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Monetary and Fiscal Policy Measures during the COVID-19 Economic Crisis in Russia

Yu.K. Zaytsev
Moscow State Institute of International Relations (MGIMO University), Moscow, Russia;
Russian Academy of National Economy and Public Administration, Moscow, Russia
https://orcid.org/0000-0003-2458-7419

ABSTRACT

The author examines how monetary and fiscal policy influences the shocks facilities in the Russian economy caused by the coronavirus pandemic. The article **aims** to provide an economic assessment of the monetary measures by the Central Bank and the Government of the Russian Federation to overcome the consequences of the COVID-19 crisis. The author exploited **the methods** of content analysis, benchmarking, and logical analysis. The study covers the period of March – July 2020 and relies on the analysis of data from international organizations, analytical centers, mass media, official data sources of the Government of Russia and the Central Bank of the Russian Federation. The literature review and the analysis of the Mundell-Fleming model contribute to the better understanding of monetary policy of countries in its connection with fiscal policy. The author analyzed the monetary and fiscal measures against the COVID-19 crisis in Russia and other countries. The study provides the assessment of the COVID-19 shocks and the remedial actions. **The conclusion** is that when most economic activity is prohibited, lower interest rates cannot stimulate it in the short term. More visible are the efforts to maintain liquidity in the economy, as financial institutions often have troubles. During the analysis, the work focuses on the theoretical foundations of monetary policy and its connection with fiscal policy, as well as provides a number of stylized facts of its implementation in Russia during the coronavirus pandemic. This can be useful for further empirical research and practical recommendations in the field of monetary and fiscal policy in the Russian Federation.

Keywords: coronavirus; monetary policy; fiscal policy; economic shocks; Russian economy; Russian Federation

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INTRODUCTION

The onset of the coronavirus crisis coincided with a difficult economic situation in Russia. Since 2014, the country has been under pressure from political and economic sanctions from Western states as a result of the crisis in Ukraine. According to IMF estimates, losses from the Western sanctions and counter-sanctions by the Russian government for the Russian economy are estimated at 1–1.5% of GDP per year.[1] According to Bloomberg, Russia lost 6% of its GDP in 2014–2018, which, in addition to the sanctions, is also affected by structural restrictions and the fall in oil prices.[2]

At the beginning of 2020, the Russian economy was already in recession. According to the Central Bank of Russia (CBR), in the first quarter of 2020, Russia's trade surplus deteriorated significantly due to the decrease in the cost of exports and the sharp drop in oil prices. Due to the decrease in foreign liabilities and the growth of Russian assets of foreign banks and enterprises, there was a net capital outflow from the domestic private sector. Due to negative external shocks, the dollar-rouble exchange rate fell by more than 20%.[3]

Due to COVID-19, most of the economic activity was frozen. This situation has led the country to three types of shocks. The first is an external shock associated with a drop in world oil prices. The second is an internal shock due to government regulatory decisions aimed at limiting the spread of coronavirus within the country. The third shock is also associated with external pressure to reduce demand for a wide range of Russian export goods due to the slowdown in the global economy [2]. All these shocks are certainly interconnected.

This article considers the above shocks in the context of monetary and fiscal policies pursued by the Central Bank and the Government of the Russian Federation to overcome the economic crisis associated with coronavirus in Russia.

The question is how monetary policy along with fiscal policy has helped to overcome the macroeconomic shocks in the Russian economy caused by the COVID-19 crisis. The research methodology is based on an economic assessment of monetary measures taken by the Central Bank and the Government of the Russian Federation to overcome the consequences of the COVID-19 crisis. The author used the methods of content analysis, benchmarking, and logical analysis.

The article consists of four main parts. The first part is devoted to the literature review and analysis of the Mundell-Fleming model for understanding the monetary policy of countries in its connection with fiscal policy. The second part analyzes the monetary and fiscal responses to the COVID-19 crisis by the Central Bank and the Government compared to the policies of other countries. The third part assesses the shocks of COVID-19 and the corresponding macroeconomic measures. The last part provides the conclusions.

The research employs the data analysis provided by international organizations, analytical centers, mass media, official data sources of the Government of Russia and the Central Bank of the Russian Federation.

