

G20 Country Briefs



International
Labour
Office

THE RUSSIAN FEDERATION'S RESPONSE TO THE CRISIS

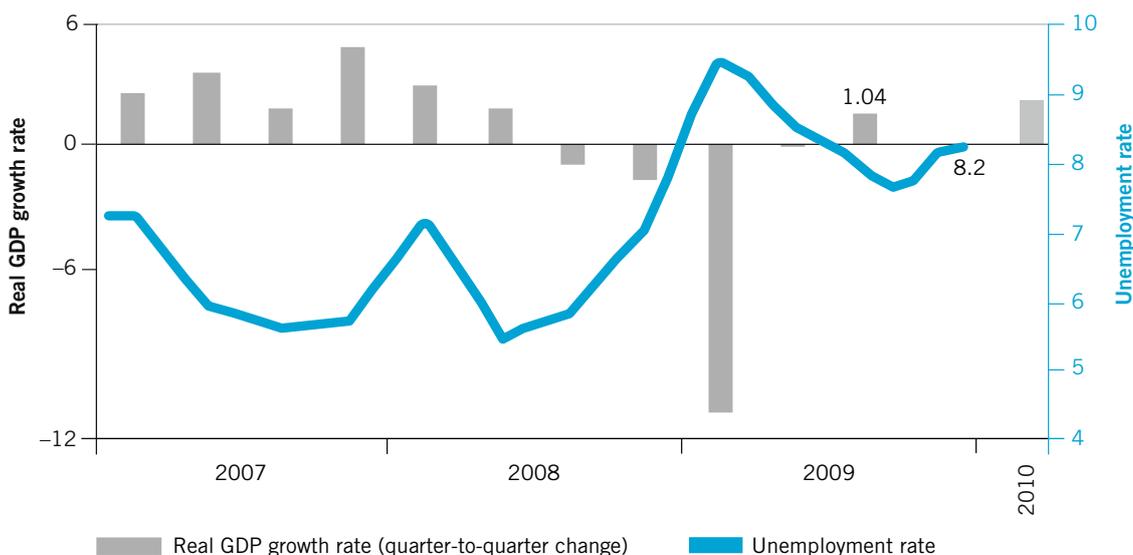
An abrupt decline in output

The start of the millennium was marked by a strong performance of the Russian economy, which grew at an average annual rate of 7 per cent between 2000 and 2007. Quarterly real gross domestic product (GDP) began falling in the third quarter of 2008 (-0.7 per cent) as the global crisis strained the Russian financial system and tight credit conditions and weak demand began to impact consumption and investment. By the first quarter of 2009, seasonally adjusted real GDP was down 9 per cent from the previous quarter (figure 1). The contraction of GDP was accompanied by a large net capital outflow, step-by-step devaluations of the rouble (RUR), a decline in international reserves, and a swing in the fiscal balance from surplus to deficit. Modest growth returned in the second half of 2009 as prices for hydrocarbon exports picked up and demand from South-East Asia revived.

With the sharp decline in economic performance in the first half of 2009, employment levels also fell markedly. As growth returned in the second half of 2009 the pace of job losses slowed; but by the end of the year a total of 400,000 jobs had been lost compared with December 2008. The survey-based unemployment rate (ILO definition) was already on the rise from a low of 5.4 per cent in May 2008 as the crisis hit (figure 1). After peaking in February 2009 at 9.4 per cent, the unemployment picture improved moderately overall, ending the year at 8.2 per cent.

Rising unemployment and the considerably worsened economic climate for enterprises held down year-on-year growth in real wages from the later part of 2008. Wage growth turned negative in February 2009 and labour productivity also started to fall in 2009, indicating a risk of further employment cuts.

Figure 1. Monthly unemployment rate and quarterly real GDP growth rate, 2007–2009 and 2010 forecast (percentage)



Source: Federal State Statistics Service of Russia. Seasonally adjusted data for GDP growth rate. Unemployment rates are not seasonally adjusted. Projection in 2010 refers to annual real GDP growth rate.

Of some potential concern is the widening gap between the number of registered unemployed and number of unemployed according to the ILO definition. After having narrowed quite substantially since the 1999 economic crisis, the gap began to grow again in 2008 and 2009 (figure 2). In 2009 the gap was 3.8 million compared with 2.6 million in 2007. This may mean that recent measures to mitigate impact of the crisis on the labour market are not reaching a number of unregistered unemployed who are not eligible for unemployment insurance benefits.

The wage arrears situation that became quite significant during 2008 improved as the worst of the crisis passed in 2009. Wage arrears piled up in the latter part of 2008, mostly in the manufacturing, construction, and transport sectors, affecting about a half a million workers for a total of RUR8.8 billion by the end of the year. These figures declined through 2009, although in November 2009, 278,000 workers were still owed back wages for a total of RUR5.4 billion.

