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FINANCIAL AND ECONOMIC CRISIS IN RUSSIA DURING THE COVID-19 PANDEMIC AND POTENTIAL SOLUTIONS

Severity of financial and economic crisis during the COVID-19 pandemic. – The World Health Organization (WHO) claims that the COVID-19 infection has become the most cost-intensive global pandemic (Gorain et al., 2020; Sohrabi et al., 2020). It is also worth noting that this is the first pandemic in history that inflicted equal damage to economy and financial markets. Already in February 2020, 1.5 months since the outbreak, Chinese SSE Composite index decreased by more than 8%. At the same time, all Western stock markets reached their historical maximum. However, when in late February 2020 the pandemic spread to the USA and leading Western Europe nations (Italy, Spain, Germany), major index rates of almost all counties plummeted. The stock market demonstrated uncertainty, as profitability of shares and capital flows reduced all over the world. The downturn caused by stock market uncertainty created serious obstacles to investments, project funding and liquidity availability in the global financial system (Al-Awadhi et al., 2020; Ambros et al., 2020; Mishra, Rath, Dash, 2020).

For the first time in history, the pandemic affected not only the global economy but also the financial market, with the GDP expected to drop over 10% (Klepach, 2020). Following its impact on the global economy, the pandemic increased risks on financial markets, so their participants responded by limiting outflows from security investment funds. In turn, this measure caused prices of shares and securities to rapidly decline: for instance, SandP 500 broad market lost 35% of its value from February 19 to March 23, 2020 (Korostelkina et al., 2020). In April 2020, the situation in Russia deteriorated due to high volatility of the global oil market, as Urals oil price reached its minimal value of 8.4 USD per barrel, 80% lower compared to late 2019, and “detonated” volatility of the national stock market (Korostelkina et al., 2020). Oil exporting countries also suffered from the plunge during the COVID-19 pandemic, including Russia (-6.6%), Saudi

Arabia (-6.8%) and Nigeria (-5.4%) (Padhan, Prabheesh, 2021).

At its lowest point, the COVID-19 pandemic caused Russian GDP to reduce by approximately 8%, inflicting large damage to Russian business and economy. According to early Federal State Statistics Service estimates, during 11 months of 2020 industrial output, freight turnover and amount of paid public services dropped 3.0%. 5.4% and 17.7% respectively, compared to the same period of 2019. Meanwhile, the volume of agricultural output increased by 1.5%. The volume of investments in main capital fell 4.1% in nine months of 2020 (Tass, 2020a).

Since the moment the WHO declared COVID-19 the global healthcare emergency, the world economy lost almost 90 trillion dollars (Boissay, Rungcharoenkitkul, 2020). Meanwhile, the IMF has a rather optimistic forecast for 2021 economic recovery, with GDP increasing by 3.5% in Russia, 4.7% in the USA and 4.8% in the EU (International Monetary Fund, 2020b). A less optimistic forecast considers it possible for Russian GDP to decrease by 6.6% that year (International Monetary Fund, 2020a).

The coronavirus infection led to the stock market downfall that lasted from February 20 to April 7 2020, with initial economic forecasts turning for the worse. For instance, in early May 2020, the World Trade Organization (WTO) published the official forecast, according to which global negative economic growth was expected to reduce by 8.8% (United Nations Industrial Development Organization, 2020). While assessing this forecast in December 2020, the most pessimistic WTO estimation turned out to be the most accurate. The World Bank does not expect global economy to fully recover by at least 2025 fiscal year (World Bank, 2020). However, full economic recovery can be achieved earlier, given that certain areas of economy demonstrated relatively high growth of profitability. It is worth paying attention to evidence showing that pharmaceutical (Lerner, 2020) and medical equipment industries (Tansey, 2020), as well as (Thomas, Zhang, 2020) ICT companies, including both software and hardware manufacturers (Strickland, Zorpette, 2020), demonstrated relatively high financial and economic indicators (Weller, 2020). However, as the global economic situation seems generally unfavorable, academicians and economists need to take a new approach to ensuring financial stability by developing an optimal set of financial market tools, carefully assessing objective factors and improving functioning of state institutions (Korostelkina et al., 2020).

