

MONITORING OF RUSSIA'S ECONOMIC OUTLOOK:

TRENDS AND CHALLENGES OF SOCIO-ECONOMIC DEVELOPMENT

No. 17(119) October 2020

1. FEDERAL BUDGET FOR 2021-2023: DEVELOPMENT TARGETS PREVAIL OVER FISCAL BALANCE I. Sokolov.....	3
2. RUSSIA'S BALANCE OF PAYMENTS IN Q3 2020 A. Bozhechkova, P. Trunin	8
3. RETAIL BANKING OPERATIONS IN JANUARY-AUGUST 2020 S. Zubov.....	12
4. RISKS AND CONCERNS: REVIEW OF FINANCIAL MARKETS (SEPTEMBER 1 – OCTOBER 15, 2020) A. Abramov, A. Kosyrev, A. Radygin, M. Chernova.....	15
5. RUSSIAN ECONOMIC DEVELOPMENT ASSISTANCE IN 2019 Yu. Zaitsev, A. Knobel.....	20

Monitoring of Russia's Economic Outlook

Monitoring has been written by experts of Gaidar Institute for Economic Policy (Gaidar Institute), Russian Presidential Academy of National Economy and Public Administration (RANEPA).

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AND PUBLIC ADMINISTRATION

17(119) 2020

Monitoring of Russia's Economic Outlook: trends and challenges of socio-economic development. 2020. No. 17(119). October. Edited by: V. Gurevich, S. Drobyshevsky, A. Kolesnikov, V. Mau and S. Sinelnikov-Murylev; Gaidar Institute for Economic Policy, Russian Presidential Academy of National Economy and Public Administration. 25 p. URL: http://www.iep.ru/files/text/crisis_monitoring/2020_17-119_October_eng.pdf

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1. FEDERAL BUDGET FOR 2021–2023: DEVELOPMENT TARGETS PREVAIL OVER FISCAL BALANCE

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The draft of the federal budget for the coming three years has clear features of the budget for development: it is aimed both at ongoing financing of anti-crisis measures and at the implementation of long-term national projects. Proactive fiscal policy amidst the decrease in tax and non-tax revenues forces implementation of fiscal consolidation measures coupled with slightly raising tax burden on certain sectors of the economy and the wealthy as well improving the “unprotected” expenditure items. It will not be enough to ensure fiscal balance with only these measures and the budget will be in deficit. The government plans to cover the budget gap through internal borrowings. As a result, debt servicing will go up 2-fold in nominal terms. This fact in itself is not critical for maintaining long-term fiscal sustainability, however as long as low oil prices and low economic rates persist possibilities of the state in the implementation of active fiscal policy will be falling.

The need for proactive fiscal policy is fueled by two circumstances:

- 1) the need to continue support of certain categories of citizens and sectors of the economy that were hardest-hit by the coronavirus pandemic restrictions and by downturn in global and Russian economy;
- 2) adjustment in July 2020 of the list of national development objectives of the Russian Federation – main priorities of state policy for many years to come that determine the structure of budget expenditures.

The draft of the federal budget for 2021–2023 takes into account *budget allocations for National Plan of Action* that ensure recovery of employment and population’s incomes, economic growth and long-term structural changes. This government’s plan has combined both measures whose implementation was commenced prior to the pandemic and the new measures aimed at relieving the pandemic fallout. Having said that, since at the moment of submission of the draft law on the federal budget for 2021–2023 to the State Duma, the development of the National Plan of Action was not completed, budget allocations for its implementation to the tune of Rb700 bn in 2021 have been earmarked and will be distributed between certain areas after the adoption of the plan including within amendments to the second reading of the draft law on the federal budget.

In addition, in the formation of budgetary expenditure pattern *annual increase in financing of national projects* – from Rb 2.2 trillion in 2020 to Rb 2.8 trillion in 2023 was envisaged. On the whole, the national projects in 2023 will account for around 12% of the total volume of planned federal budget expenditures, meanwhile in 2019 such expenditures accounted for only 9%. Because the adjustment of the national projects pursuant to the Executive Order of the President of the Russian Federation “On National Objectives for Development of the Russian Fe-

deration for the Period Up to 2030" No. 474 dated July 21, 2020 has not been completed yet, the volume and the pattern of budget allocations for financing the implementation of national projects have been formed parting from the projects' results. That is why, the adjustment of their resource provisions' parameters will be done either during the discussion of the budget draft law in the State Duma or already in the course of the execution of the federal budget by way of amendments in indexes of the consolidated budget quarterly breakdown without the introduction of amendments in the law on the federal budget.

Deterioration of the macroeconomic conditions following the 2020 crisis, the need to provide state support to the population and businesses have raised the budget deficit pursuant thereto measures of fiscal consolidate have been proposed. That said, in relation to *mobilization of additional revenues* a number of tax initiatives have an open-end time frame, which allows to speak not only about the search for resources to improve fiscal sustainability (no less than Rb500 bn of additional funds) but about the redistribution of tax burden with its slight uptick. Mainly, tax burden will grow for large businesses and individuals with relatively high incomes, meanwhile for certain categories of tax payers, first of all, for representatives of small and medium-sized businesses and IT companies part of measures, on the contrary, will be aimed at decreasing the tax burden. In particular, this refers to decrease in insurance contribution rate from 30 to 15% in relation to monthly payments over 1 minimum wage from April 1, 2020 for SMEs and from 14 to 7.6% for IT companies and technological companies (along with the decrease in income tax from 20 to 3%). On the whole, such redistribution of tax burden should not result in a significant shift in the level of competitiveness of Russian fiscal system and tax conditions for business because it will not affect the majority of taxpayers.

Specific feature of 2020 will be the need to partially step back from the fiscal rule. An abrupt return to observe it from 2021 is not possible, that is why it is envisaged to return to it gradually starting from 2022. In transition period of 2021, the maximum limit of expenses is increased at the expense of additional borrowings (to the tune of Rb875 bn) and compensation of shortfall (basic) oil and gas budget revenues at the expense of NWF funds (Rb625 bn).

The federal budget balance for 2021 required additional measures for *spending optimization* aimed at saving by way of cutting by 10% of the "unprotected" open budget items, reduction by 5% in budget allocations for the implementation of state arms program, refusal to index wages of state employees.

As a result of compromise between resolving the issue of post-crisis development and the need to maintain fiscal sustainability the following characteristics of the federal budget for the coming three years have been formed (*Table 1*).

Notable volatility of the federal budget revenues in 2021–2023 in shares of GDP has not been observed, their dynamics keep within the range of 16–17% of GDP. Annual growth in revenues in nominal terms will constitute: in 2021 – 5.1%, in 2022 – 10.0%, in 2023 – 7.9% relative to the previous year, which is over the projected inflation CPI).

Growth rates of oil and gas revenues in 2021–2023 outstrip dynamics of the revenue part of the federal budget: growth by 0.8 p.p. of GDP in 2023 against 2020. At the same time, the volume of oil and gas revenues in the coming three years will be minimal from 2013 except the crisis 2020 which is due both to a rather conservative projection of Russian oil price on the global market and to the adherence to the OPEC+ agreement. The federal budget by a third dependent on the oil and gas receipts faces a prolonged period of relatively

1. Federal Budget for 2021–2023: Development Targets Prevail Over Fiscal Balance

Table 1

Main characteristics of the federal budget in 2020–2023, Rb billion

	2020 (estimate)	Draft law		
		2021	2022	2023
Revenue, total	17 852.4	18 765.1	20 637.5	22 262.7
% GDP	16.7	16.2	16.6	16.8
Including:				
Oil and gas	5 127.0	5 987.2	6 884.3	7 489.8
% GDP	4.8	5.2	5.5	5.6
Non-oil and gas	12 725.5	12 777.9	13 753.2	14 772.9
% BBП	11.9	11.1	11.1	11.1
Expenditure, total	22 561.7	21 520.1	21 885.0	23 671.3
% GDP	21.1	18.6	17.6	17.8
Deficit (-)	-4 709.3	-2 755.0	-1 247.5	-1 408.6
% GDP	-4.4	-2.4	-1.0	-1.1

Source: Memorandum to the draft law on the federal budget for 2021–2023.

low raw materials revenues which unavoidably puts a question about the need to redistribute tax burden according to changing economic pattern and trade conditions.