A rapid response and large-scale stimulus package

The Russian government and the Central Bank of Russia quickly responded to the crisis by injecting short-term liquidity, providing longer-term credit support to the financial system, and implementing a far-reaching fiscal stimulus package. The government's Anti-Crisis Programme has aimed to put the financial system on a firmer footing, while expanding social protection and assuring balanced and diversified long-term growth, including numerous measures to enhance quality of the workforce through education and training and ease administrative pressures on business. The estimated cost of Russia's discretionary measures is reported to be one of the largest in the G20 countries, at

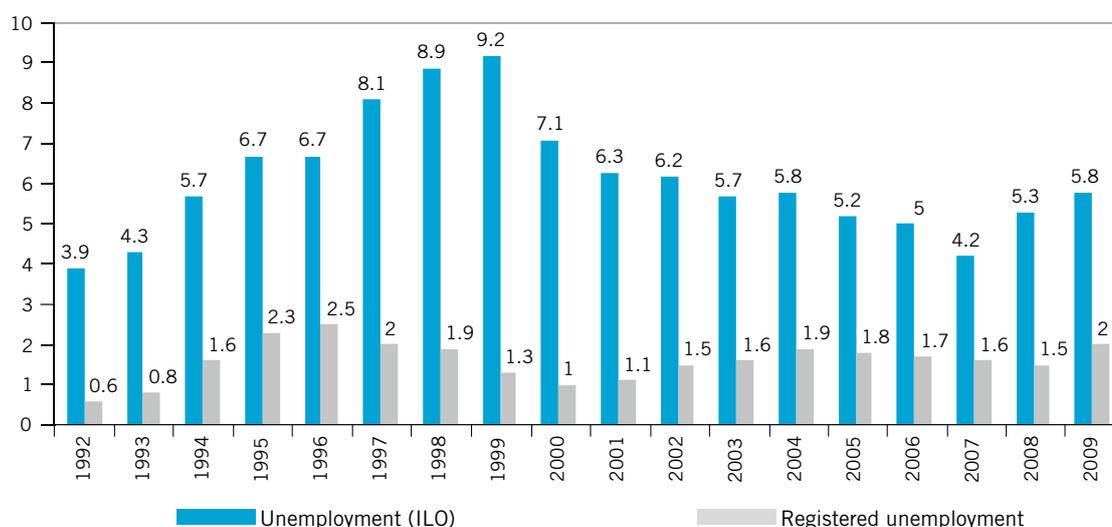
4.1 per cent of GDP in 2009 and 1.3 per cent in 2010 (IMF estimates, May 2009). Such a large-scale response was made possible by the budget surplus arising from the fiscal reforms of the past decade.

The 2009 Anti-Crisis Programme amounted to approximately RUR2 trillion (US\$62.5 billion). The largest component of the package consisted of measures to stabilize the financial sector, providing support to commercial, semi-public banks and Vnesheconombank, the Russian Development Bank (figure 3). Social protection measures, primarily intended to increase social security benefits, such as unemployment benefits and pensions, made up the second largest share. The third largest component supports designated economic sectors, including transport, automobile, agriculture and fishing, forestry, and defence.

The government's programme has made labour market and social protection measures, the unemployed and other vulnerable persons its highest priorities. One important early step was to raise the ceiling on unemployment benefits by 50 per cent. Employment retention and generation have also been encouraged, with aid to enterprises contingent on compliance with the Labour Code regarding employer obligations to employees during layoffs and a commitment to preserve jobs of socially vulnerable workers.

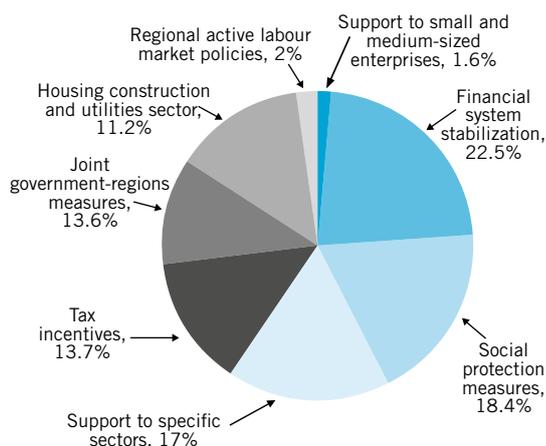
While the acute phase of the crisis has passed, the 2010 Anti-Crisis Programme recognizes the need to extend social protection and encourage employment growth in the short run with a view to shifting focus over the medium term to further modernization and diversification of the economy. Government pension benefits have increased considerably since 1 January and other social transfer payments are being increased to keep ahead of inflation. The fuller implementation of regional employment programmes aims to create as many as 1.4 million new jobs and provide business start-up aid to over 169,000 individuals.

Figure 2. Unemployment dynamics, 1992–2009 (millions)



Source: Rosstat. <http://www.gks.ru>

Figure 3. Components of the stimulus package in 2009 (percentage of total expenditure)



Source: Calculated from the budget breakdown presented in <http://www.premier.gov.ru/eng/anticrisis/3.html>

The federal government also continues to give extensive support to about 20 most hard hit “mono-industrial towns”, where alternative employment opportunities are lacking. A special targeted employment promotion programme for persons with disabilities, ex-prisoners, single parents and parents of small or disabled children and other vulnerable groups is also being implemented. In addition, the government is supporting young jobseekers, who are particularly disadvantaged during economic crises, with incentives to continue their education while fostering closer links between educational institutions and prospective employers.