The urgence of this issue is determined by the planet-wide threat of the COVID-19 spread, which is hard to control and initiates the financial crisis with an almost unpredictable outcome. Nevertheless, all countries, including Russia, will be looking for a solution to this situation, with different approaches and results. For every country, a return to their pre-crisis status will depend mainly on development of the global financial system and financial markets, increase in their stability and financial globalization under new, post-pandemic conditions (Grigoryev, Pavlyushina, Muzychenko, 2020; Stückelberger, 2020; Vorontsova, Karlov, 2020).

Global financial crisis and further impact on financial market from non-economic and economic standpoints. – The worldwide COVID-19 crisis is unique in its nature, as it has no economic precursors and its destructive effect goes mainly though non-economic lines (Borio, 2020). Because of the pandemic, nations and continents are facing new problems related to social, economic and environmental factors impacting spread of infectious diseases (Bloise, Tancioni, 2021). Studies have revealed a positive correlation between infection and death rates and the GDP, making it possible to categorize COVID-19 as a new "disease of civilization" (Skórka et al., 2020). Some works point out that industrial regions with greater output and interconnection have higher infection rates because of well-developed social and economic networks. On the other hand, regions with higher infection rates make a bigger contribution to the global supply chain and added value. This causes significant initial growth followed by a downfall, regardless of measures taken to slow the infection spread (Guan et al., 2020). Certain authors found a high correlation between COVID-19 infection rate and the average annual number of frosty days, air pollution with particles ≤ 10 μm in diameter and death rates for infectious diseases, while a registered correlation with the percentage of families having at least five members turned out to be negative (Bloise, Tancioni, 2021).

The global response to coronavirus spread demonstrated unprecedented unity of all countries, including taking such measures as closing borders and strictly regulating land, sea, and air passenger traffic, both international and domestic (Grima et al., 2020). All these measures for disease prevention, public health protection and social distancing became known as "the

Great Lockdown" (Gopinath, 2020). Restrictions were imposed on various social and economic activities, far beyond initially targeted groups with higher risk of infection. Work of major transportation junctions was suspended, limiting not only passenger traffic but also international trade (Erokhin, Gao, 2020; Krstic et al., 2020). At first, this caused an economic collapse of tourist industry, hotel and restaurant businesses, closure of spa salons (Lapointe, 2020). Then the economic crisis affected bakeries, companies making food and dairy products, commercial transport companies and entertainment industry, including theaters and cinemas (Paumgarten, 2020). Thus, non-financial and non-economic factors can provoke an unprecedented financial and economic crisis, while in order to prevent similar worst-case scenarios from happening, it is essential to consider human health factor as an important element of financial stability during future sustainability tests (Ozili, Arun, 2020).

State policies countering the COVID-19 pandemic. – Nowadays, global economy is facing great difficulties triggered by the COVID-19 pandemic. In order to protect people from the viral infection, reduce infection and death rates, many governments, including Russian authorities, had to introduce administrative restrictions that resulted in declining output and ability to pay, as well as growing unemployment and bankruptcy rates, especially among small and medium enterprises. To prevent an economic crisis, the government took certain measures for business support, such as financial incentives. Thus, every country is working out a certain model to financially support commercial organizations. This model enables the government to specify a support strategy, defining the purpose, scope, organizational differentiation, and terms of economic and social assistance (Kiseleva, Sanginova, 2021).

As quarantine measures were gradually eased in the second half of 2020, international markets experienced reinvigoration, while easing national macrofinancial policy in the end of the year provided an opportunity to significantly reduce the severity of domestic economic crisis. According to several experts, the GDP decline is not expected to exceed 3.8-4.2% by the end of 2021 (Ministry of Economic Development, 2020; Shirov, 2020; Tass, 2020b).

