of young people declined during the crisis years. It can be logically explained by more precarious positions of young people in the labor market, higher economic risks in times of crisis. Many researchers, however, explain this age asymmetry also by the fact that young people in developed countries considered to postpone childbearing to older ages, which now acquired additional economic justification. At the same time, older women who do not have ample time reserve to postpone childbearing, were not often prepared to abandon plans to become a mother in time of crisis. The following asymmetry between the first and second child turned out to be typical for European countries (it is justified to individually consider children of these orders separately in event of a very low birth rate of the third and subsequent children in developed countries): fertility of the first child decreased significantly among females under thirty, while fertility

of the second, but not the first child, significantly declined among females 30+ [5]. Thus, focusing on having at least one child was "stronger than crisis", if the female's age prevented her to postpone childbearing to better times.

However, this pattern existed mainly only in Europe: a reduction in fertility rate of the first children was also observed in the USA in females who remained childless at the age of 35. In the USA, this led to the growth of the so-called "ultimate childlessness" [6].

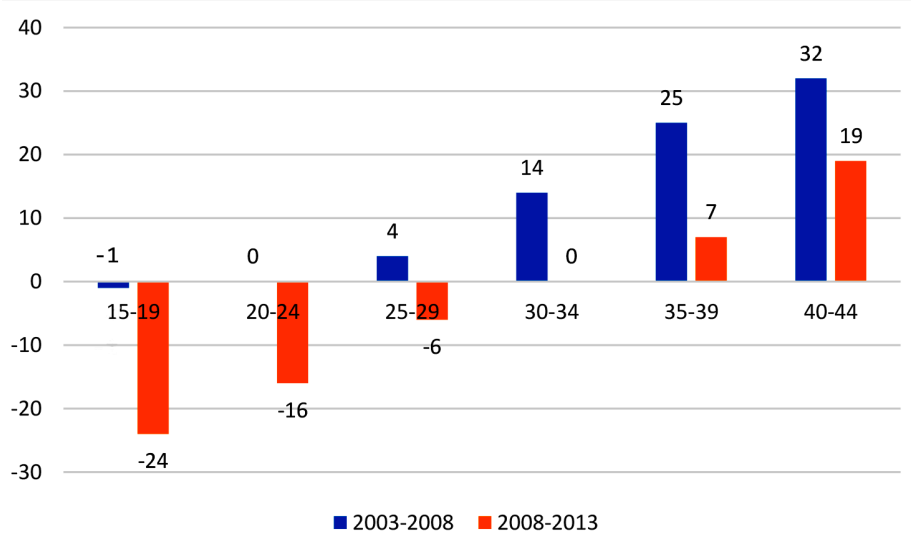

Fig. 2. Percentage changes in age-specific fertility rates in the EU countries in 2008 compared to 2003 and in 2013 compared to 2008

Sources: [2]; shows the average changes for the EU countries, weighted by the number of households by country.

Although most authors agree that the decline in fertility was primarily associated with the situation at the labor market, there are a few who question the adequacy of the very concept of "unemployment" for fertility research in developed countries in modern time, including during periods of crisis. The point is that changes in the economies of these countries in the 1990s and 2000s have largely "washed out" the usual binary opposition "employed vs unemployed." The "project" nature of employment in the growing post-industrial sphere, the predominance of temporary contracts, the rapid volatility of demand for specific skills and competencies – all this was hardly relevant for the earlier economic crises in Western Europe and North America.

Therefore, some sociologists and demographers propose to analyze the impact on fertility in relation to the crisis 2008–2011, on how potential parents assess their stability at the labor market rather than their actual employment at a certain period. In this regard, the work of Stuart Gietel-Basten and R. Testa [7] presents an interest examining how Europeans, who planned at that time to have a child in the next years, assessed the likelihood of implementing these plans, based on the pan-European research "Eurobarometer" (wave 2011, covering 27 European countries). It became evident that the respondents' assessment of the prospects of their future employment had an essential meaning.

Researchers recognize the state support of households with children as another economic factor, significant for the dynamics of fertility in developed countries after 2008. To date, however, this issue has been studied only with regard to

individual countries while no large-scale cross-country comparisons have been made specifically for the crisis period. Differences in state support rendered to households with children explain, for example, different dynamics of fertility in the Baltic countries: if Latvia showed a very sharp decline in fertility since 2009, the fertility rate in Lithuania and Estonia demonstrated stability during crisis with a number of new state support measures introduced just before the crisis onset [3].

Although studies of the 2008–2011 crisis have convincingly showed the economic reasons for the fall in fertility, they, most likely, were not the only ones. For example, a study [8] showed that in Italy the share of those females who had only one child in 2002–2012, demonstrated increased lack of intentions to become a mother for the second time by the end of the period in question and explained this reluctance precisely by economic reasons. At the same time, the increase in the proportion of such females was almost evenly observed among groups with different levels of income, education, among employed and unemployed. Such results make us think about the *role of mass consciousness and the channels of communication that form it for fertility amid crisis*.

In conclusion, it is worth noting that there are no convincing replies to at least two important questions concerning the impact of the 2008–2011 crisis on fertility in developed countries.

Firstly, it is unclear whether the decline in fertility rate during the crisis is related to the reduction in nuptiality. In general, the issue of the impact of crisis on nuptiality (registered and unregistered) has been studied less than its impact on fertility. In fact, the results obtained so far related only to individual countries. Thus, in the US, the rate of registered marriages between the poor was lower than nationwide along several decades prior to the crisis, however, the rate of illegitimate birth was higher and during the crisis, even the latter began to decrease [9].

Secondly, at this stage, the impact of the crisis on fertility has been investigated mainly using indicators characterizing the fertility of females of all ages during the crisis years. However, the decline in fertility, recorded by such indicators, may be associated with the postponement of childbirth for the post-crisis period. A more reliable assessment of the impact of the economic crisis on fertility can be provided in future based on data related to "final" fertility of those female generations who were in the reproductive phase in time of crisis 2008–2011.

The pandemic impact on fertility

The pandemics that humanity has faced over the centuries have often had significant demographic consequences [10]. However, up to the second half of the 20th century, the particular effect of pandemics on fertility was mainly of a "technical" short-term nature: the number of births decreased due to a high mortality rate of the adult population as well as to separation of many married couples amid the pandemic (studies have shown that a well- known pandemic of "Spanish flu" had exactly such a short-term effect for a number of countries in 1918–1919 [11]). A different effect on fertility could be expected from pandemics that occurred in an era when the population were well informed by- and- large about family planning methods.

Under these circumstances, it is reasonable to assume not only a "one-step" decline in fertility soon after the pandemic, but also a massive postponement of

childbirth in the post-pandemic period due to socio-economic uncertainty, the risk of new outbreaks of a dangerous disease, etc.

The only pandemic among the previous ones that has affected countries with a high prevalence of family planning tools was the "Hong Kong flu" pandemic in 1968–1970. However, unfortunately, the available data do not allow to estimate its real impact on fertility in this category of countries. In the industrialized countries of Southeast Asia, where this pandemic outbreak started, as well as in the United States and Western Europe, where it subsequently spread, there was an intensive decline in fertility already on the eve of the pandemic, and it is very difficult to assess whether the pandemic influenced this process.

Therefore, the only source of analogies in estimating the possible impact of the COVID-19 pandemic on fertility in the Russian Federation is the effect of the same pandemic on fertility in other countries. Clearly, it is premature to study this subject in any country at present in order to confirm the actual fertility. However, a number of countries have already studied changes in the reproductive expectations of the population in connection with the pandemic.

Thus, at the end of March — beginning of April, i.e. in the midst of morbidity in Western Europe, the Italian institute Guiseppe Tonniolo together with the international research group IPSOS conducted a telephone survey, interviewing 2000 respondents in Italy and 1000 in the UK, France, Germany and Spain each [12].

Those respondents, who claimed that at the beginning of 2020 they had plans to have a baby by the end of the year, were asked an additional question, whether they still had those plans at the time of the study. The distribution of answers was different in different countries (*Table 1*). As seen, those who decided to postpone childbearing prevail in all countries. The share of those who completely abandoned plans to have a child was highest in Italy compared to those who did not change their plans, i.e. in France and Germany. Since the coronavirus situation was the most critical in Italy at the time of survey, the highest proportion of abandoned parental expectations in this country most likely shows that a serious worsening of the pandemic situation can push for taking such a decision.