Regional programmes key to implementing labour policies

The decision of the federal government to decentralize labour market programmes to the constituent regions made in 2006 had barely been operational when the crisis struck, making implementation of anti-crisis measures a significant challenge for many regional authorities. The Anti-Crisis Programme required the regions to prepare employment programmes and to increase their budget allocation to such programmes, while the federal government added an additional RUR43.7 billion to the original 2008-09 outlay for the regions. Together, these more than doubled the annual budgetary allocation for the regional programmes.

More than 80 per cent of the budget allocated for regional employment programmes is being spent on public works. The programmes envisage the creation of temporary jobs, relocation of people to new jobs, as well as promotion of small businesses and self-employment. They also provide vocational training to laid-off workers, the cost of which is either co-shared with the enterprises or fully funded by the public budgets, depending on the severity of the situation.

During the first nine months of 2009, the Russian regions concluded contracts worth RUR35.60 billion. The beneficiary target of 2.1 million persons had been surpassed by 1 October 2009, when a total of 2.8 million persons had participated.

Table 1. Consolidated regional employment programme by intervention area, funding level and number of beneficiaries

Intervention areas	Total funding based on approved regional programmes 2009 (RUR billions)	Actual implementation (RUR billions)	Number of target beneficiaries under approved programmes (2009)	Actual beneficiaries
1. Vocational training of workers threatened by redundancy, shorter working hours, or unpaid leave	1.82	1.36	221 520	216 017
2. Creation of temporary jobs, including within public works scheme and on-the-job practice for school leavers to gain job experience	27.50	25.57	1 705 941	2 434 559
3. Incentives and support for jobseekers to migrate to other Russian regions which offer jobs	0.55	0.39	13 394	10 976
4. Promote business start-ups or self-employment amongst the unemployed	7.55	7.52	125 516	127 605 (131 693 new jobs created)
Additional activities	0.75	0.75	14 651	14 651
Total	38.17	35.59	2 081 022	2 803 808



Impact

So far the federal and regional programmes have reduced tensions in the labour market by providing substantial active support to persons in distress and limiting mass layoffs and severe conflicts between employers and employees. However, job separation continued to outweigh hiring: in September 2009 new hires accounted for 2.9 per cent of the payroll, while 3.2 per cent were made redundant for various reasons. Intensified job placement efforts by the public employment services had successfully placed 61,300 out of 328,300 registered unemployed in September 2009, and this placement rate was up by 50 per cent from September 2008. Nonetheless, the ratio of registered unemployed to 100 available vacancies stood at 212, indicating more jobseekers than vacancies available. Almost a third of the unemployed had been without a job for more than a year, indicating that the transition from unemployment to employment remains difficult.

The government's Anti-Crisis Programme partly owes its achievements to the consultative process that encourages the active participation of the social partners. The National Tripartite Commission, made up of government, employer and worker representatives, has been addressing the social impact of the crisis since October 2008. In April 2009, the social partners issued recommendations on their role in policy-making and implementation in a period of economic crisis. In the recommendations, they emphasized a number of pertinent issues, including: ensuring that crisis measures conform with the Russian Labour Code and collective agreements; the role of social dialogue in the Anti-Crisis Commission; collective bargaining and the need to raise awareness to promote employment and social protection. In October 2009, parliamentary hearings dedicated to the perspectives of ratification of ILO Conventions led to the adoption of a decision to expedite ratifications of 14 ILO Conventions.

Outlook and challenges

Russia has yet to recover fully from the crisis and faces a number of challenges on the road to sustainable recovery. Russia's growth from 2009 onwards will be largely determined by external demand, and the global trend thus far suggests a slow recovery.

Weaker diversification of the economy and its continued dependence on commodity exports highlights its vulnerability to fluctuations in commodity prices. There is also a risk that providing direct support to enterprises to prevent additional layoffs could reduce their incentives to restructure and become more competitive, while labour productivity needs to be raised in general. Potential challenges can be seen ahead also in the depressed regions and the so-called mono-industrial towns. GDP growth is projected to be modest in 2010 (about 1.5 per cent), following the poor economic performance in 2009.

The unemployment rate in 2009 still remains high compared to the previous two years, and the sectors that are most affected are manufacturing, construction and retail trade. The employment component of the stimulus package makes greater support and protection available to those who are affected, but outreach remains a challenge. The ratio of registered unemployed to the survey-based estimated number of unemployed remains around 30 per cent, implying that many may lack access to formal safety nets.

Russia is by far the largest economy in the region, and its recovery is vital for recovery in other countries in the region. The country has demonstrated its capacity to respond swiftly and decisively to a sudden externally generated shock. The government is fully committed to ensuring social protection and economic recovery, and its commendable efforts have maintained social stability in the country. However, it is yet to be seen if the anti-crisis stimulus package will attain its goal of redressing the still unbalanced economic structure and laying the foundation for sustained socio-economic development in the post-crisis period.