Given market imbalances caused by the pandemic, Russian government has introduced the model for financial business support to stabilize competition, important commercial entities and SMEs, as well as to develop new directions for progress. To do this, the government is actively using all available financial tools (budget subsidies, subsidizing interest rates, benefits and tax rates, government purchases, etc.). In 2020, the actual mechanism of applying financial tools was stipulated by governmental anti-crisis plans (Consultant Plus, 2020b).

During the pandemic, state authorities focus primarily on helping the most affected business activities: 1) tourism, leisure and culture, entertainment, catering, restaurant business, beauty parlors, transport services, retail trading; 2) SMEs, as in most cases, these enterprises are the key provider of innovative solutions and business activities, while also having the highest employment ratio; 3) strategic companies (air and railway transport, construction), which operations were suspended due to declining demand. To achieve this purpose, the government provides liquidity means to the business, creates conditions for financial stability of companies (attracting loans to replenish turnover funds), controls personnel lay-offs and incentivizes strategic activities, such as digital economy, robotics, bioengineering and export. For example, small and medium enterprises in Russia received free financial support in the amount of 12,130 rubles per employee. This money could have been used for any expenses, including salaries (Kiseleva, Sanginova, 2021). Promptly implemented multiple measures of government support in Russia enabled to cover a wide range of economic and business activities. As a result, the share of companies capable to use assistance provided by federal authorities grew from 9.00% in April-May 2020 to 24.82% in November-December 2020 (Federal State Statistics Service of Russia, 2020; Kuvalin, Zinchenko, Lavrinenko, 2021).

An important tool of state financial support involves reduction of taxes and mandatory social insurance payments. Companies in Russia were given the right not to pay mandatory insurance for a 6-month period. It is also worth noting that state guarantees as financial support tools are granted primarily to competitive organizations, as flagships of future economic growth (Abraham, Schmukler, 2017; Sanginova et al., 2019). Indirect business support can include coordinating monetary policies aimed at reducing the Bank of Russia key rate and enabling the opportunity to increase operations of credit institutions. In Russia, the interest rate is subsidized by the Bank of Russia, with 50% of the credit covered by state guarantees. Credits with 2% annual interest rates are given to large organizations for maintaining their employment rates. The UK, Germany and France are also actively implementing state guarantees to support major strategic enterprises (Agrawala, Dussaux, Monti, 2020). According to the EY research, the most important measures for small business support in Russia involve lowering insurance (31%) and rental (22%) payments; not imposing sanctions for a breach of contract caused by force majeure circumstances (20%) (Ernst, Yong, 2020). The Ministry of Economic Development data show that thanks to the efforts taken by Russian government, the salary fund reduced only by 16%, despite revenues declining by 33%, thus helping more people to keep their jobs (Ministry of Economic Development, 2020).

Financial consequences of the COVID-19 pandemic for Russia. – Financial integration and globalization play a decisive role in the global community. As a result, an economic shock in any particular nation quickly spreads to other countries and continents (Liu et al., 2020). This situation is exacerbated by the fact that the initial stage of the pandemic is not determined by a reliable public health system but depends on individual responsibility. The pattern of the pandemic, uncertainty of a new outbreak, impossibility of quick elimination of this health threat and small percentage of people with registered immunity are likely to cause devastating consequences for the global economy (Popovich, Sanger-Katz, 2020). The results of this work will become evident in the post-epidemic period during the new global economic recession that is already happening (Zoumpourlis et al., 2020).

Russian economic crisis in 2020, compared to previous crises of 1998, 2008 and 2014-2015, demonstrated relative stability of financial and banking sectors, with no serious payment system malfunctions, inflation surges or skyrocketing interest rates (Federal State Statistics Service of Russia, 2020; Kuvalin, Zinchenko, Lavrinenko, 2021). Meanwhile, the interaction between Russian companies and banks leaves much to be desired. In particular, the total share of companies receiving bank credits for investment projects comprised only 20.29%, which is significantly lower than in 2011-2012 (Federal State Statistics Service of Russia, 2020; Kuvalin, Zinchenko, Lavrinenko, 2021).