THEORETICAL BACKGROUND

From a theoretical point of view, the relationship between fiscal and monetary policy was first examined in J. Keynes's IS-LM model for a closed economy. The model describes the interaction between the commodity market and money market, where the IS curve represents all equilibria in the commodity market, and the LM curve represents all equilibria in the money market. The model helps to find

[1] IMF (2015). Russian Federation: Staff Report for the 2015 Article IV Consultation. URL: https://www.imf.org/en/Publications/CR/Issues/2016/12/31/Russian-Federation-Staff-Report-for-the-2015-Article-IV–Consultation-43143 (accessed on 19.07.2020).

[2] Bloomberg (2018). Here's One Measure That Shows Sanctions on Russia. 16 November, 2018. URL: https://www.bloomberg.com/news/articles/2018–11–16/here-s-one-measure-that-shows-sanctions-on-russia-are-working (accessed on 19.07.2020).

[3] Central Bank of the Russian Federation (2020). Central Bank of Russia, external sector statistics. URL: https://www.cbr.ru/eng/statistics/macro_itm/svs/ (accessed on 27.07.2020).

the relationship between the key rate and the production level in the economy. The ultimate effect of both fiscal and monetary measures depends on the characteristics of the economy reflected in the elasticities of the IS and LM curves. The elasticity of the interest rate in the economy will determine the degree of policy impact [1].

The IS-LM model does not directly address inflation and public debt issues, which were later considered in the correlation analysis of monetary and fiscal policies. Economists T. Andersen and F. Schneider managed to explain the influence of both fiscal and monetary policy on aggregate demand, while solving the traditional problem of a compromise between the output and inflation level. According to the authors, the independence of monetary and fiscal policies does not contribute to the public good. The absence of monetary incentives does not allow achieving optimal output and minimal inflation [11].

Since the IS-LM model was primarily designed for a closed economy, it was further developed to analyze an open economy. The model was extended by R. Mundell and M. Fleming, who added a balance of payments (BP) component. The new IS-LM-BP model is known as the Mundell-Fleming model (MFM). It applies to a small open economy, subject to monetary and fiscal policies along with the balance of the capital account and the current account.

Given that the article discusses primarily monetary policy, the focus will be on the LM curve analysis. The following equation describes the money market

$$M / P = L (r, Y),$$

where M / P is the real balance of money; L is the demand (r, Y), which negatively depends on the interest rate and positively — on the income Y. The money supply (M) is an exogenous variable controlled by the national Central Bank, while the domestic interest rate is equal to the world interest rate. To account for country risk, the final domestic interest rate includes the risk premium (rp), so $r = r^* + rp$. The price level is also considered exogenously constant, since the MFM considers only the short-term situation [12].

The model assumes perfect capital mobility and the fact that domestic and foreign securities are fungible. This allows for predicting the domestic rate at the same level as the world interest rate plus the country risk premium [10]. However, in the real world, due to exchange rate expectations and country-specific factors, the domestic interest rate differs from the global one. Exchange rate expectations can contribute to different outcomes that diverge from the original monetary policy objective [4].

The model assumes that the behavior of the economy depends on the adopted exchange rate system. The model explains the impact of the exchange rate regime on monetary and fiscal policies [3].

The MFM shows that monetary policy does not affect total income at fixed exchange rates. With each stimulus measure, the money supply must be adjusted to the declared exchange rate. Thus, the MFM stipulates that at a fixed exchange rate, monetary policy is usually not effective, since it does not affect income [3]. Expansionary monetary policy is only effective with the floating exchange rate.

Despite the fact that the model has been expanded, there are a number of disadvantages. First, according to the MFM, any economic shock will lead to a change in the demand for money and a change in interest rates, which will automatically return the economy to equilibrium. In reality, the demand elasticity for money to changes in interest rates is not permanent and may reflect different situations in the economy.

Second, the LM curve is criticized, especially its top and bottom. In reality, in the event of a strong excess or shortage of money in circulation, the economy will react not only to a change in the interest rate, but also to a

change in prices. This can affect the general equilibrium of the model and increase the inflation rate in the economy.