This conclusion is supported by a higher share of "those who refused their plans" in Germany precisely in the lands most affected by COVID-19 compared to the country as a whole. In addition to a particularly difficult pandemic situation in Italy, the largest share of those who abandoned plans to have a child in this country can be explained by the typical active participation of the older generation in raising their grandchildren (against the background of a weak system of preschool institutions). In the context of the pandemic and the mandatory isolation of the older generation, the possibility of such participation was doubtful indefinitely.

Other characteristics related to the distribution of answers regarding the changes of reproductive plans in an pandemic are also interesting. In all five countries, the share of those who refused to have a child was higher among respondents aged under 30. Herewith, it is easy to observe a parallel with the economic crisis of 2008–2011, when the fertility rate declined the worst among females of this age in many European countries (see above). However, in this case, it is doubtful that generational asymmetry is associated with the economic "insecurity" of young people.

Table 1

Distribution of answers to the question "Have your plans to deliver a child in 2020 changed?" among respondents cherishing such plans at the start of the year (%)

	Italy	Germany	France	Spain	Great Britain
Still plan to have a child in 2020	25.56	30.70	32.03	21.17	23.04
Decided to postpone child birth	37.93	55.10	50.70	49.57	57.78
Decided to refuse child birth	36.51	14.20	17.27	29.26	19.18

Source: [12].

The truth is that results of the survey did not identify any statistical dependence between the respondent's assessment of their economic prospects (risk of losing a job, etc.) and changing plans related to childbearing. Likewise, the respondent's education had no significant effect on these plans, despite the fact that higher education provides as a whole more chances to undergo the economic crisis successfully.

In other words, on the one hand, the survey demonstrated that at the time of the survey the pandemic has already had a negative impact on the reproductive plans of respondents. Moreover, these effects were stronger in countries and regions more affected by coronavirus. On the other hand, the survey did not provide any grounds to assume that the decision to abandon childbearing expectations or keep these expectations depended essentially on the respondent's estimation of the potential economic consequences of the pandemic for their family.

Rather, rejecting plans to become parents during the pandemic period that was reflected in the survey, was associated with the overall uncertainty of the global situation due to the new virus, poor predictability of its general impact on public life.

The conducted survey is so far the only one known to us (outside Russia), which allows us to assess the impact of the pandemic on fertility. For a more complete assessment of this effect, further studies will definitely be required.

* * *

The findings of the studies that we have considered, related to the impact of the economic crisis 2008–2011 and the COVID-19 pandemic on fertility in foreign countries, of course, cannot be extended to the current situation in Russia avoiding a share of criticism. Moreover, some data already allow us to assume that the fertility response to the current economic downturn and the outbreak of coronavirus infection in this country is not entirely consistent with the expectations that shape these studies.

Thus, the next survey "Personality, family, society" conducted by INSAP RANEPA in March-May 2020 [13] showed that the most expansive growth (by 20.2 p.p.) in those who declared unwillingness to have (one more) child, compared to a similar survey in 2017, was recorded among single-child respondents at the age of 35 and older. This clearly differs from the results of studies conducted in Western countries, where the pandemic and the latest economic crisis, on the contrary, most strongly influenced the reproductive behavior of young people.

The specifics of reproductive trends in Russia amidst crisis and pandemic may be associated, in particular, with younger motherhood, as well as a lower proportion of births outside registered marriages compared to Western countries.

Nevertheless, it seems that the international experience, briefly reviewed in this note, can be useful in several aspects in making decisions regarding the demographic policy of the state under new circumstances.

First-of-all, it is quite evident that both the economic crisis and the current challenging pandemic environment in a country or region can have a negative impact on fertility, and in both cases this is not only about a short-term decline in births after the peak of the crisis or pandemic, but also about revising fertility expectations.

Secondly, taking into consideration the economic factors, the unemployment has the most significant impact on fertility in these special conditions. This, however, is not only about the actual employment of potential parents in a crisis period, but also about their assessment of their prospects in the labor market.

Thirdly, the impact of the economic crisis and the pandemic on fertility differs by age groups. Specific differences may vary from country to country. However, the very possibility that people of different ages are prepared to revise their reproductive plans to varying degrees during major external shocks should be taken into account both in forecasting fertility and in planning supportive measures.

Fourthly, the capacity of the fertility support measures aimed to influence the reproductive behavior of the population in a crisis has been confirmed by the experience of certain countries. However, no generalizing cross-country studies on this subject have been conducted yet. Therefore, one has to speak with caution about the effectiveness of financial assistance provided to households with children as a tool to support fertility, tested by international experience at such times.

It is reasonable to take into account that studies conducted in foreign countries proved the importance of parents' assessment of their prospects in the labor market and overall prospects of developments in the country required for taking decision on childbearing rather than current economic family situation.

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2. ECONOMIC SITUATION OF THE POPULATION AMIDST POST PANDEMIC. FINDINGS OF THE 5TH SOCIAL MONITORING (JUNE 18–21, 2020)

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Findings of the fifth stage of monitoring (June 18–21) based on online survey on the social situation and population's behavior amidst coronavirus demonstrate that pandemic-induced economic risks for the state are assessed by the majority of respondents as important although cause less alarm in the contest of lifting the lockdown mode. The number of those who think that the pandemic significantly jeopardizes their personal material state is gradually falling. Those respondents who have a job express more confidence in the future, less preoccupation with the threat to personal and household budget than those who lost their job. However, in the current situation more than half of all surveyed predict deterioration in their financial situation in the near future. Material support measures are considered by every other respondent as insufficient. Recipients of additional handouts and benefits indicating their small amount demonstrate high level of dissatisfaction with current social assistance.

Findings of the fifth stage of "Monitoring of social situation and behavior of the population amidst coronavirus pandemic" conducted from June 18 till June 21, 2020 demonstrate the following conclusions:

1) the majority of respondents still consider pandemic-induced threat to the economy and personal material state as significant, at the same time, the number of responses describing socio-economic risks as moderate and even insignificant is gradually increasing;

2) survey respondents without a job to a greater extent are inclined to assess the threat to personal material situation as significant in contrast to those who have a job;

3) respondents who do not get state material assistance oftener assess their material situation prior to coronavirus pandemic outbreak as good or rather good in contrast to those who receive such assistance;

4) more than halve of the surveyed consider that in the current situation the state takes insufficient measures of assistance to the population; the majority of recipients of social handouts and benefits hold to this view;

5) the majority of respondents expect deterioration in their personal material situation during this year.

Survey methodology and socio-demographic characteristics of respondents

The fifth stage of online monitoring was conducted from June 18 till 21, 2020 mainly among Facebook social network users by sending to electronic addresses of respondents of the first four stages invitations to participate in the survey. Total sample in the fifth stage constituted 2,153 questionnaires.

Socio-demographic characteristics of respondents taking part in the fifth stage compared to the previous stages of online monitoring are similar on the whole. The majority of survey respondents are citizens of the Russian Federation, reside in regional centers or other regions' cities (93%), have incomplete higher or higher education (71%), mark two or more members over

2. Economic situation of the population amidst post pandemic

18 years in households (73%) (*Tables 1–7*).[1] Over half of respondents still have jobs (58%), a little over a third are pensioners (33%), and 8% are temporarily out of work or are jobseekers (*Table 6*).

Table 1

Distribution of respondents by place of residence, %[2]

Do you reside in a regional center, other city or a village?	COVID-4 (n = 4294)	COVID-5 (n = 2153)
Regional center	75	75
Other city	16	18
Urban-type settlement	4	4
Village	3	3
No answer	1	1
Total	100	100

Table 1.1

Distribution of respondents by place of residence (data for three stages), %

Do you reside in a regional center, other city or a village?	COVID-1 (n = 2281)	COVID-2 (n = 5011)	COVID-3 (n = 2553)
Regional center	77	76	74
Other city, urban-type settlement	18	20	21
Village	3	4	4
Other	1	0	1
No answer	1	1	0
Total	100	100	100

Table 2

Distribution by gender and age group, %

Gender and age group	COVID-1 (n = 2281)	COVID-2 (n = 5011)	COVID-3 (n = 2551)	COVID-4 (n = 4291)	COVID-5 (n=2153)
M 18–34	6	6	4	2,6	3
M 35–54	10	13	12	11	12
M 55+	4	9	11	11	13
F 18–34	24	17	11	11	8
F 35–54	34	33	35	37	31
F 55+	24	23	27	28	32
Total	100	100	100	100	100

Table 3

Distribution by level of education, %

What is your the highest level of education now (support by credentials, certificate)?	COVID-1 (n = 2281)	COVID-2 (n = 5011)	COVID-3 (n = 2553)	COVID-4 (n = 4294)	COVID-5 (n = 2153)
School	3	3	4	3	2
Primary vocational education	1	2	4	3	3
Secondary vocational education	10	17	17	15	14
Higher or incomplete higher education	71	70	66	70	71
Scientific degree	14	7	9	8	10
No answer	1	1	1	1	1
Total	100	100	100	100	100

1 The table provide statistical data for four stages of online monitoring as an additional information for the survey because they have incomplete methodological coincidence.