The non-oil and gas revenues of the federal budget remain unchanged in shares of GDP (11.1% of GDP) and do not exceed the level of 2020 even despite rather high rates of economic growth in 2022–2023. Meanwhile, such volume of non-oil and gas revenues is maximum for the period 2013–2019.

Risks of shortfall in projected revenues are mainly due to social and economic fallout of protracted “second wave” of the coronavirus infection as well as by possibility of non-fulfillment by members of the OPEC+ deal of commitments to cut the oil production.

The volume of the federal budget expenditure is planned to be cut from 21.1% of GDP in 2020 to 18.6% of GDP in 2021 (next year financing of National Plan of Action measures will be completed) with further cut to 17.6–17.8% of GDP. With a breakdown of functional classification of expenditure their growth in nominal terms is planned in 2023 against 2019 across all sections except “Culture, cinematography”, “Physical culture and sport”, “Mass media”, and “General intergovernmental fiscal transfers” (Table 2).

A spike in spending in 2023 compared to 2019 in nominal terms is planned on sections: “Public debt servicing” – 2.2-fold, “Environmental protection” – by 93.8%, and “Healthcare” – by 54.4%.

The pattern of the expenditure part of the federal budget for 2021–2023 in shares of GDP has undergone certain changes compared to 2013–2019 on the back of increase in productive expenditures across sections “Education”, and “Healthcare” given reduction in expenses on the social policy. On the whole, the share of productive expenditure in the total volume of the expenditure part of the federal budget has been growing from 20.3% in 2019 to 21.4% in 2023. At the same time, increase in expenditure for public debt servicing in 2021–2023 decreases possibilities of consequent redistribution of budget allocations for the implementation of proactive fiscal policy by raising the share of “not subject to optimization (protected)” expenditures.

The budget will be a deficit one for the coming three years. That said, state borrowings remain practically single significant source of covering federal budget deficit: the volume of the NWF funds used for covering budget deficit for 2021–2023 will total Rb102.6 bn and receipts from state property privatization

Table 2

Federal budget expenditure in 2019–2023, Rb billion

	Actual 2019	Estimate 2020	Draft law			Change in 2023 against 2019	
			2021	2022	2023	Rb bn	%
Expenditure, total	18 214.5	22 561.7	21 520.1	21 885.0	23 671.3	5 456.8	30.0
including:							
Nationwide Issues	1 363.5	3 639.1	1 582.8	1 458.4	1 617.2	253.7	18.6
National Defense	2 997.4	3 308.9	3 113.3	3 231.7	3 257.5	260.1	8.7
National Security and Law Enforcement	2 083.2	2 359.1	2 456.7	2 408.9	2 554.5	471.3	22.6
National Economy	2 827.1	3 190.6	3 326.6	3 004.2	3 119.7	292.6	10.3
Housing and Utilities	282.2	384.0	322.2	296.1	417.3	135.1	47.9
Environmental Protection	197.5	301.7	335.7	358.1	382.7	185.2	93.8
Education	826.5	1 011.2	1 082.7	1 052.1	1 094.7	268.2	32.5
Culture and Cinematography	122.4	144.9	135.1	125.0	121.6	-0.8	-0.7
Healthcare	713.0	1 264.7	1 129.4	1 134.8	1 100.9	387.9	54.4
Social Security Policy	4 882.8	5 767.1	5 594.5	5 762.1	6 073.8	1 191	24.4
Physical Culture and Sports	81.4	74.4	65.3	63.8	53.9	-27.5	-33.8
Mass Media	103.5	101.2	102.8	102.1	102.4	-1.1	-1.1
Public Debt Servicing	730.8	896.9	1 203.8	1 365.1	1 610.9	880.1	120.4
General intergovernmental fiscal transfers	1 003.1	1 290.3	1 069.2	975.1	990.4	-12.7	-1.3
Conditionally approved expenditure	0	0	0	547.1	1 183.6	-	-

Sources: Memorandum to the draft law on the federal budget for 2021-2023, Federal Treasury.

will come to Rb10.5 bn. The volume of net debt accumulation will vary in the range of Rb2–3 trillion annually which means return to the pre-crisis volumes of borrowing in nominal terms. And although debt can grow from 12.3% of GDP in 2019 to 21.4% of GDP by late 2023, this growth will be fueled by internal debt whose share in 2023 will account for over 80% of the total public debt.

On the whole, compared to the 2015–2016 situation when risks of budget sustainability were due not only to a plunge in global oil prices, but to external restrictive measure, the 2021 – situation regarding budget revenues, especially with non-oil and gas ones, seems better. Fiscal consolidation planned for 2021–2023 is quite justified, having said that reduction in budget expenses (up to Rb 1 trillion per annum) should not adversely affect the economy.

Public debt growth in the course of 2020–2023 and expenses on its servicing with simultaneous retention of the NWF funds (more than 10% of GDP in 2023) is the result of observing the current fiscal rule. In the context of low prices on hydrocarbon raw materials and adverse macroeconomic situation, it is unable to hinder the public debt growth in the wake of the current demand for public goods and the need for the implementation of national objectives.

That is why, in the context when simultaneously we observe the trend for stable contraction in oil and gas revenues and there is an explicit inflexibility in the expenditure pattern of the federal budget, which does not permit to reduce the, through the investment expenses, a question arises about the change in the structure of the fiscal rule.

While analyzing approached to the modification of the current fiscal rule, it is important not only to eliminate procyclicality of the budget expenses but also ensure its application discipline. Taking into account the fact that adverse macroeconomic shocks in Russia during recent decade were mainly due to the

1. Federal Budget for 2021–2023: Development Targets Prevail Over Fiscal Balance

drop in the oil prices, one should not refuse from the practice of the accumulation of sovereign reserves through the accumulation of natural resource royalty. At the same time, the new version of the fiscal rule should take into account the impact on the budget of other than change in prices on oil, shocks, as well as understand what revenues except oil and gas ones are also susceptible to oil price shocks. 

2. RUSSIA'S BALANCE OF PAYMENTS IN Q3 2020

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In Q3 2020, Russia's favorable trade balance plunged compared to the same period last year due to a contraction in exports under a relatively stable volume of export deliveries. Nevertheless, despite a combination of the most adverse factors, current account balance remained favorable. Having said that, in July-September there was net outflow of capital that was due primarily by a reduction in financial liabilities before non-residents of other sectors of economy in the wake of raising geopolitical risks and decline in the interest of investors towards assets of developing countries. As a result, in Q3 2020, ruble's exchange rate dropped by 14% and from the start of the year – by 29%.

According to preliminary estimate of the balance of payment released by the Bank of Russia, in Q3 2020 current account balance remained favorable and totaled \$2.5 bn compared to -\$0.5 bn in Q2 and \$10.7 bn in Q3 2019.

The balance of trade in goods hit \$17.0 bn gaining 11% q-o-q (\$15.3 bn) and contracting at the same time by 21% compared to Q3 2019 (\$37.9 bn). In the end, trade balance for the first three quarters of 2020 totaled \$64.8 bn down by 48% against the same index for January-September 2019 (\$124.3 bn).

These values are driven by the following factors.