Third, the model does not consider such an important component as the labor market and such an important macroeconomic variable as inflation, which is also the subject of both fiscal and monetary policies [20].

Fourth, the real situation of many countries further complicates the application of the above theoretical positions. Policy measures by the national central banks (CBs) of industrialized countries to stimulate economic activity are limited, given that key rates are already close to zero in many of these countries. However, monetary authorities often rely heavily on unconventional measures by increasing their central bank's balance sheet and buying government bonds. Thus, the Central Bank closely cooperates with the fiscal authorities, providing opportunities for financing the budget deficit. This case of quasi-monetary policy serves the interests of fiscal policy. It cannot be fully analyzed by all the assumptions of the IS-LM-BP model.

Fifth, the regime and volume of monetary and fiscal interventions often depend on the depth of the recession. The current empirical evidence testifies that an incentive measure cannot be substantially less than the shock itself. For example, if the contraction of the economy in the first quarter amounted to 4.8% of the US GDP, then the stimulus deal, worth about 10% of the US gross domestic product, is not excessive.[4]

Finally, with a floating exchange rate, monetary policy cannot achieve the expected results. The reason is the depreciation of the national currency. This increases the price of imports. If the economy depends on imports, the price level increases and the real money supply decreases. Households can also respond to increased risk by holding more money. This scenario happened in the Russian economy and will be discussed further.

A lot of works contributed to further research into the relationship between monetary and fiscal policies. These papers provide an empirical study of the effects of both types of policy on closed and open economies. There are two directions in the economic literature. Representatives of the first one, M. Bruno, S. Fischer and A. Drazen [13, 14] investigated the impact of fiscal and monetary policies on public debt. The second scientific direction was formed by A. Blinder [15], G. Tabellini [16], A. Alesina [17], M.L. Petit [18], W.D. Nordhaus, C.L. Schultze and S. Fischer [8]. It focused on studying the strategic interaction of the two types of policies that affect the output and inflation in the economy.

Most of these works judge on the interaction of monetary and fiscal policy through several mechanisms [19]. The first is the interaction of fiscal policy with monetary transmission channels. Fiscal measures influence directly on domestic demand and indirectly on interest rates. Thus, the impact of fiscal policy on domestic demand can change the demand in the economy and, as a result, affect interest rates. Fiscal policy can also influence the government policy risk premium that is an integral part of the interest rate. Fiscal policy also carries monetary implications through inflation.

The second mechanism is the impact of fiscal policy on the long-term sustainability of monetary policy. In particular, uncertainty about the sustainability of fiscal policy can undermine the political objectives of monetary policy [5].

ANALYSIS OF MONETARY MEASURES TO OVERCOME SHOCKS IN THE RUSSIAN ECONOMY

The previous section provided a critical description of the MFM model for an open economy. Most of its provisions are valid both for the Russian economy and for an open economy with a flexible (floating) exchange rate regime. This part of the article will look at both

[4] Detrixhe J. The US is preparing $ 2 trillion to stimulate its economy. Will it be enough? Quartz. 2020. URL: https://qz.com/1824986/us-plans-2-trillion-stimulus-to-battle-coronavirus-led-recession/ (accessed on 19.07.2020).

monetary, quasi-monetary and fiscal policies pursued by the Central Bank of the Russian Federation and the Russian government during the outbreak of the COVID-19 crisis.

Table 1 reflects the wide range of monetary measures taken by the Russian government during the COVID-19 outbreak. They are associated with the provision of liquidity, bank subsidies for loans, easing rules for financial institutions. Nevertheless, the reduction in the key rate from 5.5 to 4.5% on June 19, 2020 and to 4.25% on July 24, 2020 became the most significant monetary measure of the Central Bank during the crisis. This was the fourth decline during 2020, falling from 6.25% to 6.0% and to 5.5% on February 10 and April 27, respectively.[5]

These measures were due to factors such as containing the consequences of COVID-19, a significant drop in external demand, a decrease in business activity in the service and industrial sectors, a decrease in new orders in the external and domestic markets, income depreciation as a result of growing unemployment rate, which increased from 4.6% in March to 6.1% in May 2020.[6] Moreover, the unemployment rate is expected to reach 10% by the end of 2020.[7]

Along with the problems in the real sector of the Russian economy, it is necessary to outline some problems in the financial sector, i.e. a decrease in interest rates on deposits and mortgage loans, as well as a decrease in yields on the federal loan bond market. These trends supported the decision of the Central Bank of the Russian Federation to continue cutting the discount rate. Thus, the rate cut was aimed at supporting lending, including in the most vulnerable sectors of the Russian economy.