At the beginning of the coronavirus outbreak, ruble lost approximately

18% to the US dollar, compared to 2019. However, this decline was smaller than in previous crises and was accompanied by relatively low exchange rate volatility, compared to the peak of 2014 crisis. This situation was made possible thanks to adopting the "fiscal regulation" mechanism, so that in case oil prices drop below the control level (42.4 dollars per barrel), federal budget funds not accrued from oil and gas income are compensated by the Russian National Wealth Fund finances (Ministry of Finance of Russia, 2020).

Stabilization of epidemiological situation in Russia and other countries, accompanied by economic support measures, incentivized foreign investors to return to Russian financial market, while federal loan bonds rate of return reached the pre-volatility level. Monetary policies of the world's central banks managed to accomplish sustainable stabilization of global financial markets. Adoption of a "soft" monetary policy supports crediting and ensures stable growth of interest expenses in the banking sector. Eased regulation and reduced macroprudential reserves give banks an opportunity to cover expenses in time and maintain their activities (PRIME, 2020).

There is no doubt that efforts must be taken in several directions to help Russian economy to overcome the crisis. One of these directions involves technological upgrade of the production (Blokhin, Fonotov, 2020; Komkov, 2018; Komkov, 2020). However, companies do not own sufficient resources they could spend on technological innovations. The survey of company leaders showed that only 13.43% of respondents managed to fully modernize their production and 35.07% were able to perform partial modernization (Federal State Statistics Service of Russia, 2020; Kuvalin, Zinchenko, Lavrinenko, 2021).

As the Russian Federation economy is affected both by large sanction restrictions and the pandemic that initiated the economic crisis, it is important to develop competitiveness of national technologies. This would provide an opportunity to improve technological independence of Russian economy via import substitution and boost economic growth through advanced national machine-building industry – the processes that have been in progress recently. This seems especially important, as the ruble devalues, and prices of import purchases are growing. Meanwhile, a survey of Russian businesspeople on equipment quality revealed that only 11.81% of employees could find on the market Russian-made equipment of quality equal to foreign analogues (Federal State Statistics Service of Russia, 2020; Kuvalin, Zinchenko, Lavrinenko, 2021).

Economic and financial recovery plans in Russia and other countries. – Few exceptional industries that demonstrated paradoxical growth during the pandemic were pharmaceutics (FXStreet, 2020), medical equipment (Bachman, 2020) and production industry (Garside, 2020). The IT sector that includes both software and hardware manufacturers also largely increased its income, as it entered the IT support market (Faus, 2020) because of booming demands for video conferences, remote work, and distant learning (Gorain et al., 2020).

Economic recovery plans should promote a shift to a more sustainable and inclusive society. State investments must be focused on sustainable industries and digital economy, while also incentivizing additional private investments. Priority needs to be given to preventing bankruptcy of SMEs and focusing on reskilling, preparation, and training of digital economy employees. In general, economic recovery must be smart (based on digital technologies), inclusive (focused on low-income households) and sustainable (providing clean energy investments and reducing environmental damage) (Lancet COVID-19 Commissioners, Task Force Chairs, Commission Secretariat, 2020; Sachs et al., 2020). There is no doubt economic competition between major countries will increase in the nearest future, as Table 1 demonstrates.

Table 1 – *Estimated global ranking of GDP by PPP (2 million USD at the fixed rate of 2016).*

Rank	2016 rating		2030 rating		2050 rating	
	Country	GDP (PPP)	Country	GDP (PPP)	Country	GDP (PPP)
1	China	21,269	China	38,008	China	58,499
2	USA	18,562	USA	23,475	India	44,128
3	India	8,721	India	19,511	USA	34,102
4	Japan	4,932	Japan	5,606	Indonesia	10,502
5	Germany	3,979	Indonesia	5,424	Brazil	7,540
6	Russia	3,745	Russia	4,736	Russia	7,131
7	Brazil	3,135	Germany	4,707	Mexico	6,863

Source: Hawksworth, Clarry, Audino, 2017. GDP – gross domestic product; PPP –

purchasing power parity.