Firstly, value of exports plummeted and came to \$76.9 bn (for comparison, in Q3 2019 it hit \$103.3 bn), which under the stable quantum of export deliveries was due to lower compared to 2019 global prices on major products of Russian hydrocarbon export: oil, petroleum products, and gas (Fig. 1).¹ It should be noted that excluding oil, gas and petroleum products other export (ferrous metals, coal, aluminum, copper, nickel, foodstuffs, and engineering products) in Q3 2020 even reported a slight uptick compared to Q3 2019 (from \$46 to \$46.2 bn) and for the first three quarters of 2020 constituted \$124.4 bn, which is barely 3.3% below the same index for January-September 2019 (\$128.6 bn). In the meantime, exports of gold significantly contributed to exports following interruption in gold purchases by the Bank of Russia which in January-July hit \$9.1 bn against \$1.5 bn for the same period last year. Excluding gold exports, decline in Russia's exports (except oil, petroleum products, and gas) over 9 months constituted 9.3%. Such dynamics is markedly better indexes of exports of crude oil (-41%), petroleum products (-32%), and Gas (-41%) for the first three quarters of 2020.

Secondly, imports in Q3 2020 both in absolute and relative terms declined insignificantly to \$59.9 bn up by 10.9% against the previous quarter (\$54.0 bn) and down by 8.4% against Q3 2019 (\$65.4 bn).

¹ On patterns in formation of export pricing see *Knobel A.Yu., Kuznetsov D.E.* Patterns of Russian Firms' Export Pricing // Journal of the New Economic Association. 2019. No. 1 (41). P. 100–127.

2. Russia's Balance of Payments in Q3 2020

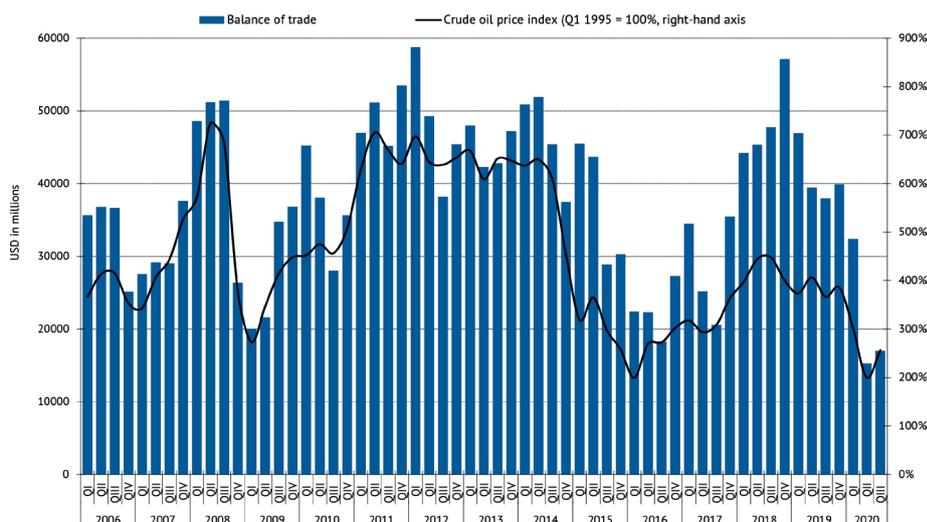


Fig. 1. Trade balance and oil price dynamics

Sources: Bank of Russia, IMF.

In Q3 a significant shift in *trade balance in services* took place: it amounted to $-\$3.1$ bn, which is up by 35% in absolute terms against the same index q-o-q ($-\$2.3$ bn) but down by 3.7-fold against the trade balance in services in Q3 2019 ($-\$11.5$ bn). Such dynamics was driven by a plunge in Q3 2020 against Q3 2019 in imports of services (both in absolute and relative terms) compared to exports.

Exports of services also decreased (mainly on the back of contraction in tourist trips to Russia) by 27% from $\$17.0$ bn to $\$10.7$ bn, and imports (mainly due to transportation services and trips abroad) went down by 37% from $\$28.5$ bn to $\$13.8$ bn.

Make a point, for the first three quarters of 2020 services balance totaled barely $\$12.2$ bn compared to $-\$26.5$ bn for the same period of 2019. In future, when real effective ruble's exchange rate is appreciating (in the absence of new external shocks), imports of services will be growing faster than exports,¹ expanding negative trade balance in services which under other things equal means decrease in the current account balance.

The *investment income balance* in Q3 2020 totaled $-\$9$ bn a slight change both against Q2 ($-\$11.6$ bn) and Q3 2019 ($-\$12.9$ bn).

Other components of the current account balance (remuneration of labor balance, rent income balance, secondary income balance) traditionally represent insignificant value compared to the indicated above balances and their dynamic does not affect dynamic of current account balance.

The financial account in Q3 remained in deficit, however its unfavorable balance constituted barely $-\$3.2$ bn compared to $-\$13.8$ bn in Q2 2020. In Q3 2019, the financial account surplus was observed to the tune of $\$7.2$ bn. The net outflow of capital in Q3 2020 was driven by a plunge in liabilities before foreign economic agents ($-\$13.6$ bn) compared to the amount of contraction in foreign financial assets ($-\$10.5$ bn). This notably differs from the situation seen in Q2 2020 when unfavorable financial account balance was fueled mainly by growth in foreign financial assets under a small contraction in foreign liabilities.

¹ See Knobel A., Firanchuk A. Foreign trade turnover in services in 2018: exports growth // Russian Economic Developments. 2019. Vol. 26. No. 5. P. 7–13.

Monitoring of Russia's Economic Outlook

Reduction in liabilities before non-residents was driven mainly by the non-financial sector's operations that came to in Q3 2020 to -\$11.9 bn (+\$5.5 bn in Q3 2020). The value of foreign portfolio investments in other sectors decreased by \$2.4 bn (-\$2.1 bn in Q3 2019), the amount of foreign credits and loans decreased by \$2.6 bn (+\$1.4 bn in Q3 2019), other liabilities before non-residents declined by \$10.0 bn (-\$2.7 bn in Q3 2019).

Direct foreign investments in other sectors in Q3 2020 went up by \$3.1 bn (\$8.8 bn in Q3 2019). Banks in Q3 2020 also reduced the amount of their liabilities before non-residents by \$3.6 bn (-\$7.9 bn in Q3 2019). The volume of state authorities' liabilities before non-residents in Q3 2020 dropped by \$0.7 bn (+\$1.4 bn in Q3 2019). Reduction in foreign liabilities, apparently, was due to growing geopolitical risks as well as uncertainty regarding prospects of the world economy development that reduced attractiveness of assets of developing countries.

Reduction in foreign assets in Q3 2020 was mainly driven by contraction in banking sector assets by \$8.7 bn (-\$5.8 bn in Q3 2019). State management bodies cut the amount of foreign holdings by \$1.3 bn (-\$2.0 bn in Q3 2019). Other sectors reduced their foreign assets by \$0.5 bn (-\$0.2 bn in Q3 2019).

On the whole, private sector's net capital outflow in Q3 2020 hit \$7.9 bn (net capital inflow to the tune of \$1.9 bn was recorded in Q3 2019) (Fig. 2). Net capital exports by private non-financial sector exceeded \$12.9 bn in Q3 2020 (net capital imports came to \$3.9 bn over Q3 2019). Net capital imports into the banking sector hit \$5.1 bn in Q3 2020 (net outflow in Q3 2019 – \$2.0 bn).