The decrease in the key rate is also explained by the decrease in inflationary pressures. The inflation rate was 2.5% in the first quarter of 2020 in annual terms (which is less than the indicator for the first quarter of 2019 at 5.5%) [9]. Today, a stimulating monetary policy is aimed at returning to the target inflation rate of 4%. This is consistent with the experience of other countries and provides flexibility in monetary policy to mitigate crisis situations [5].[8] The measure is also intended to stimulate aggregate demand, which should put pressure on the money supply in the economy, despite a slight increase in cash demand. In March 2020, the cash in circulation (aggregate M0) increased by 1.9% compared to that of February 2020, and by 2.9% compared to that of December 2019.[9]

Along with the exports decline (mainly due to the drop in oil prices), the increase in the key rate led to the depreciation of the Russian currency by more than 20% against the US dollar.[10] As a result, imports became more expensive. The decline in real disposable income led to a drop in import demand. In Q2 2020, compared to Q2 2019, it decreased by 13.5% (from $ 62.0 billion in Q2 2019 to $ 53.6 billion in Q2 2020).[11]

Some measures in *Table 1* can be attributed to both fiscal and monetary policy. For example, bank loan subsidies were intended to prevent unwanted restrictive effects. Subsidies as part of fiscal policy will enable to implement monetary policy. Other measures, such as expanding the Lombard List, weakening the rules

[5] Central Bank of the Russian Federation (2020). Central Bank of Russia. Key rate. Database. URL: https://www.cbr.ru/eng/hd_base/KeyRate/ (accessed on 12.10.2020).

[6] Rosstat (2020). Employment and unemployment in the Russian Federation in May 2020. Official website of the Russian Statistical Agency. URL: https://gks.ru/bgd/free/B 04_03/IssWWW.exe/Stg/d05/119.htm (accessed on 12.10.2020).

[7] Kommersant (2020). Kudrin allowed an increase in unemployment in Russia to 10%. URL: https://www.kommersant.ru/doc/4332155 (accessed on 12.10.2020).

[8] Russian Government (2020). Measures of the Russian government to combat coronary infections and support the economy. URL: http://government.ru/support_measures/category/finance/ (accessed on 12.10.2020).

[9] Central Bank of the Russian Federation (2020). Performance Indicators of Credit Institutions 2020. URL: https://cbr.ru/statistics/bank_sector/pdko_sub/ (accessed on 12.10.2020).

[10] Central Bank of the Russian Federation (2020). Central Bank of Russia. External Sector Statistics. URL: https://www.cbr.ru/eng/statistics/macro_itm/svs/ (accessed on 12.10.2020).

[11] Central Bank of the Russian Federation (2020). Estimate of Key Aggregates of the Balance of Payments of the Russian Federation in January-June 2020. URL: https://www.cbr.ru/eng/statistics/macro_itm/svs/bop-eval/ (accessed on 12.10.2020).

Table 1

Key monetary policy measures to support the national economy

Measures	Description	Validity
Providing liquidity	To prevent a decline in cash flow to banks and an imbalance between the long-term and medium-term funds, the Bank of Russia facilitated access to liquidity for credit institutions. In particular, the Lombard list was expanded to include a number of mortgage bonds, the irrevocable credit line fee of the Bank of Russia was reduced from 0.5 to 0.1%, as well as credit institutions and non-bank financial institutions were entitled to recognize equity and debt securities, acquired before 1 March 2020, at fair value in the accounting records	2020
Bank loan subsidies (financial sector)	Providing subsidies from the federal budget to Russian credit organizations for reimbursement of shortfalls in their income on loans issued in 2020 to systemically important organizations for working capital replenishment	2020–2021
Collective investment market support	Simplified rules for stress test scenarios for non-governmental pension funds (NPFs). The Bank of Russia allowed NPFs not to bring their portfolios in line with the regulatory requirements after stress testing until 1 January 2021, if their asset deficiency was induced by market factors.	2020
Simplifying the rules for financial institutions	Weakening the rules of control and supervision of the Bank of Russia in relation to financial institutions	Until July 1 2020
Capital provision	Reducing credit risk assessment requirements to free up bank capital and provide additional opportunities for lending to the real sector of the economy	2020