John Hawksworth, the chief economist of PwC (international network of companies offering consulting and audit) predicts a shift in global economic power from developed economies to emerging economies of Asia and other nations. By 2050, E7 countries (Brazil, China, India, Indonesia, Mexico, Russia and Turkey) will produce over 50% of the global GDP, while the share of G7 states (Canada, France, Germany, Italy, Japan, the UK and the US) will slightly exceed 20% (Table 1) (Hawksworth, Clarry, Audino, 2017).

It is worth noting that according to the World Bank estimations, the world economy will not fully recover at least by 2025 fiscal year (World Bank, 2020). The joint diplomatic communique (Al Jazeera, 2020), adopted by state leaders and national finance ministers, states that COVID-19 is pushing economy to the brink (RT International, 2020a). Because of this, Deutsche Bank made a rather pessimistic prognosis about the ongoing large-scale deglobalization, calling it "the age of disorder" that would last for several years (RT International, 2020b).

Rapid global-scale spread of COVID-19 called for adopting essential, well-planned measures to support financial market and sustain sufficient liquidity rates. This why financial regulators of world's leading countries promoted necessary control measures, such as easing capital reserves regulations, reducing anti-cyclic reserves, establishing preferential loans; lifting responsibility in case of certain violations, credit restructuring; suspending on-site inspections, extending reporting periods, limiting short sells on the security market; launching and expanding special refinancing programs and providing government support (Financial Stability Department of the Bank of Russia, 2019). According to the IMF, the amount of this support in terms of GDP percentage comprises 21.1% in Japan, 14.3% in the USA, 4.3% in the EU and 2.5% in China. As the coronavirus pandemic progressed and oil prices plummeted, the Bank of Russia took additional measures to maintain banking system liquidity, including lowering the key rate from 6% in March to 4.5% in June 2020. Besides, the Bank of Russia gives credits to SMEs with a reduced interest rate and provides debt restructuring. Mortgage banking policy involves reducing risk premiums, lowering initial payments, and including some mortgage bonds in the Lombard List (Bank of Russia, 2020). Besides, financial organizations were granted significant preferences by the Bank of Russia in terms of reporting period extension, reduction of non-urgent enquiries and postponement of their examination.

Russian economic security strategy in the crisis period. – The system of economic security indicators, established by the Institute of Economics of Russian Academy of Sciences (IE RAS) includes financial sector, real economy, foreign trade, and social sector (Aganbegyan et al., 2020; Mau, Sinel'nikov-Murylev, Drobyshevskij, 2020). Some authors believe that 2020 crisis triggered by the COVID-19 pandemic is not a market issue but was heavily affected by state authorities' decision to suspend certain economic activities (Shirov, 2020). Others claim Russian crisis stems from the pandemic and the decrease of oil prices due to revoking OPEC+ agreements (Mityakov, Mityakov, 2021). These two factors combined caused most economic security indicators to decline, with Russian economy already being in recession since 2012. We can assume that in this situation the decrease of economic variables was less significant compared to developed countries, where the two abovementioned factors were affecting the downturn almost simultaneously. Russian stock market movements and additional indicators demonstrated almost synchronous decline of oil prices, Dow Jones and RTS indices and the growth of dollar to ruble exchange rate, which had remained on a high level for a long time. The government response index of counter-pandemic measures demonstrated their high efficiency even two months prior to the actual spread of the pandemic in Russia. This can be explained by the fact that the top officials wanted to keep national healthcare system in full readiness. As a result, financial sector became the only economic security constituent out of the four mentioned above that remained almost undamaged.

Conclusion. – Thus, economic and financial crisis in Russia, like in the rest of the world, is determined primarily by the epidemiological situation and the spread of the coronavirus infection. Stringent quarantine measures that include isolation, social distancing, remote work, and distant learning, suspending or limiting work of most companies and organizations, long off-work period from late March through mid-May 2020 and reducing relations with foreign and domestic partners became factors exacerbating the crisis. As the infection was spreading, Russian economy faced both supply and demand decline simultaneously. Economic situation in Russia also deteriorated due to the global recession caused by quarantine policies. In 2020, according to statistical data, annual rates of GDP elements were largely affected by restrictive measures countering the pandemic (Federal State Statistics Service of Russia, 2021). For instance, final domestic demand plummeted in the second quarter of 2020, compared to the same period of the previous year (-13,3%), yet gradually stabilized in the second half of the year estimating -5.9% in the third quarter and -0.9% in the fourth.

