Ideological and financial spaces of budgetary responses to COVID-19 lockdown strategies: comparative analysis of Russia and Ukraine

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Published in: Journal of Public Budgeting, Accounting and Financial Management
DOI: 10.1108/JPBAFM-07-2020-0110

Available online: 30 Oct 2020

Citation:
Vakulenko, V., Khodachek, I. & Bourmistrov, A. (2020). Ideological and financial spaces of budgetary responses to COVID-19 lockdown strategies: comparative analysis of Russia and Ukraine. Journal of Public Budgeting, Accounting and Financial Management, 32(5), 865-874. doi: 10.1108/JPBAFM-07-2020-0110

Journal of Public Budgeting, Accounting & Financial Management

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Journal:	*Journal of Public Budgeting, Accounting & Financial Management*
Manuscript ID	JPBAFM-07-2020-0110.R2
Manuscript Type:	Research Paper
Keywords:	Budgetary measures, Responses, Uncertainty, COVID-19, Ukraine, Russia

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Abstract

Purpose – To compare Russian and Ukrainian central governments' reaction to the pandemic, reflected in extraordinary budgetary allocations, and to provide our understanding of how those allocations can be attributed to the two countries' different social, economic and political contexts.

Design/methodology/approach – The paper is built on secondary data analysis over a six-month period, i.e. January-June 2020, during which the real-time events were documented in a research diary. The data sources included budgetary and other relevant legislature, official reports from international agencies, news, press conferences and videos of interviews with key stakeholders.

Findings – The findings showed that uncertainty caused by COVID-19 and the corresponding lockdown policies in Russia and Ukraine have produced two divergent patterns of budgetary allocations: step-by-step budgetary allocations in Russia vs one emergency budget decision in Ukraine.

Originality – The paper explains the divergence of the central governments' budgetary decisions based on the same lockdown policy, in light of the different ideological and financial legitimized action spaces that frame governmental decisions.

Keywords – Budgetary measures, Responses, Uncertainty, COVID-19, Ukraine, Russia.

Paper type – Viewpoint

Introduction

In the face of the sudden COVID-19 outbreak, the majority of world leaders moved to 'exceptional governance' practices (Sargiacomo, 2015). The most extreme measure, which had a devastating effect on national economies, was a lockdown policy, introduction of social and physical distancing, to prevent uncontrollable spreading of the virus, to flatten out the curve, in order to decrease the number of patients needing ventilators and to prevent the corresponding collapse of the healthcare system. Its immediate result was to force the cessation of such industries as tourism, sport, leisure, retail and other service-oriented activities, which strongly rely on close communication between people. This caused a domino effect, damaging other spheres of national economies, as logistics channels were disrupted, unemployment rates surged dramatically, and levels of consumption fell.

For central governments, such policies had to be reflected in appropriate extraordinary budgetary decisions that focused on balancing the allocation of financial resources to fight the virus with funds to mitigate the economic consequences of those "lockdown" policies. In this paper, we aim to compare Russian and Ukrainian central governments' reaction to the pandemic, reflected in extraordinary budgetary allocations, and to learn how those allocations can be attributed to the two countries' different social, economic and political contexts. Previous studies have discussed the means of and reasons for particular budgetary responses to exogenous shocks, in both Ukraine (Kravchuk, 2001; Åslund, 2015; Vakulenko, 2020) and Russia (Kudrin and Sokolov, 2017; Alexeev and Chernyavskiy, 2018; Klimanov *et al.*, 2020; Mau, 2020). However, the influence of COVID-19 has introduced novelty, and researchers have only just begun to grasp international experience of governmental reactions to the pandemic in developed countries (e.g., Andrew *et al.*, 2020; Ahrens and Ferry, 2020), developing countries (e.g., de Villiers *et al.*, 2020) and in some post-Soviet countries (e.g., Raudla and Douglas, 2020). Since budgeting involves "…translating financial resources into human purposes" (Wildavsky, 2002, p. 7), we focus on how budgetary allocations of resources to fight the virus and to mitigate the economic consequences (i.e. new and emerging purposes of the budget under the crisis) can be explained by countries' political, economic and social factors. To simplify the comparative analysis, we examine the governments' extraordinary budgetary decisions in light of two contexts: the ideological and financial legitimized action spaces of budgetary decisions (Mellemvik and Olson, 1996; Olson, 1990). Because governmental budgets are used to legitimize future actions, any extraordinary budgeting allocation processes, as a consequence of the COVID-19 lockdown, can be considered in terms of those two types of legitimate action spaces. While an ideological legitimized action space concerns political ideologies that shape the logic and priorities of budgetary allocations, a financial legitimized action space relates to the level of funding available for different activities. We trace the recent history of budgetary decisions, to understand how the introduction of similar lockdown strategies in both countries resulted in divergent responses, in terms of extraordinary budgetary allocations, and how those decisions can be explained by both the dominant ideology of each country's central government and their financial situation at the national level, both before and during the COVID-19 outbreak.

Methodologically, the viewpoint is built on the analysis of secondary data during a six-month period, i.e. January-June 2020. The retrospective data collection, which mainly involved the analysis of national legislature and budgetary decisions during the pre-pandemic period, was performed from the start of the year until mid-March 2020. From mid-March until June 2020, the authors documented real-time events, by keeping a research diary, updating on a weekly basis information about the budgetary measures applied in both countries in response to the pandemic. The data sources included budgetary and other relevant legislature, official reports from international agencies, news, press conferences and videos of interviews with key stakeholders.

