

MONITORING OF RUSSIA'S ECONOMIC OUTLOOK:

TRENDS AND CHALLENGES OF SOCIO-ECONOMIC DEVELOPMENT

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Monitoring of Russia's Economic Outlook

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1. RISKS OF DIGITAL DISCRIMINATION IN THE WAKE OF COVID-19

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The escalation of discrimination in the context of the COVID-19 pandemic affects participants in the digital economy and other Internet users.

Recommendations of international organizations and the situation in foreign countries

The OECD views the problem of discrimination amid the pandemic as a violation of the general principle of non-discrimination in a wide range of social and labor relations. The OECD states that a new type of discrimination and xenophobia implying association of a human with COVID-19 virus came around with the spread of the pandemic. This type of discrimination can be manifested in the public definition of the virus COVID-19 as a disease of a specific ethnicity (“Chinese flu”, according to the US President Donald Trump; “coronajihad,” as the leader of one of the Indian political parties puts it); discriminatory treatment of humans representing countries most affected by the pandemic, or persons wearing individual protective gear, or those who have recovered from COVID-19, or those whose family members got infected with COVID-19.

These people are forced to feel guilty, inferior; they are excluded from public life, discriminated, and abused. Therefore, some international organizations highlight this issue among the scope of increasing inequality matters. It is being noted that the issue of a new discrimination represents a side effect of the incorrect presentation of information by mass media and state authorities. Therefore, the primary form of countering social discrimination is to prevent discrimination in the regulatory state policy and in the official information transmitted by media. Discrimination in connection with COVID-19 manifests itself in the following forms:

Social discrimination on ethnic grounds. Discrimination is expressed in any form of unequal treatment of a human based on his origin from countries most affected by the pandemic, as well as inciting hatred and isolation in society against the natives representing specific countries by attributing the blame to respective countries and peoples for the pandemic outbreak.

The New York Human Rights Commission announced end of May on the allocation of \$100.000 for social anti-discrimination advertising in relation to COVID-19.¹ Thus, for instance, the UNESCO has been conducting such a media campaign since the pandemic outbreak.² Mass media, government authorities and residents are recommended to use the official name of the virus; maintain privacy of those infected; avoid spreading information supporting respective stereotypes on the pandemic origin; inform administrators of media platforms on the discriminatory content; bring to public notice the issues of discrimination and social isolation.

1 URL: <https://abcnews.go.com/US/nyc-launches-100000-effort-combat-anti-asian-discrimination/story?id=70830974>.

2 URL: https://en.unesco.org/sites/default/files/social_media_campaign_package_combat_xenophobia_related_to_COVID-19-en.pdf.

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In this respect, migrants and refugees are most vulnerable. The International Migration Organization highlighted the issue of social stigma as a follow-up of stereotypes and lack of information in their review of the environment that lays open the migrants to the pandemic impact.¹ NGO Human Rights Watch published a review of cases reflecting violation of human rights in the context of pandemic in various countries.²

The review includes cases of incorrect information presented at senior management level, such as associating the spread of COVID-19 with refugees residing in the country (in Hungary, Italy). The EU Agency for Fundamental Rights noted in its review on the social impact of the pandemic a surge in discrimination in the EU countries against the Romani as a constantly migrating ethnic minority.³

Health services discrimination. Discrimination in connection with COVID-19 is most dangerous for healthcare, as it exacerbates the threat to life and health. The Bureau of the UN Commissioner for Human Rights emphasizes in its review that discrimination⁴ in terms of access to health services entails growing risk of infection and mortality among certain human categories. Countries are encouraged to support an inclusive approach to secure public health. In Malaysia, hundreds of migrants have been arrested, thus, not only restricted in movement, but also in access to medical care.⁵

Labor discrimination. The issue of discrimination in connection with COVID-19 in the sphere of social and labor relations is aggravating due to rising unemployment rate amid the global economic crisis. The International Labor Organization published recommendations on labor standards in the context of COVID-19; they include, among other things, a prohibition on discrimination on health status.⁶ It is emphasized that health discrimination cases in employment or at work fall within the 1958 ILO Convention on Discrimination in Labor and Employment. Due to COVID-19 anti-bodies mass testing, launched in many countries along the epidemic slowdown, the experts allow for the possibility of “reverse” discrimination against those who have not been exposed to coronavirus. Since a sizable percentage of the identified cases were asymptomatic, discrimination may arise against those employees or job candidates, who did not undergo any medical examinations during the pandemic.⁷

Discrimination based on profiling. Discrimination practices can be manifested, in particular, in the digital environment. The probability of growing discrimination, based on health grounds, is driven by the active use of technical control measures related to the transfer of medical personal data. Health data mobile applications based on COVID-19 infection were launched in many countries in the first pandemic phase, such as BlueDot in Canada, NCOVI in

1 URL:<https://publications.iom.int/system/files/pdf/mrs-60.pdf>.

2 URL:<https://reliefweb.int/sites/reliefweb.int/files/resources/Human%20Rights%20Dimensions%20of%20COVID-19%20Response.pdf>.

3 URL:https://fra.europa.eu/sites/default/files/fra_uploads/fra-2020-coronavirus-pandemic-eu-bulletin-may_en.pdf.

4 URL:https://www.un.org/victimsofterrorism/sites/www.un.org.victimsofterrorism/files/un_-_human_rights_and_covid_april_2020.pdf.