2 Changes in closed-end questions regarding place of residence contained in the fourth and fifth stages do not allow to fully compare responses with the first three stages, that is why data is divided into two separate tables.

Table 4

Distribution by size of household, %

Size of household	COVID-1 (n = 2281)	COVID-2 (n = 5011)	COVID-3 (n = 2536)	COVID-4 (n = 4294)	COVID-5 (n = 2153)
Live alone	24	15	15	18	21
2 persons	27	30	30	27	28
3 persons	22	25	25	23	21
4 persons	14	16	16	15	14
5 persons and more	9	10	10	10	10
No answer	4	4	5	6	6
Total	100	100	100	100	100

Table 5

Distribution by number of children, %

Number of children	COVID-1 (n = 2281)	COVID-2 (n = 5011)	COVID-3 (n = 2553)	COVID-4 (n = 4294)	COVID-5 (n = 2153)
No children	64	60	58	61	65
One child	21	24	24	23	20
Two children	10	11	11	10	9
Three children and more	4	3	4	3	3
No answer	1	3	4	3	4
Total	100	100	100	100	100

Table 6

Distribution by employment, %*

Employment	COVID-4		COVID-5	
	Of responses (n = 4763)	Of respondents (n = 4294)	Of responses (n = 2406)	Of respondents (n = 2153)
Work	50	56	52	58
Study	2	2	2	2
On a pension	27	30	30	33
On maternity leave	2	2	1	1
Keep house	5	6	4	5
Temporarily out of work, job seeker	10	11	7	8
Other	5	5	4	4
Total	100	111	100	112

* Question envisaged multiple answers.

Table 6.1

Distribution by employment (data of three stages), %

Employment	COVID-1		COVID-2		COVID-3	
	Of responses (n = 2472)	Of respondents (n = 2281)	Of responses (n = 5555)	Of respondents (n = 5011)	Of responses (n = 2875)	Of respondents (n = 2553)
Work	66	72	53	59	50	57
Study	4	4	2	2	2	2
On a pension	13	14	22	24	25	28
On maternity leave	3	3	3	3	2	2
Keep house	6	7	6	7	5	6
Out of work, job seeker	4	5	10	12	11	12
Other	3	3	4	5	5	6
No answer	1	1	–	–	–	–
Total	100	108	100	111	100	113

Table 7

Distribution by household income, %

Please indicate your approximate household income per month	COVID-1 (n = 2281)	COVID-2 (n = 5011)	COVID-3 (n = 2553)	COVID-4 (n = 4294)	COVID-5 (n = 2153)
Around Rb 10,000.	2	5	5	6	5
Around Rb 20,000	7	10	14	12	11
Around Rb 30,000	9	13	15	13	12
Around Rb 40,000	8	12	12	12	11
Around Rb 50,000	10	11	11	10	12
Around Rb 60,000	6	8	7	7	8
Around Rb 70,000	6	5	5	5	6
Around Rb 80,000	7	7	6	7	6
Around Rb 100,000	10	7	6	7	7
Around Rb 120,000	5	3	3	4	3
Above 120,000	18	8	6	8	8
No answer	10	10	8	10	11
Total	100	100	100	100	100

Material threat and assessment of adopted measures

Participants in the fifth stage of online monitoring to a lesser extent are concerned with the adverse consequences of pandemic for the economy and for their material situation (*Table 8*). The number of respondents who consider the spread of the coronavirus as a significant threat to personal material wellbeing is declining (41%). On the contrary, the share of those who (32%) assess financial risks as moderate is growing. Gradual increase in the number of those who consider a threat as *insignificant* or absence of such threat is increasing.

Table 8

Threat perception from coronavirus to the economy, %

As of today threat to Russian economy from coronavirus is significant, moderate, insignificant? Or there is no threat at all?	COVID-2 (n = 5011)	COVID-3 (n = 2553)	COVID-4 (n = 4294)	COVID-5 (n = 2153)
Significant	85	82	79	69
Moderate	9	10	12	18
Insignificant	1	2	2	4
No threat at all	2	2	2	4
No answer	3	4	5	5
Total	100	100	100	100

Table 9

Threat perception from coronavirus to personal material wellbeing, %

Threat to your material wellbeing from coronavirus is significant, moderate, insignificant? Or there is no threat at all?	COVID-2 (n = 5011)	COVID-3 (n = 2553)	COVID-4 (n = 4294)	COVID-5 (n = 2153)
Significant	56	52	49	41
Moderate	27	29	30	32
Insignificant	8	10	11	14
No threat at all	6	7	8	11
No answer	3	2	2	2
Total	100	100	100	100

Main factor for the assessment of material wellbeing in the future will be the absence of availability of work (*Table 9.1*).

Table 9.1

Threat perception to personal material wellbeing of employed and unemployed respondents, %

Threat to your material wellbeing from coronavirus is significant, moderate, insignificant or there is no threat at all?	Employed and unemployed		Total (n = 2153)
	Has a job (n = 1254)	Job-seeker (n = 899)	
Significant	37	46	41
Moderate	35	29	32
Insignificant	15	13	14
No threat at all	11	9	11
No answer	2	3	2
Total	100	100	100

Some difference between employed and unemployed respondents is revealed in the answers to the question on the assessment of material wellbeing of a household before March this year and specifically prior to the adoption of restrictive measures. 82% of employed and 69% of unemployed participants in the online survey confirm good or rather good financial wellbeing before the mentioned period (*Table 10*). Obviously, employment and regular wages instill a perception of financial protection. The effect of additional sustainable source of income in the form of state support on the assessment of material wellbeing and perception of stability is less significant – 78% of respondents who do not receive any social handouts describe their material situation before the pandemic outbreak as good or rather good as well as 71% of those who receive whichever assistance. Moreover, practically each fourth respondent (24%) of those who receive benefits and allowances assess the level of personal wellbeing as rather bad or bad (*Table 11*).

Table 10

Assessment of material wellbeing before pandemic outbreak by employed and unemployed, %

How do you assess material situation of your household before March this year, before coronavirus pandemic outbreak?	Employed and unemployed		Total (n = 2153)
	Employed (n = 1254)	Unemployed (n = 899)	
Good	25	23	24
Rather good	57	46	52
Rather bad	12	16	14
Bad	3	7	4
No answer	4	8	6
Total	100	100	100

Table 11

Assessment of material situation before pandemic outbreak by recipients of social assistance, %

How do you assess material situation of your household before March this year, before coronavirus pandemic outbreak?	Do you or members of your family receive social handouts, unemployment benefit, privileges (except pensions)?		Total (n = 2119)
	Yes (n = 300)	No (n = 1819)	
Good	25	24	24
Rather good	46	54	53
Rather bad	20	13	14
Bad	4	4	4
No answer	5	5	5
Total	100	100	100

— *In Russia they need to raise standard of living, wages long since being indexed and prices grow. And now coronavirus has also raised prices and has cut wages (many organizations have cancelled bonuses, etc.) If the government does not make employers raise remuneration rate people (will perish)! (Woman of 45, city of Lipetsk);*
— *We were in lockdown, but still have to pay taxes for the time we did not work although authorities promised that we would not pay (Woman of 46, Rostov region, city).*

Low priority of material assistance for its recipients is reflected in the distribution of answers to the question about the assessment of state assistance. Respondents' responses to the effect that the authorities adopt insufficient measures or do not take them at all still prevail over favorable responses (52% and 25%, respectively) (*Table 12*). By analyzing two groups: (1) recipients of benefits and privileges and (2) those who are not, we discover that the absolute majority of the surveyed in each of those groups stick to the view about insufficiency of additional mechanisms for material support of the population – 74% of recipients and 79% of those who do not receive support (*Table 12.1*). When people speak their mind freely given at the end of the survey, many of its participants lamented about inadequacy of such supportive payments to even the most necessary primary costs.