Source: Russian Government (2020). Russian government preventive measures against the coronavirus and support the economy. URL: http://government.ru/support_measures/category/finance/ (accessed on 12.10.2020).

of control and supervision of the Central Bank in relation to financial institutions, simplified rules for stress test scenarios for non-governmental pension funds, as well as reducing the requirements for assessing credit risk for banks, are associated with easing regulation.

These regulatory facilitation measures became important, especially during the period of self-isolation, when economic activity was frozen and many financial institutions were experiencing liquidity problems. A liquidity crisis during the quarantine can only exacerbate the difficult situation for many businesses. It was very important to provide liquidity and ensure the smooth functioning of financial markets with simplified regulation.

It is rather difficult to assess the impact of the key rate cut at the current stage, however, there are expert estimates of quasi-monetary measures in support of fiscal policy. According to the IMF, these measures make up 1% of Russia's GDP.[12] Among the G20 countries,

[12] IMF (2020). Database of Fiscal Measures of Countries in Response to COVID-19. URL: https://www.imf.org/en/Topics/imf-and-covid19/Fiscal-Policies-Database-in-Response-to-COVID-19/ (accessed on 12.10.2020).

these measures were negligible. This indicator is the highest for Italy and Germany — 34% and 31.5% respectively. In the US, this figure was 2.6% of GDP. Recent US measures are related to the extension of the simplified procedures for issuing mortgage loans until August 31, 2020.[13]

ANALYSIS OF SHOCKS IN THE RUSSIAN ECONOMY

It is important to analyze the main shocks in the Russian economy which monetary policy was designed for. The introduction mentions the three significant types of shocks. These include: an internal shock due to regulatory decisions of the government aimed at limiting the spread of coronavirus, an external shock from the drop in global oil prices, and an external shock from a decrease in demand for a wide range of Russian export goods due to a slowdown in the global economy. The second and third shocks are interconnected and will be discussed below.

To protect the population from the spread of COVID-19, the Russian government took a number of restrictive measures to block economic activity. This contributed to an internal shock over government regulatory decisions aimed at limiting the spread of coronavirus. According to experts from the Gaidar Institute, the internal shock is most likely close to the situation in the early 1990s associated with Russia's transition from a planned to a market economy, when there was a gap in the existing economic and logistic ties [2].

The research by O. Blanchard and M. Kremer [6] showed that the depth and duration of industrial downturns often depend on the complexity of the value added chain (the number of participants in the production process). In the context of social distancing, the toughest restrictions are applied in the service sector, where these chains are short. We can conclude that cancelling restrictive measures can contribute to a relatively rapid economic recovery. Consequently, this shock is eliminated by cancelling restrictions and supporting the economy by fiscal and monetary packages. Fiscal policy measures have become a higher priority for the Russian Government. According to ING, they account for about 2% of the country's GDP.[14]

Moreover, a number of fiscal measures taken by the Russian government prevail over monetary ones (*Table 2*). Big problems in the healthcare sector in Russia produced advanced fiscal measures. They are associated with a shortage of medical personnel, beds and lung ventilators in medical institutions. Lung ventilators are currently required in different regions for 2–9% of the total number of COVID-19 cases [7]. The measures to solve this problem included preferential loans for producing medical goods, purchasing medical devices, a preferential duty on medical supplies, support for scientific, educational and medical institutions, VAT benefits on medical supplies (*Table 2* mentions most of them).

The decline in demand was another significant reason. To revitalize economic activity, the Government took steps to reduce the tax burden, subsidies for citizens, as well as direct and indirect subsidies for various sectors of the economy, such as air travel, tourism, etc.