5 URL:https://www.thesundaily.my/local/un-malaysia-voices-concern-over-large-scale-arrests-of-undocumented-migrants-in-kl-FE2363205#pk_campaign=MASwpm&pk_kwd=UN+Malaysia+voices+concern+over+large-scale+arrests+of+undocumented+migrants+in+KL.

6 URL:https://www.ilo.org/wcmsp5/groups/public/---ed_norm/---normes/documents/publication/wcms_739937.pdf.

7 URL:<https://ria.ru/20200523/1571871706.html>.

1. Risks of digital discrimination in the wake of COVID-19

Vietnam, Self Diagnosis in South Korea, C-19 COVID Symptom Tracker in the UK, TraceTogether in Singapore, StopCovid in France, etc.

However, one cannot rule out the possibility of misusing the collected data, for example, unauthorized transfer of information for commercial purposes or data leakage. It is noteworthy that early June, Norway announced that they would no longer use the Smittestopp application, pending revocation of safeguard measures in order to protect users' personal data.¹ Singapore also considers technical compatibility of the TraceTogether application with various operating systems.

In this respect, the TraceTogether Tokens mini-devices were developed with the sole function to inform on the risks of infection.² The distribution of these devices started on June 28, and within three days, ten thousand senior Singaporeans received them.³ Thus, the governments of the OECD countries also take into account the social risks when developing further regulatory anti-crisis measures. The concerns of the personal data subjects are also associated with the spread of digital discrimination practices based on profiling. Profiling means creating a personal profile of the personal data subjects, usually without their knowledge, based on essential personal data (name, contact information, IP address) and behavioral data (such as viewed and selected Internet sites, search requests, browsing tactics, etc.).

Such a profile data is used to automatically generate solutions as applied to individuals, aimed at targeted or contextual advertising, provision of services and other tasks, for which profile data is relevant. The human right to be free from binding automatic solutions based on data of a shadow profile is legislated in a number of OECD countries. The inclusion of subjects' medical data in their profiles, so that to generate solutions, could lead to growing discrimination against COVID-19 survivors.

That might mean proposing these individuals the more expensive personal protective equipment at electronic trading platforms, drafting the least favorable conditions for online transactions, aggressive advertising highlighting risks of re-infection or the need to give a blood sample for antibodies to COVID-19, or other forms of discriminatory distinction of those who have recovered.

Situation in Russia

Cases of COVID-discrimination have also been recorded in Russia.⁴ Thus, at the start of the pandemic, citizens of China became subjected to unreasonable document checks in public transport,⁵ forced deportation based on ethnicity,⁶ etc. Likewise, risks of digital discrimination persist in Russia as well as in other countries, including the use of shadow profiles. Such data as geolocation (for example, the user's movement to special medical care venues designed for COVID-19 patients) can be used for shaping this profile, behavioral data placed on Internet (search of information on antiviral drugs purchase and their use, online purchase of drugs prescribed to COVID-19 patients), information

1 URL:<https://www.euronews.com/2020/06/15/norway-data-protection-authority-temporarily-bans-use-of-coronavirus-tracking-app>.

2 URL:<https://www.mobihealthnews.com/news/asia-pacific/singapore-launch-tracetgether-token-device-covid-19-contact-tracing>.

3 URL: <https://www.straitstimes.com/singapore/10000-seniors-get-first-batch-of-tracetgether-tokens>.

4 URL:<https://www.vedomosti.ru/politics/news/2020/02/27/823937-mer-moskvi>.

5 URL:<https://novayagazeta.ru/news/2020/02/25/159339-posolstvo-kitaya-poprosilo-prekratit-proverka-kitayskih-grazhdan-v-obschestvennom-transporte-moskvy>.

6 URL:<https://www.interfax.ru/moscow/697140>.

coming from social networks (if the user had publicly informed on his health condition), information about trips to countries affected by pandemic, user's ethnicity data). This data can be used to generate automatic solutions when using internet and online-services. For example, services on prophylaxis and prevention of recurrent infection can be imposed on people who have had COVID-19; people belonging to respective risk groups can be primarily proposed the more expensive individual protective equipment, anti-virus drugs and other discriminatory practices.

Proposals for Russia

1. The Ministry of Labor to make a recommendation to prevent discrimination based on health conditions at workplace or in employment. Cases of discrimination shall also include incorrect collection of health condition data, for example, questions about presence/absence of infection during a pandemic in the applicant's questionnaire, referring both to the applicant and his inner circle; restriction of opportunities to be employed (forcing to lockdown for indefinite or long period; forcing to prove the absence of infection or recovery; termination of employment); forcing to use special protective measures in addition to the approved ones (to oblige wearing specific face masks; transfer the employee to unfit office); ban on participating in company's corporate activities (forbidding to take part in the meetings); discriminatory approach to labor remuneration or financial reward (deprivation of bonuses, non-payment for extra work) and other forms of discrimination. The recommendation should include an open list of discriminatory practices, as it will facilitate the opportunity to prove signs of discrimination against the person in question. In order to realize these proposals, the Ministry of Labor is recommended to include option "COVID-19" for appeals related to the pandemic, in the section "Send appeal – theme" at their website.