Table 12

Assessment of state measures of material support of population, %

What do you think, in the current situation the state takes adequate of inadequate measures on material support of the population or does not take any measures at all?	COVID-4 (n = 4294)	COVID-5 (n = 2153)
Adequate measures	10	11
Inadequate measures	53	52
Does not take any measures at all	29	25
No answer	8	12
Total	100	100

Table 12.1

Assessment of state measures of material support of population by recipients of social assistance, %

What do you think, in the current situation the state takes adequate of inadequate measures on material support of the population or does not take any measures at all?	Do you or any of your household receive currently social handouts, benefits, privileges (except pensions)?		Total (n= 2119)
	Yes (n = 300)	No (n = 1819)	
Adequate measures	19	10	11
Inadequate measures	59	52	53
Does not take any measures at all	15	27	25
No answer	8	12	11
Total	100	100	100

— *What is to be done when there is no money at all… sphere where I work (circus performer)… everything is closed…and handout to the tune of 1,500 is laughable… how to pay for the apartment… what to live on…* (Man of 29, city of Astrakhan);
— *Would like those who have recovered from the new coronavirus pneumonia to get any material assistance. Our entire family fell ill simultaneously, a lot of money was spent on treatment and rehabilitation and where to take it if we stay jobless for several months?* (Woman of 52, Lipetsk region, village).

Only small part of those who participated in survey (6%) still project material situation of their households will improve to one degree or another during this year. Quarter of the sampling of the fifth stage (25%) think that they will not face any financial changes and the majority (63%) demonstrate pessimistic expectations regarding future household wellbeing (36% prefer *somewhat deteriorates* ad 27% – *significantly deteriorates*) (*Table 13*).

Table 13

Assessment of changes in material situation of a household during a year, %

What do you think during this year material situation of your family improves significantly, somewhat improves, remains unchanged, somewhat deteriorates, or significantly deteriorates?	COVID-4 (n = 4294)	COVID-5 (n = 2153)
Significantly improves	2	2
Somewhat improves	4	4
Remains unchanged	19	25
Somewhat deteriorates	32	36
Significantly deteriorates	37	27
No answer	5	7
Total	100	100

– *I think that increase of social handouts will promote improvement of economic situation: not to low-income households and families with kids under 3 years, these groups of citizens as it is "overfed", they are rather well off, but to those who really need material assistance… The state supports too small proportion of the overall number of badly off (*Woman of 39, Moscow);

– *No problem: whether you have lost a job/employment/business during lockdown? Me personally--yes! It seems fair to say, start from scratch* (Woman of 50, Irkutsk region, urban-type settlement).

* * *

In wrapping up we will give the most frequent answers to meaningful questions of the fifth stage of monitoring survey:

76% of respondents assess material situation of their families before the coronavirus pandemic as good/rather good;

69% of respondents assess the threat of pandemic for Russian economy as grave;

63% of respondents think that during this year material situation of their households somewhat deteriorates/significantly deteriorates;

52% of respondents think that in the current situation the state takes insufficient measures for material assistance to the population;

41% of respondents assess threat for their personal material situation from the coronavirus outbreak as important;

32% of respondents assess threat for their personal material situation from coronavirus outbreak as moderate;

25% of respondents think that in the current situation the state does not take any measures for material assistance to the population.

3. FEATURES OF REMOTE EMPLOYMENT IN MARCH-JUNE 2020 IN RUSSIA

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We described features of remote employment in Russia in March-June 2020 on the findings obtained from the monitoring of the population. The research was conducted on the basis of online survey among Facebook users in mid-June this year. Responses from 2,151 persons at 18 and over residing in Russia got into sample.

Sampling: socio-demographic features

We analyze features of remote employment of wage earners in Russia in the fifth stage of online-survey conducted among Facebook users. Sample included persons of 18 and over residing on the territory of Russia. Total sample came to 2,151 persons (*Table 1*).

Table 1

Demographic profile of sampling

Gender	Age group	Number of observations, units	Share, % along column
Men	18–34	61	3
	35–54	256	12
	55+	289	13
Women	18–34	177	8
	35–54	670	31
	55+	698	32
	Total	2 151	100

To note that sample cannot be accepted as fully representative:

- 72% of sample consist of women;
- 92% of respondent reside in cities;
- 46% are of 55 years and older;
- 81% of respondents boast of higher education, of which 10% have scientific degrees.

Nevertheless, by this sample we can examine features of transition to remote employment mode because the proportion of those working from home is considerably higher among Facebook users. For example, according to Anton Kotyakov, Minister of Labor and Social Protection, such proportion amounted to 11% of total employment,[1] whereas according to the online survey – 43%. This being said, bias in sample does not produce significant effect on the survey findings because in the majority of questions there are no important differences in responses given by men and women, young and aged. In cases where such differences are observed separate distributions are given for each of categories.

1 Rossyiskaya Gazeta. Is seen from a distance. 25.06.2020 URL: https://rg.ru/2020/06/25/kotiakov-cherez-neskolko-let-udalenka-stanet-privychnoj-formoj-zaniatosti.html

Working hours before March 2020 and likelihood for transition to remote employment

Prior to March 2020 proportion of those who work from home was significantly lower: 5% combined work from home with work in office, 3% worked only from home (*Table 2*). The most common work pattern was at the official work place at exactly defined office hours.

Table 2

Work pattern before March 2020

	Number of observations, units	Share, % along column
Mandatory presence at work at exactly defined office hours	878	83
Mandatory presence at work at 'open-leave' schedule	81	8
Sometimes was at work, sometimes worked from home	52	5
Remote work	36	3
No answer	12	1
Total	1 059	100

Transition to remote employment in March-June 2020 was to the maximum extent was characteristic of employees with higher education and nearly half of them commenced working from home, whilst among respondents without higher education – solely 10% (*Fig. 1*). Young employees were to somewhat greater extent affected, however in other age groups significant part of employees switched over to work from home. Although such employment rather oftener was encountered among workers in Moscow and St. Petersburg rather than in other cities and rural areas. This fact can be due to stricter lockdown measures and particular occupational pattern in capital cities. Finally, there are no key differences in the likelihood for transition to remote employment between men and women.

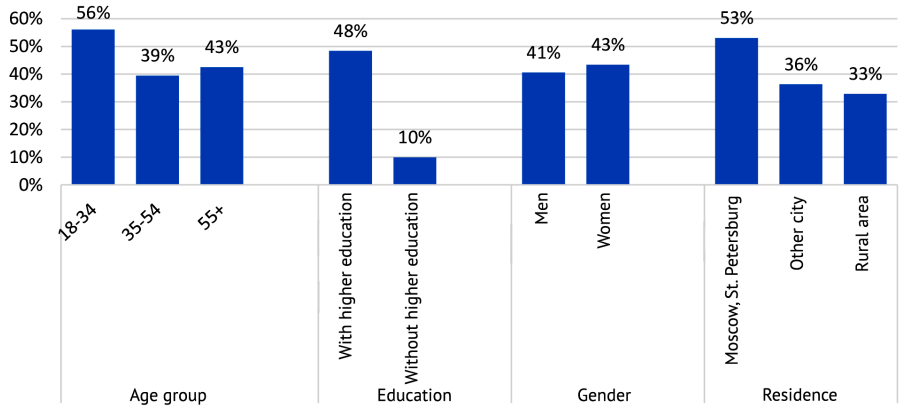

Fig. 1. Share of those who switched to remote employment, % of total employed

Having said that, there is a marked correlation between the size of household income and the likelihood for switching over to work from home: only 20% of employed respondents with total household income around Rb 10,000 switched over to remote employment whereas respondents with household income

over Rb 120,000 constituted about 60%. Finally, employees of only a number of industries were subject to transition: firstly, education, science, information technologies, financial and insurance activity, culture, sports, organization of leisure. The lowest share of those who switched to remote employment is among security ministries, healthcare, and hospitality business. The size of an organization is not related to the likelihood of transition to remote employment.

Organization of work from home

The survey demonstrates that solely 37% of wage workers switched over to remote employment officially, whereas 52% – undocumented, and another 11% had no answer (*Table 3*). This fact demonstrates complications in official documentation of such type of employment for employers, absence of clear legal norms regulating work from home in case of introduction of lockdown regime. On the other hand, this is the indicator of the fact that employers as a whole are hardly preoccupied with labor legislation compliance.