Since this article deals with an open economy model, the external sector should also be considered. As noted above, the external shock is primarily associated with a decrease in demand for a wide range of Russian export goods due to a slowdown in the global economy. This is accompanied by a drop in oil prices, as well as in the supply of oil and gas for export.

This shock is of greatest importance to Russia, due to the low volumes of non-resource

[13] FHFA (2020). Federal Agency for Housing Construction Financing. URL: https://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-Extends-COVID-Related-Loan-Processing-Flexibilities-for-FannieMae-and-Freddie-Mac-Customers-Through-August.aspx/ (accessed on 12.10.2020).

[14] ING (2020). Russia's central bank cuts rates and signals more could be on the way. 24.04.2020 URL: https://think.ing.com/snaps/bank-of-russia-cuts-rate-by-50-bp-guides-for-another-100/ (accessed on 12.10.2020).

Table 2

Key fiscal measures by the Government of the Russian Federation to support the national economy

Measures	Description	Validity
Tax measures		
Reduced insurance premiums	For organizations and individual entrepreneurs included in the Unified Register of SMEs, the overall rate of insurance premiums has been reduced from 30% to 15% for the part of the wage that exceeds the minimum monthly wage (12,130 roubles). The insurance premium rate for compulsory pension insurance will be 10%, for compulsory health insurance — 5%. Insurance contributions for compulsory social insurance in case of temporary disability and in connection with maternity are not paid	From April 1, 2020
Tax incentives (industries affected)	Companies operating in affected sectors may receive a deferral or installment plan for taxes (advance payments), including insurance premiums, if they engage in certain economic activities, with due dates in 2020, excluding VAT, minerals, mining tax, excise taxes and tax on additional income from hydrocarbon production	An installment plan can be provided for a period of up to 3 years with a decrease in income by more than 50% or in the presence of losses with a decrease in income by more than 30%
Extension of the tax payment deadline for SMEs	For companies included in the SME register and operating in the affected sectors, the deadlines for the payment of almost all taxes (except VAT), including insurance premiums, have been extended. It will be possible to repay the debt formed after the expiration of the extended payment period, in equal installments during the year	From April 2, 2020
Exemption of individual entrepreneurs from taxes	Individual entrepreneurs from the industries most affected by the coronavirus epidemic are exempt from taxes, fees, insurance premiums for Q2 2020	Q2 2020
Tax exemption for SMEs and NGOs	Organizations included in the unified register of small and medium-sized enterprises from the sectors most affected by the coronavirus epidemic, as well as organizations included in the register of socially oriented non-profit organizations, religious and other non-profit organizations, are exempt from taxes, fees, insurance premiums for the II quarter of 2020	Q2 2020
Backbone companies support	Backbone organizations can apply for one or more support measures: 1) subsidies for reimbursement of costs in connection with the production (sale) of goods, works, services; 2) deferred tax payments, advance tax payments; 3) state guarantees for loans or bonded loans attracted by backbone organizations*	2020
Suspension of collection	No fines will be imposed for SMEs from the affected sectors for already established tax arrears. The decisions to suspend account transactions will be prohibited to enforce the decision to collect taxes, fees, insurance premiums, interest and / or fines	From March 25 to May 31, 2020 inclusive

* The total amount of a loan issued to a group of companies should not exceed 3 billion roubles, and the rate should be 5% per annum. The term for subsidizing rates is 1 year from the date of the loan agreement.

Table 2 (continued)