2. The Federal Service for Supervision in the sphere of Telecom, Information Technologies and Mass Media (Roskomnadzor) to develop a recommendation on prevention of discriminatory practice of profiling in the context of COVID-19. The recommendation may include technical safety rules (non-disclosure of personal information through open platforms, use of computer anti-virus programs); rules of safe internet (incognito mode; exclusive use of official resources on pandemic; ad blocking applications); safe personal data governance rules (personal health data transmission exclusively for medical purposes; refusal to transmit personal data if not required for data processing, as well as other essential rules.

3. Roskomnadzor to also create a separate service at their official website to receive citizen appeals on abuse of their data; on attempts to forcefully associate their personal data with COVID-19; on facts of digital discrimination based on profiling data.

4. Roskomnadzor to approve recommendation for search systems operators on priority review of requests to delete personal data associated with COVID-19, except for data related to public safety (for example, information on major quarantine violation, fraud amid the pandemic, etc.). 

2. CENTRAL BANKS RETAIL DIGITAL CURRENCIES: RISKS AND PROSPECTS OF EMISSION

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Currently, there are several dozen countries worldwide, developing central bank digital currencies (CBDCs). However, their emission is associated not only with potential benefits, but also with significant risks. This explains the caution of the monetary authorities when making decisions to launch such projects.

A serious discussion on the prospects of “central banks cryptocurrencies” started in 2017 in economic literature [1; 2]. Subsequently, the term “cryptocurrencies” was replaced by “digital currencies” aiming to emphasize that central bank digital currencies (CBDCs) are issued along with other aspects of the monetary base, without being anyone’s balance sheet liability, unlike cryptocurrencies [3; 4]. Similar to cash and reserves, there are two types of CBDC digital currencies: retail and wholesale¹. Retail CBDCs are available to a wide range of economic agents (individuals, companies, etc.), while wholesale CBDCs can be operated only by financial intermediaries.

A survey conducted by the Bank for International Settlements (hereinafter, BIS) [8], shows that projects related to retail CBDCs have increasingly developed recently. This is largely due to a combination of the following factors:

- the ongoing decline in demand for cash (Sweden, Norway), or a possible reduction of their future use (Japan, EU) [8; 9; 10];
- the increasing efficiency of financial intermediation, ensured, in turn, by reducing the costs of transactions and related risks (operational, credit, etc.) [8; 11];
- the need to create an alternative to private projects of stablecoins (for example, Libra), that might threaten the sovereignty of monetary authorities [9; 11];
- the counteraction of governments and central banks to illegal financial transactions [12; 13; 14].

Owing to pandemic, another factor was added to the list, stimulating monetary authorities to issue retail CBDCs, i.e., the need for a safe (in all senses) digital analogue of cash² [9; 15]. The recent BIS study evidenced major public

1 Wholesale CBDC projects include Jasper (Bank of Canada and Payments Association of Canada), Ubin (Monetary Authority of Singapore in partnership with financial institutions), Stella (Bank of Japan and ECB), Khokha (South-African Reserve Bank in partnership with commercial banks), Aber (monetary authorities of Saudi Arabia and Central Bank of the UAE), Lion Rock-Inthanon (monetary authorities of Hong Kong and the Bank of Thailand with the participation of financial institutions). It should be noted that these projects are still computer simulation programs used to assess the risks and benefits of applying distributed ledger technology, when financial institutions make large payments. Research results have shown that the benefits of using blockchain technology to make payments within one country are likely to be small [5]. However, the prospects of using blockchain technology, allowing to reduce the number of intermediaries and time to make a transaction, and hence, the costs in the field of cross-border payments, are of significant interest [6; 7].

2 Note that in many countries, including Russia, not many goods purchased via Internet can be paid online or contactless using a bank card (or other electronic method). Despite the spread of the coronavirus infection, some online-retailers continue to accept only cash payment. Digital cash, being legal means of payment, could resolve this problem.

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concerns about the risk to get coronavirus infection when using cash [16]. A survey conducted in the UK in March-April 2020, also confirms a downward trend among the population to use cash when shopping¹ [16].

The challenges related to emission of retail CBDCs mean that its real consequences are not completely obvious, and the ratio of costs and benefits can vary significantly depending on special patterns of economies. *Table 1* shows the risk analysis associated with the release of retail CBDCs [17]. The impact of the CBDCs emission will be determined by their design or characteristics, including possible restrictions on use and limits; none-anonymity; technology used for data transmission; eventual accrued income.

Accordingly, the demand for CBDCs will be determined by their attraction for economic agents, and hence, by monetary characteristics and functions (means of payment or store of value).

Table 1

Consideration of risks related to emission of retail CBDCs

Effects of the CBDC emission	Possible adverse effects	Possible positive effects	Ways to reduce adverse effects
Emergence of a Central Bank risk-free obligation in digital form change in the structure of balances of economic agents [18; 19]	The flow of bank deposits to risk-free CBDCs [3; 20] a decreasing credit offer, increasing banks' investments in risky assets [21] reducing role of banks in the economy, disappearance of a two-tier banking system [22]; growing probability of the "bank run" amid financial instability [3; 22]	Emergence of additional tool for diversification of assets by economic agents [23]	Establish a "public-private partnership" for credit institutions to participate in the storage of CBDC funds owned by economic agents, as well as in transactions [24] The Central bank to credit banks if faced with outflow of deposits amid financial instability [25] Approve CBDC rate (if it is paid) within interest rate collar [26] Mitigate the zero interest rates floor [23; 27; 28]
Changes in the functioning of monetary transmission mechanisms	Decline in transmission efficiency due to reducing role of banks [3]	CBDCs can be an additional tool of monetary policy improving performance of the interest rate channel, if designed properly [4; 20]	
Decrease in the amount of cash in circulation	Depending on the degree of cash substitution by CBDCs, it is possible: <ul style="list-style-type: none"> • to decrease income from seigniorage [29]; • to increase costs of money emission, if issue of CBDCs is associated with higher costs than issuing paper money [23; 30] 		

Source: own considerations.