Tablea 3

Documentation of switching over to remote employment

	Number of observations, units	Share, % along column
Switch over was documented	176	37
Switch over was not documented	245	52
No answer	50	11
Total number of those who switched to remote employment	471	100

A wide set of means of communication is usually being used for communicating with colleagues and managers in work from home. The most accepted are text formats (messengers and electronic post, but not texts) as well as telephones (*Table 4*). Video formats are slightly less widespread. There are age differences, but they are not important: young people on average use telephones less and messengers and video conferences oftener than employees of older age groups.

Table 4

Principal means of communication with colleagues and superiors (several answer options are available)

	Number of responses	Observations, %
Video conferences (Zoom, Microsoft Teams, Skype), special IT-platforms	282	57
Via messengers (WhatsApp, Viber, Telegram, etc.)	353	71
By electronic mail	349	71
Text	113	23
By telephone	327	66
Other	5	1
No answer	4	1
Total number of those who switched to remote employment	495	289

Nearly half of employees who switched over to remote employment saw their working hours to increase (*Table 5*). At the same time, nearly a quarter of them saw their working hours to fall. Obviously, change in this indicator is due not so much to the change in the work pattern but to the change in the

economy-wide situation in the country that made many organizations to adapt to the new circumstances. As a result, 72% of employees who switched over to work from home noted that performed their work during non-working hours: after the end of a working day or during weekends. 39% of surveyed managers also reported that assigned tasks to subordinates in non-working hours. To note that most likely employees could perceive the period of non-working days from March 25 till May 11 as holidays. Actually, their status differs somewhat although employees of a large number of organizations were entitled not to work in that period and keep their wages. Nevertheless, as previous stages of online survey demonstrate, the majority of employed kept on working in those days.

Table 5

Change in the duration of working hours after switching over to remote employment compared to common office working day

	Number of observations, units	Share, % along column
Increased	206	44
Decreased	113	24
Remained unchanged	134	28
No answer	18	4
Total	471	100

Managers and subordinates also register decrease in the efficiency of work delivery. 25% of wage workers noted deterioration in the quality of work organization (number and clarity of tasks, control, acceptance of results) by subordinates, meanwhile barely 7% noted improvement. Managers in 35% of cases reported decrease in the quality of job delivery and merely 6% – improvement.

The majority of employees admit that the efficiency of their work from home is lower that from office, although there are marked differences between age groups (*Fig. 2–4*). Members of young age groups oftener specify that work from home done by them more efficiently than from office. Nevertheless, even among them merely 10% selected an answer "Precisely from home" to this question. Possibly, on the one hand, age differences are due to sectoral and professional differences in employees of various age groups. For example, it is more complicated to organize educational activity remotely than in information technologies and communication. On the other hand, elderly population usually comes up against a host of difficulties in mastering new, unusual technologies. Consequently, low efficiency of work from home can be due not to remote employment as such but is a result of issues in mastering new forms of communication. Work from office is simply more customary.

Interestingly, that under certain differences in assessment of efficiency of work from home employees from difference age groups come up against approximately the same set of issues (*Table 6*). On the one hand, they are technical issues: absence or bad quality of internet, lack of required equipment, no access to internal documents, data bases, archives. On the other hand, organizational challenges: absence of a separate room, additional troubles in communication. Finally, psychological issues: it is hard to set oneself mind on work, concentrate due to multiple distractions. Solely 21% of employees noted

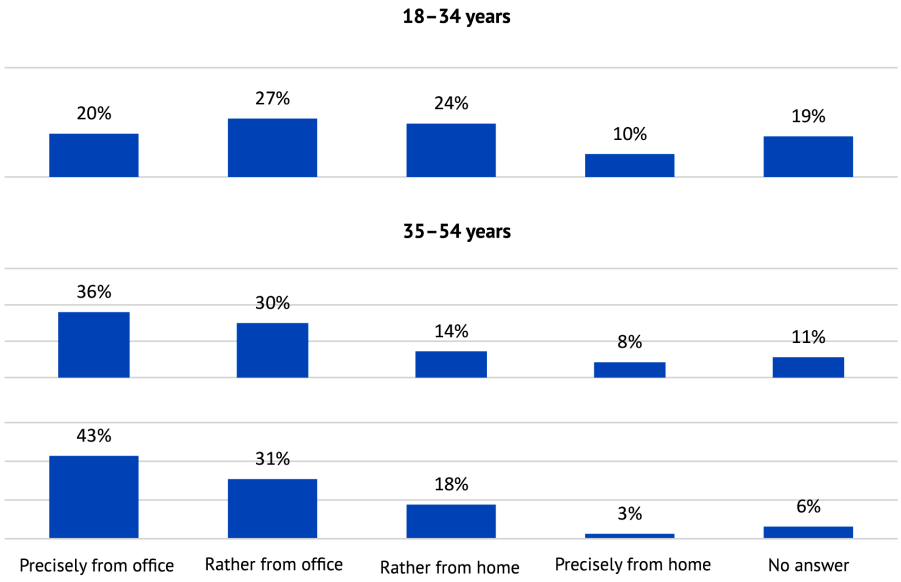

Fig. 2–4. Responses to question "On the whole, are you more efficient when you work from office or from home?" for various age groups, %

that did not face any issues after switching to remote employment. Furthermore, it is hard to separate any single factor that is the most problematic. All too often, respondents mark only one group of factors: either technical or organizational or psychological.

Table 6

Issues faced in switching over to remote employment (selection of several answer options was allowed)

	Number of responses	Observations, %
Absence or bad quality of internet at home	91	23
Absence of required equipment (computer, microphone, web-camera)	82	20
No access to internal documents, data bases, archives	134	33
Absence of a separate room	88	22
hard to set oneself mind on work due to distractions (kids, housework)	127	31
Morally hard to set oneself up for work from home	98	24
Pop up additional difficulties in communication with colleagues/clients/counteragents	123	30
Other	15	4
No answer	9	2
No problems	84	21
Total	404	211

General attitude towards switching over to work from home and exit from lockdown mode

Despite approximately the same array of issues which young and elderly employees came up against, attitude towards transition to remote employment markedly differs. Young people on average assess transition positively/rather

positively, whereas elderly employees – negatively/rather negatively. Responses of employees in 35–54 age group divided equally.

Furthermore, favored work mode for the majority of employees irrespective of age is a combination of remote work with work from office. On average, in all age groups the proportion of those who prefer this regime is a shade over half (*Table 7*). On the other hand, the share of those who wish to work from home is less than that of those who prefer to work from office always, although in young age group it is somewhat higher than among elderly employees. To note, currently there are no legal mechanisms allowing employer to organize such regime of work although de-facto already 5% of the sample worked from home.

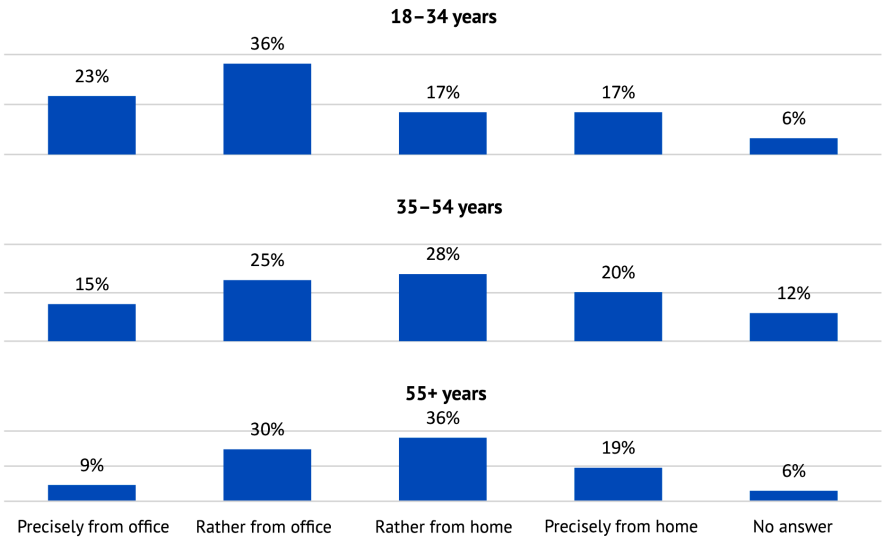

Fig. 5–7. Responses to question "On the whole, are you more efficient when you work from office or from home?" for various age groups, %

Table 7

Preferred work pattern

	Number of observations, unit	Share, % along column
Permanently work remotely	46	10
Partly execute one's duties remotely	257	55
Always work from office	156	33
No answer	12	3
Total	471	100

This being said, the majority of employees are sure that after the end of pandemic, the work pattern will be as prior to pre-pandemic situation. Only 14% of working respondent believe in possibility of transition of part or majority of employees to remote employment.