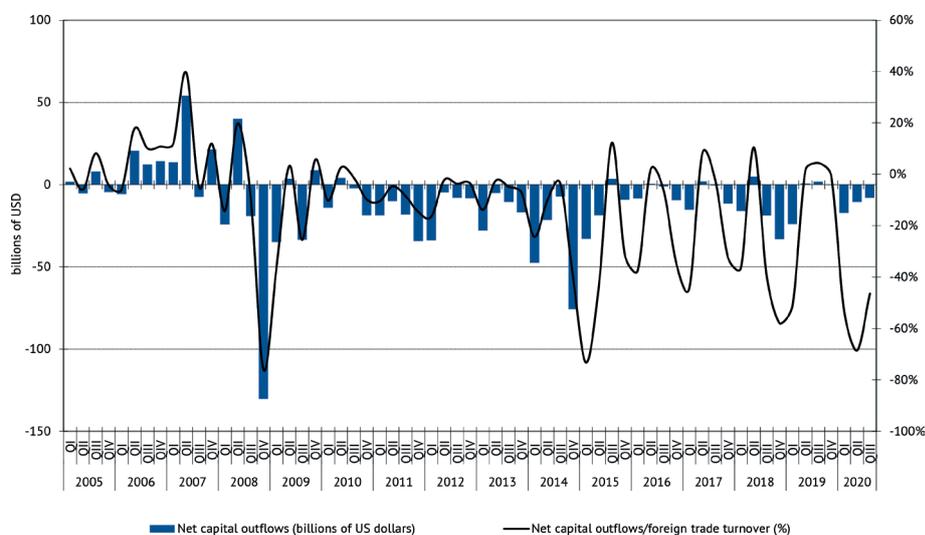


Fig. 2. Private sector's net capital outflow in 2005–2020

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

Excess of capital outflow on financial account over the current account balance was compensated by a reduction in international reserves to the tune of \$2.3 bn (+\$15.9 bn in Q3 2019) as a result of which at Q-end currency reserves constituted \$444.3 bn.

Contraction in international reserves was triggered by the sale of foreign currency by the Bank of Russia from March 2020 in the framework of fiscal rule on the back of plunge in oil prices below cut price. The volume of such sales for Q3

2. Russia's Balance of Payments in Q3 2020

2020 totaled \$284.4 bn. Aside from this, the reduction in international reserves was due to the sale of foreign currency from the National Wealth Fund (NWF) for payment of package of Sberbank shares purchased by the government. Let us recall that daily sale of foreign currency to cover the deal varied depending on the deviation of the Urals oil price below \$25 per barrel. This mechanism was in force till September 30, 2020. In August-September 2020, the Bank of Russia carried out mutual settlement of the unsold currency remainder within the Sberbank deal with sums of all postponed from 2018 purchases of currency and pre-emptive sales. The balance of these operations totaled Rb 185 bn. The Bank of Russia plans to evenly sell this volume of foreign currency in addition to regular operations within the fiscal rule in the course of Q4 2020. On the whole, despite a reduction in currency reserves, total volume of international reserves during Q3 2020 went up by 2.6% to \$583.4 bn following a positive revaluation in the context of growing gold prices.

In Q3 2020, ruble's exchange rate dropped by 14% to Rb79.68 to USD. Depreciation of the ruble in the wake of oil price growth seen in July-August by 9.5% to \$45.6 per barrel is due to increased geopolitical risks, decline in attractiveness of Russian OFZ for non-residents against the backdrop of decrease in the key rate as well as declining interest of investors in assets of developing countries in the wake of the global uncertainty. Additional downward pressure on the ruble seen in September was due to a decline in oil price to \$42.0 per barrel triggered by the risks of demand compression for natural resources as a result of the "second wave" of coronavirus as well as increase in supply of oil on the global market.

At the same time, it should be noted that, according to our estimates, fundamentally justified Rb/USD¹ exchange rate in Q3 was around Rb 71–72 to USD. This demonstrates a significant under value of the ruble which is due to the outflow of capital from Russia triggered first of all by geopolitical factors. In case of absence of new shocks and stabilization of geopolitical situation, ruble's rate will be closer to its fundamentally justified value. 

1 Estimates were obtained on the basis of a model of the nominal exchange rate which captures as factors oil prices, differential in interest rates in Russia and abroad, volatility index on financial markets Vix, as well as dummy-variable on currency interventions by the Finance Ministry (In more detail see *Bozhechkova A.V., Sinelnikov-Murylev S.G., Trunin P.V.* Factors of the Russian ruble exchange rate dynamics in the 2000s and 2010s // *Voprosy Ekonomiki*. 2020. No. 8. P. 1–18).

3. RETAIL BANKING OPERATIONS IN JANUARY-AUGUST 2020

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Growth rates of the credit portfolio have notably decreased compared to the pre-pandemic period. This is due to a decline in demand for credits from the population and more stringent bank requirements to the borrowers. In the meantime, despite a reduction in the interest rates and imposition of a tax on bank deposits interest, banks have failed to ramp up retail deposits volumes. This was mainly due to the return of the part of population to the savings behavior pattern during the pandemic.

Total debt accumulated by individuals before banks from the onset of 2020 went up by 7.9% and as of September 1, 2020 constituted Rb19.0 trillion. In 2019, increment over 8 months was slightly higher – 12.9%. The ruble portfolio moved up by 7.8% (for the same period last year growth came to 13.1%), currency debt portfolio denominated in rubles went up by 11.9% (in 2019 for the first 8 months a decline of 13.0% was posted). The ruble's depreciation has affected the growth of currency portfolio. However, in dollar terms the volume of currency portfolio decreased by 6.1%,¹ which could have been affected by the decision of the Bank of Russia to carry out debt restructuring with respect to the currency of the credit from the foreign one to the Russian ruble if the borrower submitted a corresponding application to the bank.

Relatively high growth rates during the pandemic were remaining in the sector of mortgages. For the period from the start of the year to August 1, the total portfolio increased by 8.2% to Rb8.3 trillion (for the same period of last year the increment came to 9.7%). This indicator was mainly buttressed by the soft-window facility programs including the rate of 6.5%.² Gradual extension loan periods (from early 2019 the average mortgage period increased by 12 months up to 18.3 years) coupled with a reduction in rates, which raises a accessibility of mortgages for the population.

In the sector of consumer lending and automobile lending the adverse impact of the crisis was more notable, however despite a cut in consumer demand a growth was registered by 4.7 and 3.6%, respectively. The most significant reduction in volumes was observed on the market of unsecured lending: banks continued maintaining high rates despite the Bank of Russia easing of the monetary policy.

Retail deposits on ruble and currency bank accounts hit Rb32.2 trillion, the gain for the period under review constituted Rb1.6 trillion or 5.5% (in 2019 increase in the retail bank deposits over 8 months stood at 3.5%). Total ruble

¹ Recalculation at the CBR rate as of onset and the end of the period under review.

² Resolution of RF Government dated April 23, 2020 No. 566 "On Adoption of Rules for Reimbursement to Credit and Other Organizations of Shortfall in Revenues on Housing (Mortgage) Loans Originated to the Citizens of the Russian Federation in 2020".

3. Retail Banking Operations in January-August 2020

deposits went up by 4/0% (corresponding index for 8 months 2019 came to 3.4%) currency deposits moved up by 11.4% (for 8 months last year – 3.9%). However, this growth was on the bank of the ruble's depreciation, actually the population was withdrawing currency deposits: without taking into account the shift in the exchange rate contraction in the currency deposits constituted 6.6%¹ (for corresponding period 2019 there was a slight uptick 0.3%).

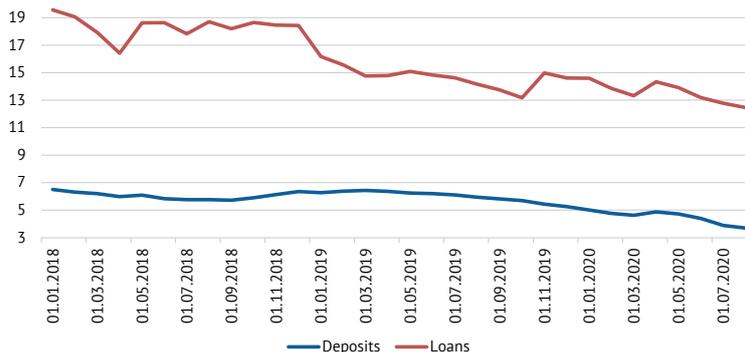


Fig. 1. Dynamics of interest rates on operations with the population in 2018–2020 (weighted average rates on loans and deposits denominated in rubles up to 1 year, including on demand)

Source: Bank of Russia statistical bulletin for 2018–2020.

The following trends have emerged in deposits structure: growth has been observed with respect to current accounts and long-term deposits, that said the number of short-term (up to a year) and mid-term deposits (from 1 to 3 years) is declining in absolute terms. This circumstance has been fueled by the drop in the interest rates on time deposits and availability of more lucrative options on savings accounts.