Despite potential attraction of retail CBDCs as a new instrument of monetary policy, the risks associated with their issue are varied and high. This is what explains the conservatism and carefulness of central banks in respect to practical launch of their digital currencies for the population. According to results of the 2019 BIS survey with the participation of 66 central banks (including 21 central banks from developed and 45 from emerging market countries), 80% of them study digital currencies [8]. Late May 2020, the IMF [23] reported on 6 pilot projects in the context of retail CBDCs; nearly 30 countries studying retail CVDCs, including projects differing in their degree of detailed

¹ The decline in the use of cash can be explained by two interrelated reasons: fear to be infected when using cash, and an increase in the share of online commerce as a result of lockdown and self-isolation.

2. Central banks retail digital currencies: risks and prospects...

elaboration, as well as about 10 projects related to retail CBDCs that have not received any official confirmation from the authorities (*Table 2*).

Table 2

Countries studying prospects and impacts of retail CBDC emission

CBDC pilot projects	Research and/or development of CBDC projects			Study and development of CBDC projects without official confirmation
Bahamas	Australia	Canada	Tunisia	Bahrein
China	Brazil	Curacao & Sint Maarten	Turkey	Haiti
	Ghana	Mauritius	Finland	Egypt
Organization of Eastern Caribbean States	Hong Kong	Morocco	Chile	Iran
	Denmark	New Zealand	Switzerland	Kazakhstan
	Eurozone and its individual member countries	Norway	Sweden	Lebanon
	Israel	Russia	South Africa	Pakistan
Ukraine	India	United Kingdom	South Korea	Palestine
Uruguay	Indonesia	USA	Jamaica	Ruanda
Ecuador	Iceland	Trinidad & Tobago	Japan	Philippines

Source: own considerations based on materials [23].

The abovementioned pilot projects of retail CBDCs provide for limited emission volumes of digital currencies and possibilities of their use. The main goals of these testing is to check the efficacy and reliability of payment infrastructure, its user-friendliness and their attitude to a new payment instrument. Operators of pilot projects emphasize that their launch is far from being equivalent to the start of digital currency official emission of the respective central bank and likewise, does not indicate the intention of monetary authorities to suspend cash.

Currently, monetary authorities of various countries are engaged in a detailed analysis of all the components related to the launch of CBDCs. The major subjects under consideration related to the emission of Central Bank retail digital currencies, are the following [23]:

- determine the emission rationale, goals and consequences, analyze the possibility to achieve respective goals using existing payment instruments, including private ones;
- discuss the infrastructure parameters required for CBDC emission and subsequent circulation, allowing for keeping risks to a minimum, preventing to force banks out from financial intermediation environment. As major solutions, it is suggested to either engage credit institutions in making payments in CBDCs, or delegate the banks the right for CBDC emission based on the security of reserves. In the literature, such digital currencies are referred to as “synthetic CBDCs”, and their schemes of emission likewise require additional study of technical and operational risks;
- legislative and regulatory innovations needed to conduct emission of a new type of central banks obligations¹.

Thus, the possible CBDC emission is still being studied by the monetary authorities. The launched pilot projects of retail CBDCs assume only limited emission of digital currency. The conclusions regarding the success of such

¹ According to publication [31], almost 25% of central banks already have or will soon have the right to issue CBDCs, while 1/3 of central banks does not have such a right, and about 40% of central banks are not sure that they have such rights.

projects do not look unambiguous (including due to the unwillingness of the population to accept the new instrument resulted from lack of trust to central banks [8; 20]). Development and research of CBDC prospects, including for the purposes of their safe and well-thought emission, demand time and coordination by monetary authorities representing different countries and international organizations.

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3. OPERATIONAL MONITORING OF SOCIO-ECONOMIC POLICY AIMED TO EASE THE COVID-19 IMPACTS

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The peak of economic shock resulted from the first wave of COVID-19 has already passed in many countries, and currently, the focus of economic policy is shifting towards recovery. In the context of a gradual resumption of business activity and stabilization in financial markets, the authorities are so far abandoning new economic incentives, while extending effective terms of previously adopted measures.

Forecasts for development of global economy

1. *The S&P rating agency*: the COVID-19 pandemic eases unevenly, and the global economy begins its slow mend [1]. The forecast published on July 1, 2020.