Return to common work from office type of employment after lifting lockdown happened on the whole rather easily. Of those who returned to work from office merely one in four marked that such return was rather difficult or difficult whereas the majority – easy or rather easy. On the other hand, despite lifting of lockdown around half of employees who switched over to work from home continue working from home at the time of survey.

3. Features of remote employment in March-June 2020 in Russia

Experience of transition to remote employment for the population should be assessed as mixed. Younger employees took to it more positively than elderly employees. Decrease in performance efficiency although was observed but not more than in a quarter, one third of cases despite a wide range of issues which people faced working from home. Thus, the situation on the labor market can motivate a number of firms to transfer part of their employees to a combined work mode allowing to work several days a week from home. Transfer of employees to full remote work, in our opinion, is a less likely step from firms because significantly reduces possibilities of control over employees' performance.

* * *

Based on the conducted monitoring findings one can make the following conclusions:

- Transition to remote employment has affected a significant number of wage workers of all age groups, first of all, those with higher education and high level of income. Furthermore, large-scale transition was observed not only in capital cities but in other regions;
- The highest proportion of those who switched to remote work are in education, science, IT and communication, financial and insurance activity, culture, sport, and organization of leisure;
- Only on one third of cases transition was officially documented;
- On average in remote work no less than 2–3 channels of communications were used for communicating with colleagues and managers: both audio/video and text format;
- Subordinates and managers note deterioration of quality in work organization and delivery of tasks in 25–35% of cases. Improvement was reported in 6–7% of cases;
- Duration of working hours nearly in half the cases went up. In a quarter of cases it decreased. This being said, more often than not work is performed in non-working hours and weekends;
- Only 22% indicated absence of problems in working from home. The list of complications includes technical (problems with communication, equipment), organizational, and psychological;
- On the whole, majority of respondents (especially of older age groups) report lower efficiency when work from home;
- Young employees on average assess transition to remote work positively/rather positively, employees of older age groups – negatively/rather negatively;
- Preferred work mode for the majority of respondents is flexible with possibility to work from home from time to time in their organization will return to that existing before pandemic;
- Nearly half of those who work remotely after lifting lockdown continued working from home at the time of the survey;
- In our opinion, on the analysis of the experience of forced transfer of employees to remote employment, number of firms can switch part of their employees to flexible work mode allowing to combine work from office with work from home.

4. RUSSIA'S BALANCE OF PAYMENTS IN Q2 2020

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In Q2 2020, Russia's positive trade balance plunged due to a decrease in quantum shipments and export prices on commodities exported by Russia. In April-June, net outflow of capital was observed on the back of priority growth of foreign financial assets of non-oil and gas sector, as well as contraction of banks' foreign liabilities. Measures adopted by the monetary authorities in spring 2020 aimed at maintaining financial sustainability translated into keeping the ruble's exchange rate close to equilibrium values. As a result, in Q2 2020 the exchange rate averaged Rb72 per USD.

Russia's balance of payments in Q2 2020

According to preliminary estimate of the balance of payment released by the Bank of Russia, Russia's current account balance in Q2 2020 remained positive and amounted to $0.6 bn posting a decrease against the amount recorded Q2 2019 (then this index stayed at $9.9 bn) and current account balance recorded in Q1 2020 ($21.7 bn). Such plunge was due to change in three main balances determining current account balance.

Firstly, the balance of trade in goods in Q2 2020 amounted to $14.3 bn down by 55.2% compared to $31.9 bn seen in Q1 2020 and by 63.7% compared to $39.4 bn seen in Q2 2019.

Secondly, the balance of trade in services spiked. In Q2 2020, it constituted -$2.1 bn down by 69% against -$6.7 bn in Q1 2020 and by 77% compared to -$9.0 bn reported in Q2 2019.

Thirdly, the investment income balance in Q2 2020 reached -$10.2 bn up by 46.2% against -$19.0 bn reported Q2 2019 but plunged compared to -$1.6 bn seen in Q1 2020.

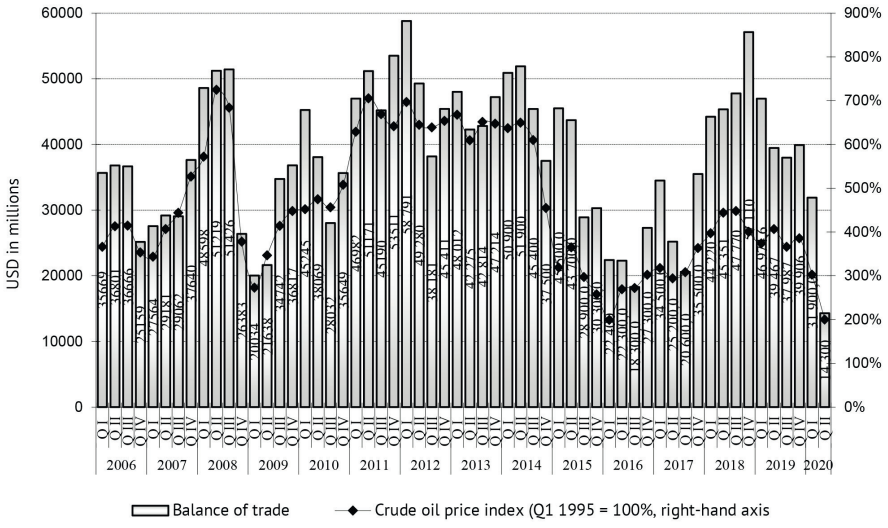

Fig. 1. Trade balance and crude oil price dynamic

Sources: Bank of Russia, IMF.

The remaining components of the current account balance (the compensation of employees balance, the balance of secondary income) still represent insignificant value against cited above main balances and their dynamic does not affect the dynamic of the current account balance.

It should be noted that value of exports dropped in Q2 2020 compared to Q2 2019 due a decrease in quantum of shipments and plunge in export prices on Russian export products (*Fig. 1*).

Decrease in value of export in Q2 2020 hit 33% against Q2 2019 (from $101.4 bn in Q2 2019 to $67.9 bn in Q2 2020). Above all, decline in export earnings was due to a small growth in quantum of exports of crude oil on the back of crude oil price plunge; decline in value of petroleum products exports was owing to a decrease in volume of shipments of and prices; drop in export earnings of Gazprom happened on the back of contraction in shipments and decline in prices on the European spot markets because of global demand drop and growth of competition with LNG in European countries. Furthermore, exports of Russian LNG also fell (from $2.5 bn in Q2 2019 to $2.2 bn in Q2 2020 – by 12%). Sales abroad of ferrous metals spiked, however growth in quantum of shipments did not allow to offset decline in export prices. Wheat stands apart among main export commodities: in Q2 it reported both price growth and quantum of shipments (*Table* 1).

Table 1

Change in average export prices and volumes of basic commodities of Russian export

	Share in value of Russian exports, %	Price in April-May 2020, USD per t	Price in April-May 2019, USD per t	Change in average export price, %	Change in volume of shipments, %
Crude oil	18	196	495	–60	+2.7
Petroleum products	13	253	498	–49	+2.7
Natural gas*	6,4	109	190	–43	–17,2
Ferrous metals	5,8	292	484	–40	+18,3
Coal	4,0	66	81	–19	–13,3
Liquified natural gas**	3,4	142	152	–7	–19,9
Mineral fertilizers	2,5	201	255	–21	+2,9
Wheat and meslin	2,2	236	224	+5	+51,7
Wood products	1,9	166	229	–28	–50
Aluminum	1,6	1597	1740	–8	–37,3
Copper	1,1	4931	6229	–21	–12,5
Niquel	0,2	11744	12478	–6	–70,6

* Price in USD per 1,000 cub meters.