Measures	Description	Validity
Subsidies for citizens		
Payments to employees of social institutions	Payments to health workers and social workers range from 10 to 60 thousand roubles per month	Payments are calculated for the period from April 15 to September 15, 2020
Payments for children from 3 to 7 years old	Families whose average per capita income does not exceed the subsistence minimum per capita established in the constituent entity of the Russian Federation began to receive payments for children up to 5.5 thousand roubles	From June 1, 2020
Payments for children from 3 to 16 years old	Citizens of the Russian Federation living on its territory can receive a lump sum payment of 10 thousand roubles for each child from 3 to 16 years old who has the citizenship of the Russian Federation	Transfer of payments started on June 1, 2020
Subsidies for lost jobs after March 1, 2020	Citizens dismissed after March 1, 2020, unemployment benefits, regardless of the length of service and the level of earnings at the previous place of work in April – June, the maximum amount is set at 12,130 roubles	From April 1, 2020
Payments for children under 3 years old in April – June	Monthly payment of 5 thousand roubles paid to all families with children under 3 y.o. Payment is assigned to each child of this age	April – June 2020
Subsidies for self-employed citizens	Citizens who applied the special tax regime "Professional income tax" (self-employed) in 2019 are entitled to a subsidy in the amount of the professional income tax paid by them for 2019 as of April 30, 2020. The subsidy is provided in a lump sum	2020
Subsidies for entrepreneurs	The government will pay free financial assistance of 12,130 roubles per employee to small and medium entrepreneurs from the most affected sectors of the economy. This money can be spent on any expenses of the SME, including salaries. 104.4 billion roubles will be allocated for these purposes. More than 1.7 million companies and individual entrepreneurs can count on direct payments	May – July 2020
Subsidies for different sectors of the economy		
Preferential mortgage (financial sector)	Mortgage loans are provided to citizens for the purchase of real estate in the primary market at a rate of 6.5% for the entire loan term	April 17 – November 1, 2020
Subsidies for airports	Russian airports and organizations belonging to the same group of persons will receive subsidies from the state in the amount of up to 10.9 billion roubles	2020
Preferential loans for exporters of agricultural products	Preferential loans are provided to all agricultural producers that have concluded agreements on increasing competitiveness (with the exception of agricultural credit consumer cooperatives), organizations and individual entrepreneurs engaged in the production, primary and (or) subsequent (industrial) processing of agricultural products, their storage, transshipment and sale	2020

Table 2 (continued)

Measures	Description	Validity
Working capital loans	Loans to replenish working capital and provide employment for backbone companies. The loan rate will be subsidized by the Central Bank rate; 50% of the loan will be secured by government guarantees	2020
Decision to support the insurance market	Decision not to apply measures for violations of the requirements for the structure of assets where insurance reserves and the insurer's own funds (capital) are invested	Until September 30, 2020
Support for Russian car manufacturers	The government provided 25 billion roubles as support	2020
Recapitalizing public MFOs	Financial support for the national project "Small and Medium Business and Support for Individual Entrepreneurship Initiatives" in 2020 will increase by 12 billion roubles. The funds will be used to recapitalize state microfinance organizations that provide soft loans to small and medium-sized businesses in the constituent entities of the Russian Federation. Increasing the availability of microloans at reduced rates is especially important for companies affected by the impact of the spread of COVID-19	Until May 13, 2020
Subsidies for airlines	Russian airlines were allocated 23.4 billion roubles to cover losses	Until May 13, 2020
Preferential loans for producing medical goods	Financing of enterprises producing equipment and products for the detection, prevention and treatment of epidemic diseases, as well as the production of personal protective equipment, medicines and medical products within the framework of the Industrial Development Fund program	Unlimited time
Reduced fees from tour operators (tourism)	The government has adjusted the contributions of outbound tour operators to personal liability funds. In 2020, it will amount to 0.25% of the total cost of the tourism product against the previous 1%	2020
Preferential duty on medical supplies	Exemption from import customs duty on medicines and medical devices used to prevent the spread of coronavirus, including personal protective equipment and materials for their production, vaccines and disinfectants	March 16 — September 30, 2020
Benefits for payment of VAT on medical supplies	VAT exemption for medical goods imported from abroad and donated to medical institutions for the treatment of patients	March 16 — September 30, 2020
Purchase of medicine	27.7 billion roubles to purchase medicine	2020
For the support of scientific, educational and medical institutions	15.8 billion roubles to support federal educational, scientific and medical institutions	2020
Creation of temporary jobs	In 2020, more than 4 billion roubles will be allocated to the regions for partial reimbursement of labor costs for employees when creating temporary jobs	2020

Source: Russian Government (2020). Russian government preventive measures against the coronavirus and support the economy. URL: http://government.ru/support_measures/category/taxes/ (accessed on 27.07.2020).

exports and the dependence of domestic investment activity on export oil and gas revenues. This shock has repeated over the past 20 years (1998–1999, 2008–2009, 2014–2015) as a result of financial and economic crises [2]. However, it does not resemble the situation in 2009, when the Russian economy was exploding: GDP growth in 2007–2008 was 8–10%.