Table 1

The forecast for GDP growth (% against previous year)

	2019	2020	2021	2022	2023
USA	2.3	-5.0	5.2	3.0	2.8
Chiba	6.1	1.2	7.4	4.7	5.3
Eurozone	1.2	-7.8	5.5	2.9	2.0
United Kingdom	1.4	-8.1	6.5	2.6	2.1
Japan	0.7	-4.9	3.4	1.0	0.9
India	4.2	-5.0	8.5	6.5	6.6
Brazil	1.1	-7.0	3.5	3.3	2.9
The world (according to purchasing power parity)	2.8	-3.8	5.3	4.0	3.9

The S&P rating agency makes a point that the peak of the pandemic is either nigh or has already passed in many countries, however, the COVID-19 will remain a threat until the vaccine becomes widely available, which can only happen in the second half of 2021. Based on this assumption, the agency is elaborating the updated forecast for the development of the global economy. Compared to the previous forecast, they expect a deeper decline in the world economy this year, i.e., by 3.8% against 2.4% in the previous forecast. The forecast for the US economic growth has not changed compared to the previous version: a reduction by 5% is expected in 2020 against the recovery by 5.2% in 2021, 3.0% in 2022 and 2.8% in 2023.

Europe is also showing the first signs of recovery in economic activity, but its recovery rate is different: this process is going faster in Germany, while slower in Spain. The GDP in Eurozone is expected to shrink by 7.8% in 2020, with growth by 5.5% in 2021, 2.9% in 2022 and 2.0% in 2023. China evidences an ongoing sustainable recovery: the forecast for the economic growth in 2020 constitutes from 1.2% to 7.4% in 2021 and around 5% in 2022–2023. A less optimistic scenario of economic development is expected in other developing countries compared to previous expectations. For example, Brazil, having become the epicenter of the pandemic in Latin America, is expecting the reduction of GDP by 7% this year.

2. *European Commission*: European economic forecast (summer 2020) [2]. The forecast published on July 7, 2020.

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Table 2

The forecast for GDP growth (% against previous year)

	Fact	Current forecast (summer 2020)		Previous forecast (spring 2020)	
	2019	2020	2021	2020	2021
Belgium	1.4	-8.8	6.5	-7.2	6.7
Germany	0.6	-6.3	5.3	-6.5	5.9
Estonia	4.3	-7.7	6.2	-6.9	5.9
Ireland	5.5	-8.5	6.3	-7.9	6.1
Greece	1.9	-9.0	6.0	-9.7	7.9
Spain	2.0	-10.9	7.1	-9.4	7.0
France	1.3	-10.6	7.6	-8.2	7.4
Italy	0.3	-11.2	6.1	-9.5	6.5
Cyprus	3.2	-7.7	5.3	-7.4	6.1
Latvia	2.2	-7.0	6.4	-7.0	6.4
Lithuania	3.9	-7.1	6.7	-7.9	7.4
Luxembourg	2.3	-6.2	5.4	-5.4	5.7
Malta	4.4	-6.0	6.3	-5.8	6.0
Netherlands	1.8	-6.8	4.6	-6.8	5.0
Austria	1.6	-7.1	5.6	-5.5	5.0
Portugal	2.2	-9.8	6.0	-6.8	5.8
Slovenia	2.4	-7.0	6.1	-7.0	6.7
Slovakia	2.3	-9.0	7.4	-6.7	6.6
Finland	1.0	-6.3	2.8	-6.3	3.7
Eurozone	1.2	-8.7	6.1	-7.7	6.3
Bulgaria	3.4	-7.1	5.3	-7.2	6.0
Check Republic	2.6	-7.8	4.5	-6.2	5.0
Denmark	2.4	-5.2	4.3	-5.9	5.1
Croatia	2.9	-10.8	7.5	-9.1	7.5
Hungary	4.9	-7.0	6.0	-7.0	6.0
Poland	4.1	-4.6	4.3	-4.3	4.1
Rumania	4.1	-6.0	4.0	-6.0	4.2
Sweden	1.2	-5.3	3.1	-6.1	4.3
European Union	1.5	-8.3	5.8	-7.4	6.1

The European Commission has updated the forecast for development of the European Union and the Eurozone economies. The COVID-19 impact on the European economy was rather hard, and a number of indicators demonstrate that the Eurozone economy functioned 25–30% below its potential level in the period of tough restrictions. The European economy is expected to decline by 8.7% in 2020 with a 6% recovery next year.

However, the impact will be disparate across countries. Such countries as Italy and Spain will be most affected this year (GDP decline by 11.2% and 10.9%, respectively), while countries like Poland and Denmark will suffer far less, i.e., by 4.6% and 5.2 % respectively.

Given the high degree of uncertainty with respect to future developments, the current forecast of the European Commission critically depends on the following prerequisites: it is expected that restrictive measures in the European Union will be gradually lifted, and apart from that there will be no second large-scale wave of the pandemic; industries that require human interaction will still be affected by social distancing measures; the application of fiscal and monetary measures aimed at supporting households and business will continue.

Nevertheless, grave risks remain for such a forecast. The major risk is the large-scale second wave of the pandemic. Another significant risk for European economies is a longer negative impact resulted from COVID-19, for instance, more serious issues in the field of employment and spread of bankruptcies. Finally, lack of agreement on Brexit with United Kingdom can substantially slow down the development of the European economy.

Fiscal and monetary measures

Statistics published in the first part of July, proves the gradual recovery of business activity and global demand, as more countries significantly ease quarantine measures. Thus, Chinese market continues to demonstrate recovery contrary to experts' expectations: the country imports grew by 2.7% in annualized terms (consensus projections constituted -9%), exports increased by 0.5% (consensus projections constituted -2%), indicating the recovery of demand in the domestic market and abroad [3].