During the quarantine, state program for business support was aimed at providing funds for wage payments and keeping employment rate as high as possible. Measures taken by the government helped to slow down unemployment rate. As of August 26, 2020, according to Ministry of Labor, it reached 3.6 million people, with 1.2 million people partially occupied, on unpaid vacation or in the downtime during the peak period. Unemployment benefits increased, thus drawing closer the registered unemployment rate and the unemployment rate estimated by ILO methods (Consultant Plus, 2020a).

Recovery and subsequent growth of Russian economy will depend primarily on the sanitary and epidemiological situation and on global economic recession. Uneven revoking of quarantine measures in different countries results in remaining demand limitations and disruptions in the global added value chain. Certain difficulties are related to one of the main sources of Russian income – oil export, due to large amounts of oil produced and stored during the quarantine periods. The OPEC deal helped to stabilize situation but could not drastically shift the balance between supply and demand on oil and oil product market.

The basic scenario of economic development expects federal budget deficit to expand and reach 4.4.% in 2020. To ensure macroeconomic and financial stability, budget system parameters will be leveled out, as the economic situation stabilizes. Meanwhile, expense limits for 2021 will take into account transition provisions that would gradually adapt the budget to new conditions (Consultant Plus, 2020a):

- launching the new investment cycle and investment-incentivizing measures;
- building potential for fundamental structural changes in the labor market, education and re-skilling industry;
- increasing education and labor market flexibility in terms of both

supply and demand;
- accelerating government and private sector digitalization;
- facilitating technological breakthroughs and performance growth in various economic sector;
- creating favorable conditions for import substitute and developing new export niches;
- increasing safety and quality of domestic leisure and recreation activities, given international travel limitations;
- working out new requirements for resilience to external shocks affecting healthcare industry and economy in general.

The data analyzed in this article demonstrate that all countries, including Russia, are coping with serious economic and financial problems during the COVID-19 pandemic. Overcoming these issues in the nearest future will depend on infection spread rate, government efforts, healthcare system stability and public willingness to prevent the spread, in particular, by means of total vaccination.

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Crisi finanziaria ed economica in Russia durante la pandemia di Covid-19 e potenziali soluzioni. – La crisi finanziaria ed economica nella Federazione Russa causata dalla pandemia COVID-19 è stata caratterizzata da un impatto negativo sull'economia reale che ha portato a un deflusso di fondi di investimento in titoli e a una rapida svalutazione di azioni e obbligazioni. Questa crisi globale è unica nella sua natura, poiché non ha prerequisiti economici e inizialmente si è sviluppata principalmente attraverso linee non economiche. A causa degli squilibri del mercato causati dalla pandemia, il governo russo ha elaborato il modello di sostegno finanziario alle imprese, volto a stabilizzare la competitività delle imprese, delle imprese commerciali strategicamente importanti e delle PMI, nonché a sviluppare nuovi settori di attività. Date le limitazioni delle sanzioni, è essenziale mantenere e aumentare la competitività delle tecnologie nazionali. Questo fornirà un'opportunità per facilitare l'indipendenza tecnologica dell'economia russa e stimolare la crescita economica assicurando uno sviluppo avanzato dell'industria nazionale della costruzione di macchine. I piani di ripresa economica dovrebbero concentrarsi sul passaggio verso una società sostenibile e inclusiva, con investimenti statali che diano priorità al settore finanziario, all'economia reale, al commercio estero, al settore sociale, all'economia digitale e agli incentivi agli investimenti privati.

Parole chiave. – crisi economica e finanziaria, investimenti pubblici, settore finanziario, *digital economy*, investimenti privati

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