Decreasing demand for oil and falling oil prices resulted in the Russian currency depreciated against the US dollar by more than 20%. The drop in exports led to a shortage of foreign exchange to finance imports. According to the forecast of the Gaidar Institute, by the end of 2020, imports will decrease by 20%, amounting to $ 208 billion due to low domestic demand [2].

To solve this problem, the government took measures to support Russian exporters (*Table 2*). They include preferential loans for exporters of agricultural products, support for Russian car manufacturers, and reduced fees for tour operators. However, since the global downturn in trade and demand is also largely the result of various restrictive measures, the duration of the fall will be limited by the duration of the quarantine measures, after which demand will recover. Thus, government measures of financial support for exporters will be less important.

In the near future, the current account balance of Russia will be significantly affected by changes in oil prices, a decrease in global demand for major Russian export goods, restrictions on oil exports under the OPEC + agreement, a decrease in prices for non-hydrocarbon exports, a depreciation of the national currency and temporary travel ban. Imports demand is also expected to decline due to the decline in real disposable income and the depreciation of the rouble. According to the forecast of the World Bank, these factors will contribute to a decrease in the GDP level by the end of 2020 by 6%.[15]

CONCLUSIONS

The coronavirus pandemic made most governments to use both monetary and fiscal policy instruments. The drop in overall demand, driven by lower household incomes and uncertainty about the future as a result of the self-isolation regime, showed the Central Bank of Russia that the key rate would drop to its historically lowest level.[16]

The article identifies three types of shocks faced by the Russian economy. All these shocks are interconnected. However, the drop in world oil prices and in Russian exports demand have become the biggest for the Russian economy, given its direct impact on the country's income and currency depreciation. This crisis may have worse consequences for the Russian economy due to the fact that the country is currently under the pressure from sanctions and counter-sanctions, and the dynamics of GDP has been negative since the beginning of 2020.The consequences of the current internal shock and external pressure may appear after 2020. They can put more pressure on the domestic economy than the 2008 global economic crisis and the Russian economic crisis of 2014–2015.

The work reveals a wide range of monetary and fiscal measures to support aggregate domestic demand in the Russian economy. Most of them helped to cope with the identified three shocks caused by COVID-19. The rate cut to historic lows was supposed to support lending and aggregate demand, including in the most vulnerable sectors of the Russian economy, affected by the drop in oil prices and the devaluation of the Russian currency. The significant easing of monetary policy is due to a set of factors, including a slowdown in inflation and a decline in inflationary expectations.

However, this measure did not lead to significant results due to the depreciation of the

[15] World Bank (2020). Recession and Growth under the Shadow of a Pandemic. Russia Economic Report. 6 July 2020: 43rd Issue of the Russia Economic Report. URL: https://www.worldbank.org/en/country/russia/publication/rer (accessed on 12.10.2020).

[16] Central Bank of the Russian Federation (2020). Bank of Russia. Statement by the Governor of the Bank of Russia E. Nabiullina at a press conference. URL: https://cbr.ru/press/event/?Id=6656 (accessed on 12.10.2020).

Russian currency by more than 20% against the US dollar and more expensive imports for businesses and households. This measure was not effective enough due to the freezing of economic activity. When most economic activity is prohibited, lower interest rates cannot stimulate growth in the short term.

Efforts to maintain liquidity in the economy became more visible as economic activity was largely frozen and many financial institutions experienced problems.

The article also mentions the role of fiscal policy. COVID-19 has increased country-specific risks and risk premium in many countries. Fiscal measures also contributed to risk mitigation. In general, fiscal and monetary policy measures were aimed at supporting domestic aggregate demand.

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ABOUT THE AUTHOR

Yurii K. Zaytsev — Cand. Sci. (Econ.), Assoc. Prof., Department of Economic Policy and Public-Private Partnership, Moscow State Institute of International Relations (MGIMO University), Moscow, Russia; Assoc. Prof., Senior Researcher, Russian Academy of National Economy and Public Administration, Moscow, Russia
Yuriy.zaitsev@gmail.com

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