The US is seeing a rapid recovery in the service sector. The index of supply management in the non-manufacturing sector (ISM Non-manufacturing) showed an increase from 45.4 points in May to 57.1 points in June [4]. At the same time, the number of new applications for unemployment allowances continues to decline in the country. The number of initial applications amounted to 1.314 mn. within a week ended July 4, that is, by 99 000 less than the corresponding figure a week earlier [5]. Nevertheless, a high degree of uncertainty remains in the United States with regard to the pace of economic recovery due to persisting risks of a second wave of the pandemic and the forced re-toughening of quarantine measures in the southern states as a result of accelerating growth of new cases of coronavirus infection [6].

The number of new initiatives taken by the authorities to mitigate the short-term effects of the pandemic is decreasing with the recovery in business activity and the gradual stabilization in the financial markets. Meanwhile, the authorities of many countries (for example, France, Indonesia) are developing projects of additional measures with their scale to be depended on the likelihood of a second wave of the pandemic, as well as on the effectiveness of previously adopted measures, currently amounting to \$11 trillion worldwide on the aggravated value. According to IMF estimates as of June 12, the total cost of fiscal incentives adopted by the G20 countries reaches 12.1% of GDP (Table 3) [7].

Table 3

Assessment of extent of the G20 anti-crisis packages as on 12.06.2020, % of GDP [7]

Country	Fiscal measures ¹ , % of GDP	Quasi-fiscal measures and state guarantees ² , % of GDP	Total, % of GDP
Germany	9.4	31.5	40.9
Italy	3.5	34.0	37.5
Japan	11.3	24.0	35.3
United Kingdom	6.2	16.9	23.0
France	2.7	16.2	18.8
USA	12.3	2.6	14.8
Spain	3.4	10.6	14.0
Korea	3.1	9.7	12.8
Brazil	6.5	5.4	11.9
Australia	8.8	1.8	10.7
South Africa	5.3	4.2	9.5
Turkey	0.2	9.1	9.4
Canada	5.6	3.3	8.9
India	1.2	4.9	6.1
Argentina	2.8	2.0	4.8
China	4.1	0.5	4.6

1 Fiscal incentives include subsidies, direct payments to households, tax deferral.

2 Quasi-fiscal measures suggest acquiring companies' stakes, targeted industries' crediting by regulator on government request, as well as indirect measures, i.e., granting of state credit guaranteese.

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Country	Fiscal measures ¹ , % of GDP	Quasi-fiscal measures and state guarantees ² , % of GDP	Total, % of GDP
Indonesia	2.4	1.1	3.6
Saudi Arabia	2.3	0.9	3.3
Russia	1.9	1.1	2.9
Mexico	0.7	0.5	1.1

Beyond that, the authorities of a number of countries are extending the effective term of previously announced support measures: for instance, simplified procedures for obtaining mortgage loans were extended for a month in the United States; the program for restructuring borrowers' loans was extended in the United Kingdom for those who faced a decrease in incomes due to the pandemic. At the same time, the UK announced a second package of fiscal measures amounting to Pound 30 bn. (1.4% of GDP), targeting primarily the labor market through subsidies to employers aiming to bring back to their work the employees, previously sent on indefinite unpaid leave, as well as for the support of affected industries (tourism and hospitality businesses) through reduction of VAT from 20% to 5%.

Russia adopted supplementary measures to support employment through subsidies aimed to create additional 80 000 job opportunities in the regions and also increase access to microloans for small and medium-sized businesses.

Table 4

Supportive measures targeted to financial sector, enterprises and households aimed to ease economic impact of the pandemic

Country	Measure	Adoption date	Content	Reference
USA	Prolongation of simplified mortgage lending procedures	09.07.2020	Mortgage agencies Fannie Mae и Freddie Mac prolong terms of simplified mortgage lending procedures until August 31 against previously approved July 31. Simplification particularly concerns provisions of credit refunding, alternative documenting methods and confirmation of employment by the borrower.	[8]
United Kingdom	Prolongation of support measures for borrowers faced with temporary challenges in loan payments	01.07.2020	Enabling borrowers faced with financial challenges to request temporary freezing on credit cards or consumer credit payments for a period of up to three months, as well as increase the bank overdraft limit by additional Pound 500 for up to October 31, 2020.	[9]
	Support to cultural institutions	05.07.2020	Allocation of Pound 1.57 bn. to support theatres, cultural heritage sites, museums, art galleries, cinemas in the form of grants, credits and investment in modernization.	[10]
	Announcement of a new package of fiscal measures	08.07.2020	New package of measures amounting to Pound 30 bn. (\$ 37.6 bn.) includes the following initiatives: Pound 9 bn. through subsidies to enterprises for subsequent employment of workers, fired or sent on unpaid leave due to pandemic; Pound 3.6 bn. to create and support jobs and education programs; Pound 3 bn. to support "green" investments, suggesting payment of Pound 5000 to house owners taking measures on the housing energy efficiency improvement; Reduction in VAT from 20% to 5% touristic and hotel sectors.	[11]
France	Allocation of credit line by the European Investment Bank, EIB	06.07.2020	Allocation by EIB of two credit lines amounting to Euro 600 mn. to Credit Mutuel Alliance Federale banking group for granting loans in the amount of Euro 1.2 bn. to small and medium-sized businesses affected due to the pandemic.	[12]