In the wake of the pandemic the Bank of Russia measures were designed to protect the interests:

- citizens affected by the pandemic and unable to service the debt;
- citizens who faced a reduction in incomes following the imposition of stay-at-home measures;
- credit organizations on the back of raised credit risks.

The central bank has adopted the following measures:

- in case of the coronavirus infection case of a borrower to recommend banks, microfinance organizations, and credit consumer cooperatives to take measures on deferral of payment for credit. Such measures can include different restructuring schemes, deferrals of payment for the principal and interests, interest holidays, as well as abolishment of penalties and fines;
- individual borrowers in dire straits are entitled to credit holidays, i.e. to defer payments on credits for a period of up to 6 months. According to the CBR recommendations, the borrower can send a demand on provision of holidays and the bank is obliged to review it in five days' time. In view of this, the Bank of Russia sent recommendations on the procedure for the reduction of borrower's income during the pandemic as well as recommended creditors to restructure credits according to their own procedures. In order the creditors form a unified approach towards informing citizens about the credit holidays conditions, better differentiation between state programs and their own restructuring programs as well as for preventing violations of the borrowers' rights, the bank of Russia recommended creditors to advise the borrowers on all current options for restructuring as well as on the procedure for accrual of interest and return to the payment schedule, about all rules and features of formation of various types of credit holidays, deferments and

¹ Recalculation at the CBR rate as of onset and the end of the period under review.

privileges. This gave the borrower a possibility to assess the difference the risk level and form a corresponding reserve. In case of refusal to grant approval for borrower's demands for restructuring, the creditors were recommended to inform the debtor on the reasons for such decision.

Deterioration of the financial standing of the majority of borrowers adversely affected their credit record and possibility to borrow in the future. With that said, the Bank of Russia recommended credit organizations and bureau of credit records not to degrade the assessment of the borrower's creditworthiness if the reason to the restructuring was due to the spread of the coronavirus infection. This instruction covered all types of restructuring both according to the recommendations of the Bank of Russia and within the proper programs of credit organizations.

On the back of the extension of self-isolation regime, the Bank of Russia granted banks the possibility not to increase reserves on credits extended to borrowers whose financial standing deteriorated during the pandemic as well as on all restructured loans. This decision has reduced the burden on capital of the credit organizations. The Bank of Russia delegated the banks provisional authority to postpone creation of additional reserves expecting that the major part of borrowers will be able to return to normal debt servicing and those restructurings that will be problematic will be gradually reserved by the banks. In so doing, the bank got the option not to reduce the volume of operations in the retail sector but maintain supply at the previous level gradually reducing interest rates. According to the Bank of Russia, for the period from the pandemic outbreak credit organizations received 2.9 mn requests on amending the terms of credit agreement, out of which 1.7 mn were satisfied to the total of more than Rb778 mn.¹ As a result, easing of some CBR requirements regarding the formation of reserves on restructured loans ensured positive dynamics of incomes from credit operations: during 3 months growth was reported both of the volume of retail portfolio and interest and commission income of retail lending.

Outstanding debt² for 8 months went up by 29.4% (in 2019 during the same period increase hit 4.6%) and surpassed Rb1 trillion, however its share in the credit portfolio from the start of this year moved up slightly by 0.9% to 5.4% (as of September 1, 2019 the proportion of outstanding debt stood at 5.0%).

Loans provisions went up significantly, from the start of the year they came to 21.0% (this index for 8 months of last year hit 6.8%), which demonstrates expectations of deterioration in the financial standing of part of borrowers in near-term prospect.

At present, the situation in the banking retail sector has markedly improved compared to the pandemic outbreak, although economic recession and contraction in real incomes of the population result in credit risk realization. Adopted by the Bank of Russia regulatory easing have facilitated restricting of credits, provided part of borrowers options to recover their financial standing as well as ensured stability of bank deposits. ▀

1 Bank of Russia Information Bulletin No. 8 "Dynamics of restructuring credits for the population and businesses."

2 Loans with 90 and more days past due.

4. RISKS AND CONCERNS: REVIEW OF FINANCIAL MARKETS (SEPTEMBER 1 – OCTOBER 15, 2020)

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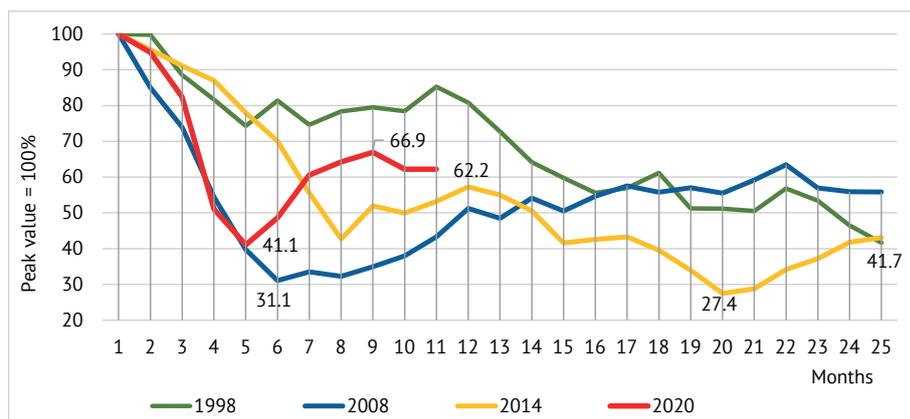
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Fears mount on the global market regarding a “bubble” on the stock market transition of major institutional investors to riskier assets, growth in issuers credit risks. The domestic market demonstrates stock market stagnation against the background of ruble’s depreciation.

Domestic stock market

In September and October, the stock market continued to absorb the influx of new private investors. The number of registered clients of the Moscow Exchange brokers went up from 3.9 mn in 2019 to 6.8 mn in September 2020 or by 74.4%. The number of active clients with at least one transaction per month increased from 0.39 mn to 1.06 mn or by 2.7-fold for the same period. The number of individual investment accounts grew from 1.65 mn to 2.94 mn or by 78.2%.

Fig. 1 demonstrates that compared to the previous oil price shocks seen in 1998, 2008, and in 2014, the current plunge in Brent crude price seen in H1 2020 although was one of the deepest compared to the previous crises (to 41.1% of the price level seen in December 2019), however soon it changed for the oil price bouncing back from May 2020. Alongside this, when oil prices reached

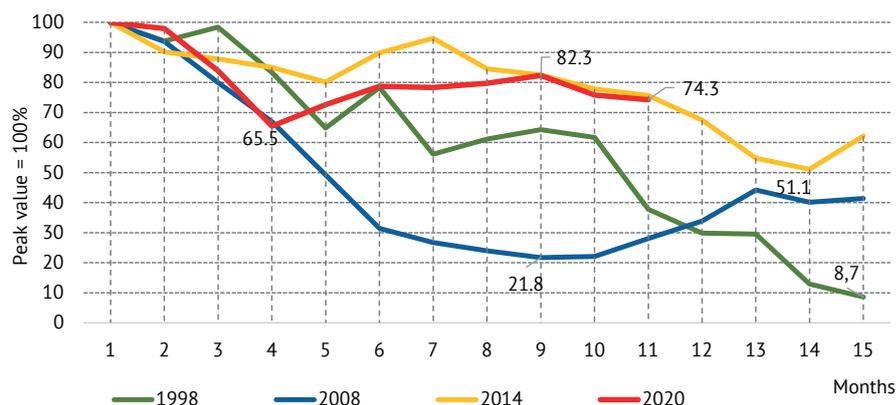


Note. Average monthly Brent crude price in October 2020 calculated for the period from 1 to 15 October 2020.

Fig. 1. Changes in monthly average values of Brent crude price to peak values in December 1996 (on the eve of the 1998 crisis), in July 2008, in June 2014, and in December 2019, % (peak value = 100%)

Source: own calculations on data released by Thomson Reuter and “Finam” (URL: <https://www.finam.ru/profile/tovary/brent>).