** Price in USD per 1 cub meter.

As far as imports, it declined by 13.5% from $62.0 bn in Q2 2019 to $53.6 bn in Q2 2020. Such decrease on the whole is explained by dynamic of the ruble's exchange rate[1] and contraction in Russian GDP in H1: according to data from the Bank of Russia, change in the ruble's real effective exchange rate index to USD in Q2 2020 against Q2 2019 reached -6.1. This is a substantial decline demonstrating a relative price hike in import shipments and, as a result, decline in value of imports, which together with GDP contraction by 8—10% reported in

1 On impact of exchange rate dynamic on trade see also: *Knobel A., Firanchuk A., Lavrischeva A.* Russian foreign trade in 2018: growth in non-mineral non energy exports // Russian Economic Developments. 2019. Vol. 26. No. 4. P. 11–19.

Q2 2020 compared to the same period in 2019 determines reduction in import shipments.[1] Having said that, various lockdown restrictions restrain imports.

As for trade in services, their exports (mainly on the back of reduction in tourism to Russia) and imports (due to a drop to near zero in spending by Russians on trips abroad) plunged in Q2 2020 relative to Q2 2019: exports fell by 51.3% from $15.8 bn to $7.7 bn and imports dropped by 60.3% from $24.7 bn to $9.8 bn. Given that imports decreased worse than exports both in relative and absolute terms, the balance of trade in services surged. In the future, if the ruble's real effective exchange rate is stable and restrictions on transborder movement of people are easing, imports of services will be changing in step with exports,[2] which will be maintaining the negative balance of trade in services. However, if the recovery of the world economy will come amid price growth on major export products then this situation will be offset by the growth in the balance of trade in goods.

The financial account in Q2 also remained in deficit. For example, the negative financial account balance for Q2 2020 hit $12.7 bn, meanwhile in Q2 2019 a surplus of this index to the tune of $5.2 bn was observed. Net outflow of capital in Q2 2020 was triggered by the growth in foreign financial assets (+$11.1 bn in Q2 2020) alongside reduction in foreign financial liabilities (-$1.6 bn in Q2 2020). Growth in foreign assets was on the back of operations of other sectors amounting to $11.8 bn in Q2 2020 ($0.8 bn in Q2 2019). The amount of direct and portfolio investments of other sectors abroad hit $4.3 bn and $3.7 bn, respectively ($4.4 bn and -$0.2bn in Q2 2019, respectively). The amount of payed abroad trade loans and advances in Q2 2020 constituted $3.8 bn ($0.1 bn in Q2 2019). The volume of other assets went up by $0.2 bn (drop by $1.4 bn in Q2 2019). It should be noted that in Q2 2020 the banking sector, on the contrary, reduced the amount of foreign assets by $1.4 bn (up by $6.6 bn in Q2 2019).

Contraction in foreign liabilities seen in Q2 2010 was ensured by excess of the reduced amount in banks' foreign liabilities (-$8.7 bn in Q2 2020 against -$6.7 bn in Q2 2019) over the increased amount in foreign liabilities reported in other sectors (+$7.7. bn in Q2 2020 against $13.0 bn in Q2 2019) and the federal administrative bodies (+$1.0 bn in Q2 2020 against $10.1 bn in Q2 2019). It should be noted that in Q2 direct investments went unexpectedly up in RF (+$6.0 bn in Q2 2020 against +$5.1 bn in Q2 2019). Furthermore, there was growth in other liabilities ($4.9 bn in Q2 2020 against $7.5 bn in Q2 2019), meanwhile the amount of portfolio investments, and credits and loans contracted by $2.2 bn and $1.0 bn, respectively (up by $0.0 and $0.5 bn in Q2 2019, respectively).

On the whole, private sector's net capital outflow in Q2 2020 hit $12.1 bn (in Q2 2019 there was net inflow to the tune of $0.7 bn) (*Fig. 2*). This being said, net export of capital by private non-financial sector in Q2 2020 exceeded $4.8 bn (net inflow in Q2 2019 constituted $14.0 bn), and by banks – $7.3 bn (net outflow in Q2 2019 – $13.3 bn). It should be noted that despite significant financial market turbulence seen in Q2, capital outflow turned out to be lower than during the previous crisis episodes. For example, in Q4 2014, private sector's net capital outflow exceeded $75 bn, and over Q4 2008 – $132 bn.

As for public sector operations, in Q2 2020 the situation on the OFZ market stabilized and the share of non-residents on the OFZ market in April-May

1 See *Knobel A.Yu.* Estimate of demand function on import in Russia // Applied Econometrics. 2011. No. 4 (24). P. 3–26.

2 See *Knobel A., Firanchuk A.* The Foreign Trade Turnover of Services in 2018: Growth in Exports // Russian Economic Developments. 2019. Vol. 26. No. 5. P. 7–13.

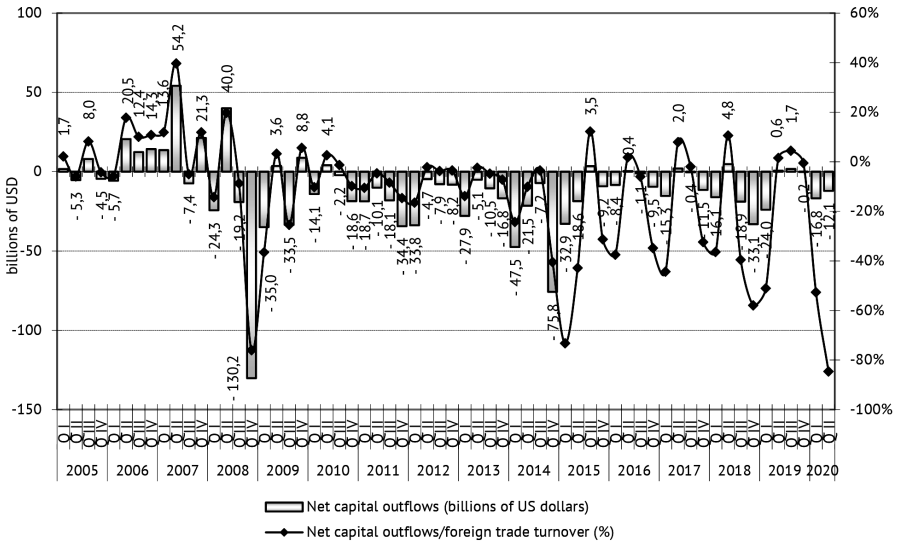

Fig. 2. Private sector's net capital outflow in 2005–2020

Sources: Bank of Russia, Gaidar Institute's calculations.

averaged 31.7%. Let us recall that hitting all-time high at early March 2020 to the tune of 34.9%, during March the share of non-residents on the OFZ market contracted by more than 3 pp. which corresponds decrease in the non-residents' portfolio by Rb 280bn. Capital outflow from the OFZ market exceeded the amount of OFZ placement in Q1 2020 to the tune of Rb 227 bn. In the end, the increase in public sector's foreign liabilities during Q2 reached $1 billion.

Excess of capital outflow on financial account over current account balance was compensated by a reduction in international reserves to the tune of $12.9 bn (+16.6 bn in Q2 2019), at which point they constituted $568.9 bn. Contraction of international reserves was triggered by the sale of foreign currency by the Bank of Russia from March 2020 in the framework of fiscal rule due to plunge in oil prices below cut price. The volume of such sales over Q2 2020 amounted to Rb 782.7 bn. Aside from this reduction in international reserves was due to the sale of foreign currency from the National Wealth Fund (NWF) for payment of package of shares of Sberbank purchased by the government. Let us recall that daily sale of foreign currency to cover the deal varies depending on the deviation of the Urals oil price below $25 per barrel. This mechanism will be effective till September 2020 and the total amount of foreign currency sales on the domestic market can hit Rb 2.1 trillion.

It should be noted that adopted by monetary authorities in spring 2020 measures aimed to support financial sustainability allowed to keep ruble's exchange rate close to equilibrium values (around Rb 70-75 per USD). As a result, if and when stabilization of economic situation and decline in uncertainty in Q2 2020 ruble appreciated against USD by 10% in comparison with late Q1 2020 and averaged Rb 72 per USD. Observed ruble's strengthening is also due to signing in May of the new OPEC+ deal resulting in early June 2020 the oil price exceeded $40 per barrel and later stabilized on average at $41.6 per barrel.

Out calculations demonstrate the under the oil price at $30–35 per barrel fundamentally justified ruble's exchange rate averages Rb 75 per USD and under $40–45 per barrel – around Rb 70 per USD. Thus, when the financial stability is constant one can expect ruble's exchange rate at around current levels.