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Country	Measure	Adoption date	Content	Reference
Russia	Subsidies to create temporary job opportunities in the regions	05.07.2020	Allocation of more than Rb 4 bn. to regions in 2020 to remunerate employees' labor expenses when creating temporary jobs in construction, agribusiness, in the field of transport and housing and communal services.	[13]
	Easing microloans borrowing and regional guarantees to SME	10.07.2020	Simplification of requirements for SMEs, recipients of support, suggests: temporary lifting of checks for debt in arrears on taxes and duties; extension of terms on working microloans from 3 to 5 years. Likewise, in case of high alert and emergency in the region, a limit is set on the size of commission for using guarantees (0.5%) and on the amount of security under the suretyship agreement of regional guarantee organizations (80%).	[14]
	Subsidies to support shipping companies	12.07.2020	Allocation of Rb 320 mn. to support maritime and riverine shipping companies.	[15]

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4. REGIONS' BUDGETS IN H1 2020

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In H1 2020, tax and non-tax revenues of the consolidated budgets of subjects of the Russian Federation contracted by 8.9% in relation to the corresponding period of 2019, which is close to the corresponding index for the first 5 months of the current year and marks stabilization of the situation following the collapse seen in April and May. Simultaneously, the outstripping growth of fiscal transfers from the federal budget has resulted not only in cutting budget revenues in the lower-revenue regions but to ensure high growth rates.

In H1 2020, total expenditures of the consolidated budgets of the Russian Federation amounted to Rb 6.6 trillion going up in relation to H1 2019 by 19.1%. This growth significantly exceeds current inflation rate and is due to mainly the implementation of anti-crisis measures.

Despite sluggish growth in regions' debt burden, it has remained at a low level and additional fiscal assistance from the federal budget in the majority of cases allows not to avoid its growth in the lower-revenue regions.

Revenues

Advance data released by the Federal Treasury on the execution of the consolidated budgets of the Russian Federation for H1 2020 demonstrate that total revenues of regions' and local budgets amounted to Rb 6.33 trillion up by 2.1% compared to the same period of 2019. Tax and non-tax revenues contracted by 8.9% at that which is close to the corresponding index for the first 5 months of current year and mark stabilization of the situation following the collapse seen in April and May.

Predictably, the corporate profits tax was in the lead which receipts in regions' budgets during the period under review dropped by 15.2%. In H1 2020, the principal sources of regional budget revenues were driven by downward trends: PIT (-2.7% to the corresponding period of last year) and aggregate income tax (-12.8%), and property tax (-7.7%), an upward trend was demonstrated by excises only (+3.2%). Positive growth of the total amount of revenues of the consolidated budgets of subjects of the Russian Federation was ensured by growth 57.4% in fiscal transfers from the federal budget. Furthermore, upward dynamics were demonstrated by all types of interbudgetary fiscal transfers: government grants (+64.1%), subsidies (+82.6%), and other interbudgetary fiscal transfers (+52.1%).

At H1-end 2020, the majority of subjects of the Russian Federation (69) demonstrated positive dynamics of the budget revenues owing to the federal fiscal transfers.

Among federal okrugs with the most favorable situation regarding budget revenues growth are North-Caucasus federal okrug (+20.3%) where all 7 subjects not just demonstrated positive dynamics but exceeded revenues growth mark of 10%. Six subjects (except Stavropol krai) demonstrated budget revenues increment by over 18% during 6 months. Not bad situation was demonstrated by Far Eastern federal okrug (+11.6%, grow was reported in all subjects) and by Southern federal okrug (+7.3%, revenues growth was posted in 7 out of

4. Regions' budgets in H1 2020

8 regions). Leaders in the decline in budget revenues were Urals (-2.1%), Central (-1.5%), and North-Western (-1.3%) federal okrugs. Anyway, federal okrugs' indexes often depend on the indexes posted by large regions which distort real situation. For example, if we analyze the situation in the federal okrug proceeding from the share of regions which were faced with the decrease in the consolidated budgets revenues then the leaders of decline in budget revenues will be North-Western (decline in revenues in 6 out of 11 regions), Urals (2 out of 6), Volga (3 out of 14), and Siberian (2 out of 10) federal okrugs. Regions with the highest decline in revenues were Yamal-Nenets AD (-19.2%), Tyumen region (-17.2%), and Nenets autonomous district (-15.4%).

Basically out of 16 subjects of the Russian Federation whose budget revenues at H1-end 2020 compared to the same period of 2019 did not move up 12 subjects boasted of estimated fiscal capacity exceeding 0.9. This fact places them in the category of those with sufficient fiscal capacity for whom moderate reduction in budget revenues is not critical. Decrease in revenues in another two subjects during half-year can be due to high base posted last year. Remaining 2 regions – Kaliningrad and Orenburg regions – on the one hand, rank among relatively well-off regions (with fiscal capacity rate no less than 0.78), and on the other hand, faced relatively small decline in budget revenues (decline by 6.2% and 1.0%, respectively).

As for lower-revenue regions¹ (there were 30 such regions in 2020), all of them reported upward trends in consolidated budgets' revenues at H1-end. Moreover, except Zabaikalsky krai (+0.9%) and Penza region (+6.6%) such subjects posted revenues growth over 8.7% and average (arithmetic average) growth hit 18.3% (!).