Monitoring of Russia's Economic Outlook



Note. RTS Index in October 2020, as of October 15, 2020.

Fig. 2. Changes in RTS Index against its peaks of July 1997 (shortly before 1998 crisis 1998), in May 2008, in February 2014, and in December 2019, as % (peak value = 100%)

Source: own calculations on data released by MOEX.

66.9% of the pre-crisis level, in September and the first half of October the average oil price began dropping and as of October 15, 2020 came to 62.2% of the December 2019 level.

Against the backdrop of previous crises of 1998, 2008, and 2014 recession on shares market seen in January-April 2020 turned out to be less deep and less prolonged (Fig. 2). In April 2020 monthly average value of the RTS Index decreased to 65.5% of the peak value reported in December 2019, but already by August the Index recovered to 82.3%. However, in September and first half of October a decline in the monthly average value of the RTS Index was observed. As of October 15, it hit 74.3% of the pre-crisis level. To a large extent, the dynamic of the RTS index was determined by shifts in crude oil prices and the ruble's exchange rate.

Ruble's depreciation against the US dollar hindered the RTS Index growth. The ruble exchange rate to the U.S. dollar decreased by 20.2% (Table 1) since the beginning of the year to October 15. Out of 27 foreign currencies been analyzed by us, the deepest plunge, then with regard to the ruble, has been observed solely with regard to Brazilian real, Turkish lira, and Argentine peso (28.1%, 24.9%, and 22.8%, respectively). Ruble's depreciation to the U.S. dollar was continuing in September and first half of October.

From January 1 to October 15, 2020, out of 27 currencies 8 strengthened against the US dollar. The spike in exchange rate growth was

Table 1

The movement of national currencies against the US dollar in 2020, %

	Growth			
	2020	August 2020	September 2020	October 2020
1. Swedish krona	6.1	1.5	-3.4	1.4
2. Swiss franc	6.0	1.1	-1.9	0.8
3. Bulgarian lev	4.8	1.3	-1.7	0.2
4. Euro	4.8	1.3	-1.8	0.2
5. Philippine peso	4.1	1.3	0.1	-0.5
6. CNY	3.6	1.8	0.8	1.0
7. Japanese yen	3.2	-0.1	0.4	0.2
8. South Korean won	1.1	0.4	2.0	1.9
9. Vietnamese dong	0.0	0.0	-0.1	0.0
10. Vietnamese dong	-1.0	0.1	-0.3	0.1
11. US dollar (Bloomberg Index)	-1.4	-1.5	1.4	-0.8
21. Kazakhstani tenge	-11.5	0.0	-4.2	0.0
22. South African rand	-15.6	0.8	1.1	0.9
23. Ukrainian hryvnia	-16.2	0.6	-3.0	0.3
24. Russian ruble	-20.2	0.1	-4.7	-0.2
25. Argentine peso	-22.8	-2.2	-3.0	-1.5
26. Turkish lira	-24.9	-5.1	-4.8	-2.6
27. Brazilian real	-28.1	-5.0	-2.0	0.3

Note. Exchange rates of national currencies, as of October 15, 2020.

Source: Bloomberg.

4. Risks and Concerns: Review of Financial Markets

Table 2

The movement of national stock indexes in 2020, %

	Growth			
	2020	August 2020	September 2020	October 2020
1. China - Shenzhen Stock Exchange	32.3	1.71	-6.36	6.03
2. USA - NASDAQ (composite index)	31.2	9.59	-5.16	5.38
3. Denmark - Copenhagen Stock Exchange (KAX)	22.6	2.9	2.28	6.50
4. Argentina - Buenos Aires Exchange (MerVal)	13.5	3.41	0.07	14.63
5. China - Shanghai Stock Exchange	9.4	2.59	-5.23	3.71
6. USA – Standard & Poor’s 500	8.0	-4.91	-11.9	3.74
7. Republic of Korea - Korea Exchange (KOSPI)	7.6	7.01	-3.92	1.58
8. Finland - Helsinki Stock Exchange (OMXH)	5.5	3.45	3.57	4.21
9. Turkey – Borsa İstanbul (ISE - 100)	3.9	6.28	-0.59	3.85
10. Sweden - Stockholm Stock Exchange (OMX)	3.9	-4.29	6.18	0.63
11. USA - Dow Jones	-0.1	6.59	0.2	2.64
22. Russia - Moscow Exchange (IMOEX)	-6.2	3.57	-1.17	-1.71
35. Philippines - Philippine Exchange (PSE Comp)	-24.0	-0.75	-0.34	1.26
36. Russia – Moscow Exchange (RTS)	-25.1	1.96	-6.36	-1.55
37. Hungary - Budapest Stock Exchange (BUX)	-27.3	0.46	-5.53	1.74
38. Spain - Madrid Stock Exchange (Ibex 35)	-27.6	1.34	-3.63	2.98
39. Greece - Athens Exchange (ATHEX)	-31.0	2.65	-1.46	1.29
40. Cyprus - Cyprus Exchange (CSE)	-32.7	-2.5	-3.22	-0.23

Note. Quotes as of October 15, 2020.

Source: Stock exchange indexes are denominated in national currencies (except the RTS Index) – Bloomberg.

observed for the Swedish krona – 6.1%, Swiss franc – 6.0%, Bulgarian lev – 4.8%, Euro – 4.8%, Philippine peso – 4.1%, and CNY – 3.6%. The UD dollar rate to the basket of currencies decreased by 1.4%.

Due to the exchange rate factor, the recovery of the MOEX ruble’s index and the RTS currency index were occurring at different pace: amid ruble’s depreciation the MOEX index recovered faster. In terms of yield between January 1 and October 15, 2020, out of 40 stock indexes of major global stock exchanges, the MOEX Index with a drop by 6.2% ranked 22nd and the RTS Index with yield “minus” 25.1% ranked only 36th (Table 2). Deeper plunges than the RTS Index demonstrated stock exchange indexes of Hungary, Spain, Greece, and Cyprus. The RTS Index decline continued into September and first half of October of the current year by 6.4% and 1.6%, respectively.

Over the period under review, 10 stock indexes of various stock exchanges recovered to the pre-crisis level of 2019, including Shenzhen and Shanghai Stock Exchanges in China, indexes of stock exchanges of Denmark, Argentina, South Korea, Finland, Turkey, Sweden, and the Index of American companies S&P 500.

Key trends on foreign stock markets

Fears have been growing over the US stock market bubble. Many indexes demonstrate overvaluation of shares market. For example, the proportion of companies in the technological sector in S&P500 hit maximum level of 40%, which corresponds to the proportion of dot-com companies in this Index on the eve of the crash in 2000. In the IT sector the P/E ratio multiplier (correlation price-to-earnings per share) equals 28 at an average S&P500 index – 24.

Monitoring of Russia's Economic Outlook

P/E for companies Apple, Microsoft Corp., Facebook Inc. and Alphabet Inc. comes to around 30, for Netflix – approximately 90, and for Amazon.com Inc. – 130.¹

Respected economists are warning of the risks of shares markets crash. On September 1, in an interview the chief economist of Allianz El-Erian group, Mohamed El-Erian, warned that professional investors were getting ready for a market crash.² On September 10, the former Chairman of FRS, Alan Greenspan, in an interview to CNBC said that he was concerned about inflation and growing budget deficit.³ In his view, imbalance between the federal government expenditures “is coming out of control” and programs of support edge out private investments. According to the opinion of the senior researcher of the Yale University and former Director of Morgan Stanley Asia Bank, Stephen Roach, given to CNBC on September 23,⁴ in 2021 there can be a dollar crash coupled with double-dip recession in American economy.