5. MONETARY POLICY AND INFLATION IN JUNE 2020

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Despite large scale external shocks seen in February-March 2020, there was no spike in inflation in Russia and at the period-end of June, the annual inflation rate came to merely 3.2%. After a short-term price surge, which was observed in March-April 2020, downward pressure on prices was exerted by a weak consumer demand, ruble's appreciation, as well as decline in inflationary expectations of the population and businesses. In these circumstances the Bank of Russia cut its key rate to 4.5%, i.e. to all-time minimum.

Inflation and monetary policy in June 2020

In spring this year, the monetary authorities adopted measures in support of financial sustainability that allowed to avoid panic on the financial market and maintain financial sustainability. Besides, macroeconomic policy implemented in Russia based on the inflation targeting and fiscal rule allowed not only to avoid raising rate at peak moments in late March 2020 but also to come over to monetary easing.

For example, on June 19, 2020, following the results of the Bank of Russia Board of Directors' meeting decision was taken to cut the key rate by 1 p.p. to 4.5% annualized which is an all-time minimum. Such significant easing of the monetary policy was due to a complex of factors including faster than expected by the regulator slowdown in inflation and build-up of risks of deviation of inflation downward from the target in 2021, reduction in inflationary expectations, and risk mitigation for the financial sustainability.

After a short-term surge in inflation seen in March-April 2020 due to panic buying of essential goods as well as to a significant weakening of the currency rate, in May-June 2020 inflation decelerated. For example, if in March-April 2020 monthly rate of consumer prices growth constituted 0.6 and 0.8%, respectively, then in May-June 2020 in the context of weak consumer demand as well as to the extent that the peak of the exchange rate pass through effect was over, the dynamic of consumer prices decelerated to 0.3 and 0.2%, respectively.

Prices of consumer goods in March and April 2020 went up by 1.0 and 1.7%, respectively (in March and April 2019 – 0.5 and 0.4%, respectively), and in May and June their growth rates declined to 0.2% (0.4% in May 2019 and -0.5% in June 2019). Price growth rates on non-food products hitting local peak in March 2020 (0.5% against 0.3% in March 2019) then decelerated and in June came to 0.3% (0.2% in June 2019). Price growth rate on services, which demand in the wake of lockdown restrictions plunged in March-April constituted 0.1% and after a seasonal May acceleration to 0.5% due to price growth on passenger transportation in June 2020 returned to 0.1% (0.6% in June 2019).

As a result, at June-end inflation in the annual terms constituted 3.2% (4.7% in June 2019), which turned out to be below projections of the regulator itself and led to growing risks that the inflation will deviate downwards from the target in 2020–2021 (*Fig. 1*).

5. Monetary policy and inflation in June 2020

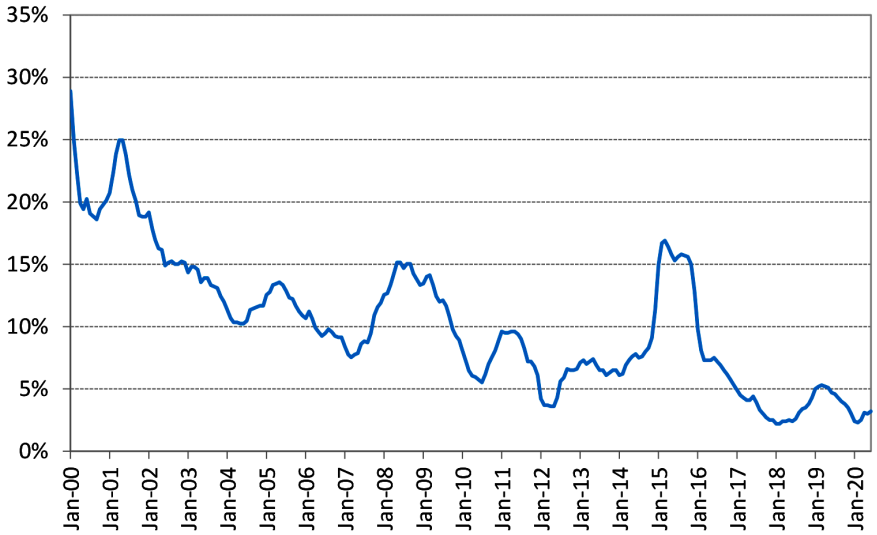

Fig. 1. Inflation, percentage change over previous 12 months

Source: Rosstat.

Core inflation (an indicator excluding changes linked to seasonal and administrative factors) in the annual terms (during last 12 months) slightly increased compared to March 2020 (2.6%), in April-June 2020 stayed at 2.9%. Consistently, low rate of core inflation also demonstrates low risk for price stability in the Russian economy.

One of the key factors of inflation deceleration was a decline in consumer demand due to a decrease in real income of the population in the period of lockdown mode. For example, reduction in real wage in relation to similar period of the previous year in April amounted to -2% (+3.1% in April 2019 to April 2018), growth rate of this index in relation to March 2020 hit -4.3% (+3.2% in April 2019 to March 2019). In the wake of low inflation, this was mainly due to a decline in nominal wage: in April 2020 it went up in relation to April 2019 merely by 1% (8.4% in April 2019 to April 2018) meanwhile its decline in April in relation to March 2020 hit 3.5% (+3.5% in April 2019 to March 2019). Growth rate of sales turnover were marked by a plunge, in the annual terms they constituted in April -23.2%, in May -19.2% (2 and 1.9% in April and May 2019, respectively).

Easing of the monetary policy was triggered by dynamic of inflationary expectations of the population and businesses. After a limited growth seen in March-April fuelled by the volatility on the financial market, in May-June balance of responses of business managers and the population obtained by "InFOM" via survey by telephone commenced to indicate a decline in expected price growth rate.

Ruble's appreciation against USD by 4% in May 2020 and by 1.1% in June 2020 to Rb 70/ USD was also a factor for slowdown of consumer price growth (*Fig. 2*). Observed appreciation of the ruble was due to stabilization on the crude oil market on the back of striking the new OPEC+ deal in May as well as transactions of the Finance Ministry of Russia related to the sale of foreign currency within fiscal rule coupled with the central bank sales of foreign currency within the execution of a deal to sell to the government a controlling parcel of shares of Sberbank of Russia.

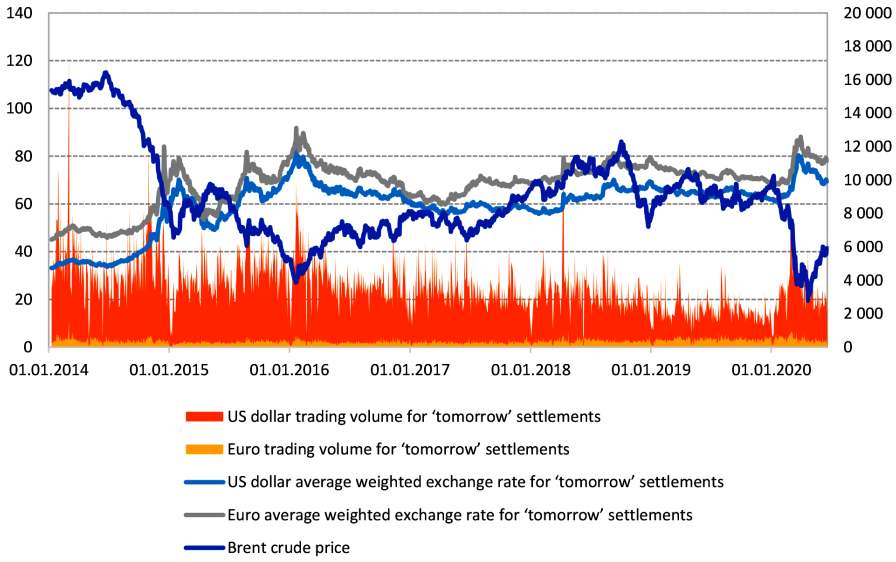

Fig. 2. Dynamic of Ruble-dollar and ruble-euro exchange rates, and Brent crude price

Sources: Bank of Russia, Finam.

Reduction in the key rate to its all-time minimum in the wake of economic activity recession and decline in domestic demand will allow to support the economy. Prospects for further easing of the monetary policy depend on dynamic of inflation and inflationary expectations. In the event of its prolonged stay at low level cut in the key rate can be continued.