

Effects of a terms of trade shock on the Russian economy: a labour market perspective

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Abstract

In 2020, the Russian economy immediately faced two powerful crises - a drop in oil prices and an epidemic of coronavirus. The quarantine measures caused by the epidemic led to a deep recession in the economy, and a sharp drop in oil prices, as well as other traditional Russian exports, only exacerbated the negative impact on the economy.

In order to combat the negative consequences of the crisis, government proposed a reform of social insurance, reducing the tax burden on the payroll fund for micro, small and medium enterprises from 30% to 15%. This important measure was taken, however, with reservations - a tax reduction is provided only for wages in excess of the minimum wage. For a minimum salary, the tax does not change.

This tax reform, voiced at the height of the crisis caused by the coronavirus, has been discussed on the sidelines of the government for a long time. Initially, the discussion of lowering taxes on labor was part of a large tax reform that included raising VAT and lowering the labor tax. The combined application of these two tax changes was designed to implement a “fiscal devaluation” and lead to a reduction in the cost of export, thereby contributing to its growth. However, the implementation of this reform stopped only at the first stage - an increase in VAT, and the second - a reduction in the labor tax - was forgotten for a while.

The purpose of our analysis is to assess the consequences of a complex of tax changes in the form as it has now been implemented. We conduct an assessment on the computable general equilibrium model for Russia, with a detailed description of the labor market. We also model scenarios of declining oil prices and falling consumer demand due to quarantine measures.

Key words: terms of trade, oil price shock, computable general equilibrium models, labour market.

JEL classification: F17, C68, D58, J21, J23.