In September the decrease in shares indexes of American companies (S&P500 dropped by 11.9%) did not trigger an adequate growth in investments in treasury bonds.⁵ According to many experts, the U.S. treasury bonds have lost the asset attractiveness allowing investors during the reduction in share prices to offset the price drop in the combination of stocks in a portfolio through the price growth on T-bonds. Such abnormality observed for the first time with Japanese government bonds (JGBs) in 2000s is due to a close zero on government bond yield, their purchase by investors can only by a few percent increase the price of such securities. For example, if the U.S. 10-year treasury bond yield comes to 0.7% per annum then when the investors demand grows on these T-bonds their prices can go up by 7% as a maximum.

In an article released by Barron's⁶ JP Morgan experts warn that “Japanization” of the U.S. T-bond market can linger on for several years. According to their calculations, the average annual yield will come to only 1.3% during next 10 years whereby the yield from investments in shares hitting around 5% per annum. In this context, total yield on popular among large institutional investors portfolio 60 shares/40 bonds will constitute merely 3.5% in the coming decade, which does not correspond minimum profitability for the execution of their commitments by such funds.

The new version of the IMF Global Financial Stability Report released in October 2020 contains a serious warning on growing credit risks due to mass issuance of securities by the borrowers with a low credit rating level in the wake of low borrowing rates.⁷

Therefore, the domestic stock market along with positive factors seen in the arrival of mass investor in the market and adoption of the new legislative requirements on protection of investors' rights also demonstrates alarming

1 Ramkumar Amrith (2020). Tech's Influence Over Markets Eclipses Dot-Com Bubble Peak // The Wall Street Journal on-line. Oct. 16.

2 Langlois Shawn (2020). The pros are getting ready for a market crash – retail investors, not so much, top economist warns // MarketWatch on-line. Sept. 1.

3 Cox Jeff (2020). Alan Greenspan lists inflation and the budget deficit as his biggest concerns // CNBC. Sep. 10.

4 Landsman Stephanie (2020). Economist Stephen Roach issues new dollar crash warning, sees double-dip recession odds above 50% // CNBC. Sep. 23.

5 Mackintosh James (2020). There's No Place to Hide Anymore When the Stock Market Plunges // The Wall Street Journal on-line. Oct. 3.

6 Forsyth Randall W. (2020). A 60/40 Stocks/Bond Strategy No Longer Works. Here's What to Do Instead // Barron's on-line. Oct. 2.

7 IMF (2020). Global Financial Stability Report: Bridge to Recovery. October. URL: <https://www.imf.org/ru/Publications/GFSR/Issues/2020/10/13/global-financial-stability-report-october-2020>.

4. Risks and Concerns: Review of Financial Markets

trends of the RTS Index stagnation amid slow decline in oil prices and ruble's depreciation.

Fears growth on the global market related to the 'bubble' on stock market transition of investments of large institutional investors in riskier assets, growth of credit risks of issuers.

Reduction in attractiveness of securities for various categories of investors coupled with feasible blowing of a 'bubble' on share market can lead to stock market to lose its reservoir role that accumulates excessive savings in advanced economies. And this can give rise to the return of these funds to the consumer market and accelerate inflation. 

5. RUSSIAN ECONOMIC DEVELOPMENT ASSISTANCE IN 2019

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In 2019, the Government of the Russian Federation raised allocations for official development assistance (ODA). Its volume exceeded Rb1 trillion. However, real volume of Russian economic assistance is larger than OECD statistical data show, they do not take into account intergovernmental fiscal transfers and assistance to self-styled states.

The largest proportion (61.2%) of Russian assistance was provided on a bilateral basis. Moreover, Armenia, Kirgizia, and Tajikistan apart from bilateral projects receive Russian assistance through mechanisms of international organizations. Finally, the volume of writing-off by Russia of debt commitments totaled nearly \$425 mn last year.

In 2019, the volume of Russian economic assistance to developing countries again exceeded \$1 bn and hit \$1.13 bn or 0.07% of GDI.¹ This sum is comparable to the official development assistance (ODA)² for last 5 years³ (Fig. 1). Having said that, the global volume of ODA constituted \$152.8 bn and the largest donors were the USA (\$34.82 bn), Germany (\$23.81 bn), Great Britain (\$19.37 bn), and Japan (\$15.51 bn).⁴

The largest area of Russian international development assistance (IDA) in 2019 was as in previous years (2016–2018) writing-off debt obligations of foreign countries which volume hit \$424.93 mn.

The main channel of assistance provision as before were bilateral projects. The volume of bilateral assistance in 2019 hit \$692.9 mn, which comes to around 61.2% of ODA total volume. The volume of multilateral assistance also increased and constituted 38.7% in relative terms of total volume of financing (Fig. 2).

In 2019, the largest volume of Russian assistance was through the UN institutions (\$126.67 mn) (Table 1). On March 19, 2019, the Russian Ministry of Foreign Affairs conducted consultations on strategic cooperation with the UN Development Program (UNDP)⁵. The parties discussed ways of enhancing cooperation effectiveness in the interests of achievement of sustainable socio-economic

1 Total Flows by Donor. OECD.STAT. URL: <https://stats.oecd.org/Index.aspx?ThemeTreeId=3>.

2 Official development assistance can be in the form of: (i) grants when financial resources are provided to developing countries without interest and any obligations to repay them, and/ (ii) concessional loans that must be repaid with interest although at a significantly lower rate than is developing country borrowed from a commercial bank. See.: OECD. Modernization of the DAC statistical system. URL: <https://www.oecd.org/dac/financing-sustainable-development/modernisation-dac-statistical-system.htm>.

3 Zaitsev Yu.K., Knobel A.Yu. Priorities of Russian Development Assistance in 2018 // Russian Economic Developments. 2019. Vol. 26. No. 12. P. 23–30.

4 Aid by DAC members increases in 2019 with more aid to the poorest countries. OECD DAC, Paris, 16 April, 2020. URL: <https://www.oecd.org/dac/financing-sustainable-development/development-finance-data/ODA-2019-detailed-summary.pdf>.

5 On third consultations with UN Development Program (UNDP) on strategic partnership // MID RF. 19.03.2020. URL: http://www.mid.ru/ru/foreign_policy/news/-/asset_publisher/cKNonk-JE02Bw/content/id/3578574.

5. Russian Economic Development Assistance in 2019

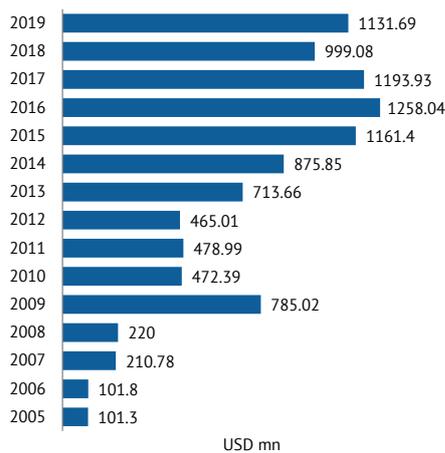


Fig. 1. Official development assistance provided by the Russian Federation in 2005–2019

Sources: calculated on data released by Development Assistance Committee (DAC) of the OECD and Finance Ministry of Russia.

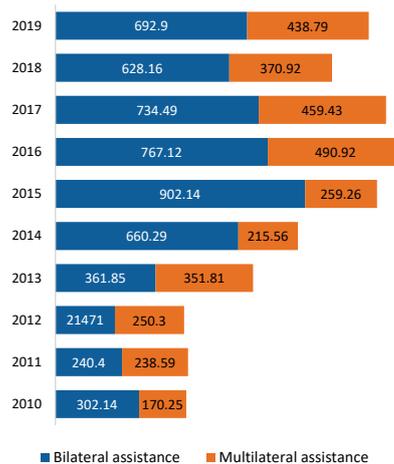


Fig. 2. Distribution of Russian assistance on multilateral and bilateral channels, 2010–2019

Sources: calculated on data released by Development Assistance Committee (DAC) of the OECD and Finance Ministry of Russia.

development in countries-recipient of Russian assistance including owing to the use of Russian expert potential and preparation of young specialists. In 2019, Armenia received \$4.6 mn, Kirgizia – \$1.9 mn, and Tajikistan – \$1.7 mn¹ from joint Russia–UNDP Trust Fund for Development established in 2015.