Consequently, the government so far manages to not only prevent decline in budget revenues in financially unstable regions but, on the contrary, ensure their comfortable financial conditions for sustainable execution of expenditure obligations, implementation of anti-crisis measures and national projects.

Expenditures

The volume expenditures of RF subjects' consolidated budgets in H1 2020 amounted to Rb 6.55 trillion up in relation to the same period of 2019 by 19.1%. This significantly exceeds the current inflation rate and is explained first of all by the implementation of a set of anti-crisis measures.

Positive growth in expenditures was observed with 83 regions with Kaliningrad region (-3.5%) and Chukotka Autonomous District (-1.1%) where it was negative. Leaders in expenditures growth were Moscow (+35.7%), the Republic of Adygea (+32.5%), and the Republic of Kalmykia (+32.1%).

At H1-end 2020, the pattern of budget expenditure types demonstrated an upward trend in the share of spending on capital investment in real estate public (municipal) property. This proportion went up from 6.2% for H1 2019 to 7.5% for the same period 2020 which corresponds to increment in nominal terms of corresponding expenditures by 43.7%. This growth was due not to the growth in planned share of investment expenditures (at year-end, by contrast, it should contract from 13.4% in 2019 to 13.0% in 2020 and nominal increment will come to 11.4%), but by exceptionally faster than year earlier liquidation of budget expenditures aimed at investment.

¹ The rate of fiscal capacity of subjects of the Russian Federation is determined using a methodology adopted on November 22, 2004 by the Russian government's executive order No. 670 "On the Distribution of Equalization Transfers to subjects of the Russian Federation".

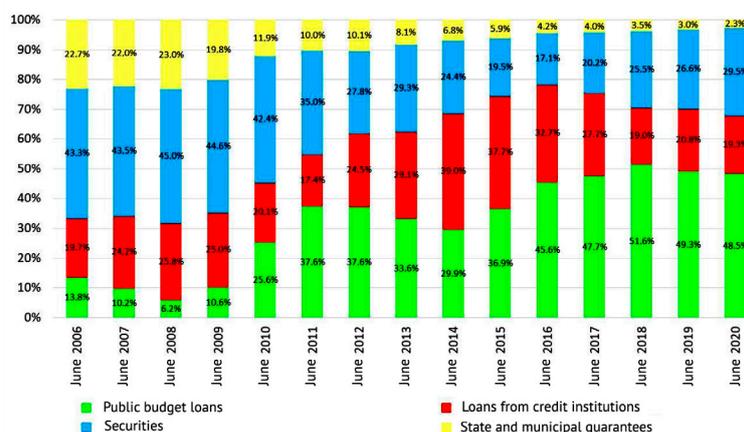
Among other changes in the pattern of budget expenditures, growth was observed in spending on purchasing of goods and fulfillment of jobs and services for state (municipal needs (from 8.9 to 10.0%) and the reduction in spending on public (municipal) debt service (from 1.0 to 0.8%). Although, at H1-end 2020, the share of expenditures on social safety net and other payments to the population did not demonstrate significant changes, we expect its growth till the end of the year (from 15.9% in 2019 to 16.7% in 2020). This is also due to the implementation of the anti-crisis measures of social character on the regional level.

Equilibrium and public debt

The remaining higher growth rates of regions' consolidated budget expenditures as compared to the revenues are drivers of regions' growth in public debt. As of July 1, 2020, it amounted to Rb 2.14 trillion which is an increase of 5.0% above that at the same date of 2019.¹ RF subjects' average debt burden² also increased from 21.7% in late June 2019 to 23.7% in late May 2020. Leaders in growth were the Republic of Khakassia (+25.6 p.p.), the Republic of Tyva (+21.2 p.p.), and Sverdlovsk region (+18.6 p.p.) At the same time, 40 subjects reported decline in debt burden.

Additional financial support to worse-off regions had a mitigation effect on their debt burden growth rates, but could not stop growth at all: with them it constituted 1.7 p.p. (hitting 45.0%) which is somewhat below the average level of 2.0 p.p. A high level of public debt exceeding 100% of the region's volume of tax and non-tax revenues is still observed with the Republic of Mordovia (217.0%), the Republic of Khakassia (127.5%), and for the first time exceeded that benchmark with Orel region (102.0%). The Udmurt Republic (95.2%) as well as the Kostroma region (93.6%), and Pskov region (90.9%) are not far from this level.

The pattern of regions' public debt in which public budget loans still prevail (48.5% of the total volume of the public debt) whose share due to restriction in their provision is gradually declining. Loans from credit institutions are also decreasing (within 12 months their share declined from 20.8% to 19.3%) as well as government guarantees (from 3.0 to 2.3%). Simultaneously, all mentioned instruments were displaced by government securities (growth from 26.6 to 29.5%) (Fig. 1).



Source: own calculations based on the data of the Ministry of Finance of the Russian Federation and the Federal Treasury.

Fig. 1. The pattern on RF subjects' public debt, %

1 Due to the seasonal factor, it is not expedient to consider regions' public debt trend in the period which is not divisible by 12 months (for example, from the beginning of the year).

2 The region's debt burden is determined as the correlation between the volume of its public debt and the volume of its constituent entity's tax and non-tax budget revenues in the past 12 months.

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Overall, despite regions' some growth in the debt burden, it remains low, while additional financial aid from the federal budget facilitates in most cases to supports prevention of debt burden growth in worse-off subjects. 