The volume of Russian financing of the World Bank institutions in 2019 exceeded \$30 mn. During the period from 2017, Russia assumed a commitment to allocate around \$896 mn to the International Development Association (IDA). Moreover, the Government of the Russian Federation over the indicated period contributed \$279 mn to 24 trust funds under the World Bank management established to support education, small and medium-sized entrepreneurship (SME), state finances in European countries, Central Asia, Africa and Middle East.² Presently, a significant volume of cooperation is carried out through provision of consulting services and analysis in the sphere of human capital development, promotion of macroeconomic stability, and raising competitiveness.

Traditionally over half of multilateral financing is directed to regional development banks (\$222.22 mn) including Eurasian Development Bank (EADB), and Eurasian Stabilization and Development Fund (EASDF).

In 2019, Russian programs focused, first of all, on CIS countries, Africa and Middle East, South-East Asia, and Latin America. When it comes to South-East Asia, on July 9, 2019 at the meeting of Russian-Lao commission on trade and economic, scientific and technical cooperation the Government of Laos and state corporation Rosatom signed two memorandums on cooperation and use of atomic energy for civilian purposes. In particular, the parties determined projects in education and preparation of staff as well as measures on formation in Laos of favorable public opinion towards the use of atomic energy for civilian purposes.³

1 Russia supported UNDP performance // Mezhdunarodnaya zhizn. 22.05.2020. URL: <https://interaffairs.ru/news/show/26420>.

2 World Bank in Russia. Country Snapshot. World Bank Group. April, 2020. URL: <http://pubdocs.worldbank.org/en/853311592403922121/Russian-Federation-Snapshot-Apr2020.pdf>.

3 Russia and Laos develop cooperation in the sphere of use of atomic energy for civilian purposes. 10.07.2019. URL: <https://www.rosatom.ru/journalist/news/rossiya-i-laos-razvivayut-sotrudnichestvo-v-oblasti-ispolzovaniya-atomnoy-energii-v-mirnykh-tselyakh/>.

Table 1

Volume of Russia's financial engagement in international development institutions in 2019

International institutions	Russia's financial engagement, USD mn
UN institutions	126.67
World Bank institutions (IDA, IBRD, IFC, IAHR)	30.88
Regional development banks	222.22
Montreal Protocol ¹	7.95
Other international institutions	51.08
Total	370.92

Sources: calculated on data released by Development Assistance Committee (DAC) of the OECD and Finance Ministry of Russia.

In 2019, Russia sent to Venezuela a batch of medications for a total weight of 7.5 tons. Assistance is being provided through international organizations – by way of target contribution to the World Health Organization and in the framework of cooperation with Pan American Health Organization.²

As for Africa, then in early 2019 the Government of Russia discussed joint projects with the Government of Zimbabwe³ and CAR. Russia will continue providing assistance to authorities in CAR in strengthening security agencies.⁴

When it comes to CIS countries, Russia is interested in provision of economic assistance to those countries that can potentially participate in Eurasian economic integration (Tajikistan and Uzbekistan).⁵

As of late October 2020, data on Russia's ODA is unavailable. Nevertheless, in 2020 Russian IDA programs were linked with the provision of humanitarian assistance. Already as of April 2020, MID of Russia received 12 requests for Russian assistance due to coronavirus.⁶ Russian humanitarian assistance was delivered to Venezuela,⁷ Peru,⁸ CAR,⁹ Zimbabwe,¹⁰ as well as the Republic of Congo.¹¹ According to Resolution of the RF Government dated September 29,

1 Montreal Protocol on substances destroying the ozone layer. Adopted on September 16, 1987. URL: http://www.un.org/ru/documents/decl_conv/conventions/montreal_prot.shtml.

2 Venezuela will purchase medication and food products in Russia // TASS. 01.03.2019. URL: <https://tass.ru/ekonomika/6174653>.

3 Leader of Zimbabwe hopes for economic cooperation with Russia. 15.01.2019. URL: <https://info-reactor.ru/204942-lider-zimbabwe-nadeetsya-na-ekonomicheskoe-sotrudnichestvo-s-rossiei>.

4 Bogdanov discussed in CAR Moscow's assistance for strengthening security agencies in that country. 17.03.2019. URL: <https://nation-news.ru/437423-bogdanov-obsudil-v-car-sodeistvie-moskvy-ukreplenyu-bezopasnosti-v-etoj-strane>.

5 The discussed in Dushanbe prospects for Tajikistan's entry to EAEU // Sputnik. 08.04.2019. URL: <https://tj.sputniknews.ru/country/20190408/1028626486/Dushanbe-obsudili-perspektivy-vstupleniya-Tajikistan-EAES.html>.

6 MID received 12 requests for Russian assistance due to coronavirus // RIA Novosti. 28.04.2020. URL: <https://ria.ru/20200428/1570688790.html>.

7 Russian embassy in Venezuela. 18.08.2020. URL: <https://www.facebook.com/rusembven/posts/4136785759724943>.

8 On provision of Russian humanitarian assistance to Peru for combating coronavirus // MID RF. 20.08.2020. URL: https://www.mid.ru/ru/maps/pe/-/asset_publisher/OGxA62OD0sjd/content/id/4291409.

9 SES of Russia plane delivered humanitarian assistance to CAR // TASS. 05.09.2020. URL: <https://tass.ru/obschestvo/9380455>.

10 On Russian humanitarian assistance for combating pandemic in Zimbabwe // MID RF. 05.09.2020. URL: https://zimbabwe.mid.ru/home/-/asset_publisher/vYodL9QDrFjt/content/o-rossijskoj-gumanitarnoj-pomosi-dla-bor-by-s-pandemiej-v-zimbabwe?inheritRedirect=false.

11 MID RF. Page in Instagram network. 05.09.2020. URL: <https://www.instagram.com/p/CEyXgo-JHbce/?igshid=1xdv626knqzo4>.

5. Russian Economic Development Assistance in 2019

2020, Russia provided Rb69 mn for humanitarian assistance to Angola, Cabo-Verde, and Afghanistan.¹

Russia has also provided humanitarian assistance to a number of countries – Italy² and the USA³ – to fight the consequences from the spread of coronavirus.

Engagement on provision of humanitarian assistance continues through the Russian Direct Investment Fund (RDIF) that currently works on programs of humanitarian assistance for a number of developing countries. Programs will be designed for provision of access to vaccine against coronavirus.⁴

Despite the availability of official data on Russian assistance, released statistics reflects not all programs connected with Russian engagement in international development. In particular, the OECD does not take into account financial assistance provided by Russia to the Republic of Abkhazia because that country is not on the official list of recipients of assistance. In 2019, assistance to the republic constituted \$36 mn.⁵ The same situation is true to South Ossetia.⁶

It should be noted that despite implemented in 2018 reform of the system of statistical recording assistance to DAC of the OECD, new approach technically did not promote a notable growth in recorded volumes of ODA. This was due to the fact that Russia extends to countries outside of the OECD list of recipients funds for combating international terrorism, provides military assistance, while these areas are not reflected in the ODA statistics.

Maintaining of high level of expenditure for financing IDA can partly be explained by government ambition retain economic influence in certain regions (first of all in CIS countries), as well as strengthen Eurasian economic integration. Subsequent volumes of Russian ODA will depend on balanced federal budget where significant proportion continue occupying social commitments including expenses on combating economic fallout from pandemic in 2020.

Moreover, the use of bilateral channels of financing allows promoting domestic business and expand Russian export on markets of recipients of assistance.⁷

1 Russia allocated over Rb 68 mn for assistance to poor countries for combating COVID-19 // Izvestia. 01.10.2020. URL: <https://iz.ru/1068017/2020-10-01/rossiia-vydelila-bolee-68-mln-rub-na-okazanie-pomoshchi-bednym-stranam-v-borbe-s-covid-19>.

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