The remaining paper is structured as follows. The next sections present the cases of Ukraine and Russia, by firstly describing their pre-pandemic situations and, secondly, analysing budgetary responses in both settings. The paper closes with a concluding discussion, comparing the two cases.

The case of Ukraine

Preamble: Ukraine on a pre-pandemic stage

By the end of 2019, when the virus seemed to be located far away in China, the Ukrainian economic situation was worsening. According to the officially published report of the Ministry of Finance of Ukraine (2020b), actual revenues of the state budget in 2019 were less than 0.9 percent of that planned. At the same time, the Ukrainian government reported that key budgetary programmes in social spheres, such as pensions, education and healthcare, were being financed. The deficit of the state budget in 2019 was approximately 2.2 percent of GDP. In a recent ranking of the financial strength of selected emerging economies, Ukraine held 53rd position out of 66 countries (The Economist, 2020a).

The negative macroeconomic trends, which occurred in the second half of 2019, resulted in a further decrease in state revenues from initially planned indicators. In January 2020, the actual revenues of the general fund of the state budget constituted 70 percent of that planned and, in February 2020, around 93 percent (Ministry of Finance of Ukraine, 2020a). The Cabinet of Ministers of Ukraine was heavily criticized by opposing parties in the Parliament for its poor fiscal policy. The situation was also heated by several political scandals involving Ukrainian higher officials. Against this background, in early March 2020, the president decided to dismiss the government, which also collided with instability caused by COVID-19 approaching Ukrainian borders. In light of the economic downturn and political turbulence in Ukraine, the level of preparedness for the approaching global crisis caused by COVID-19 was weak and required decisive budgetary action from the government regarding how to share the scarce resources.

The 'emergency' budget

On March 4, 2020, after the complete resignation of the Cabinet of Ministers, the new Prime Minister was appointed, along with several other ministers. From the first day of the new Cabinet, governmental rhetoric asserted that the virus situation was viewed with deep concern. However, the government was challenged by uncertainties about the future and the current weak economic position, which, in a way, framed the logics of the appropriate budgetary response.

After the first registered COVID-19 case on March 3, the central government faced a dilemma: "what to save first" – the economy or human lives? The choice was made to protect citizens. The governmental reaction was to approve the law "On Amending Certain Legislative Acts of Ukraine aimed at Preventing the Occurrence and Spread of Coronavirus Disease (COVID-19)" on March 18, 2020. Starting from April 1, a hard lockdown was introduced, which forbade visiting public places without wearing a facemask, being outside in groups of more than two people and visiting parks or other open-air recreational or sporting facilities. The government's choice of stricter measures government raised the question of how to preserve "secured budgetary items", as defined in the Budgetary Code of Ukraine (Verkhovna Rada of Ukraine, 2010), while at the same time providing an adequate response, without announcing a default budget.

The actual budgetary response – labelled an "emergency budget" – appeared on April 13, 2020. This was the Ukrainian government's attempt to respond to the pandemic, by simultaneously increasing expenditure for healthcare and cushioning the consequences of the economic crisis. The "emergency budget" significantly addressed issues concerning the social protection of citizens. This measure was introduced mostly in response to the economic consequences of the lockdown. The main issues addressed as a social protection package included pensions, unemployment and other benefits, subsidies to the population, and payment for housing.

One of the biggest packages was directed at supporting pensioners (US $750 mln in total). It included, first, one-time financial support (approx. US $37) to pensioners with a monthly pension of less than US $188; this was also paid to the disabled. Second, from April 1, 2020, an additional US $18 was added for pensioners over 80 with a monthly pension of less than US $345; finally, from

May 1, 2020, there was a planned 11 percent increase in pensions for pensioners with 30-35 years' working experience. Rules for speeding up the payment and regarding the amount of unemployment benefits were revised. Support to the unemployed was estimated at US $47 mln, and partial unemployment benefits worth US $177 mln were planned as payments to small and medium enterprises (SMEs) during the lockdown, to compensate for the cost of wages to employees whose working hours were reduced.

In addition, the government approved a large package of support for healthcare workers, promising a 300-percent increase in their salaries and additionally allocating around US $592 mln to the salaries of medical workers involved in the fight against the pandemic. Additional expenditure for healthcare concerned the procurement of equipment and the means of protection for hospitals, constituting total healthcare expenditure of US $615 mln.

As regards securing business from the economic consequences, SMEs received additional support, in terms of aid to several categories of self-employed entrepreneurs with children under 10 years of age (worth US $60 mln). Furthermore, the measures included changes to the legislature regarding the easing of taxation, the lifting of several penalties, a moratorium on debt repayments, i.e. "credit vacations", and, in some cases, exemption from paying rent (KPMG, 2020).

Most of the expenditure listed above was financed by the "emergency budget", through a specially established fund for fighting COVID-19, in total worth US $2.42 bln. Importantly (and surprisingly), when forming the budgetary response to COVID-19, all branches of central government united in recognizing the threat of the pandemic's consequences to vulnerable citizens. During March-April 2020, people did not collectively articulate their needs; only individual cases of doctors or entrepreneurs concerned about the situation appeared in the local news. In this way, the central government lobbied for their interests and initially saved a big portion of "budget pie" for social protection.

Nevertheless, it would be impossible for the "emergency budget" – with its dramatic increase in the deficit of up to 8 percent of GDP, to cover all unplanned expenditure – to be approved without significant support from other large stakeholders. The internal stakeholder – large business – was the first to react to the pandemic. Facing a shortage of medical supplies to fight COVID-19, in mid-March, a meeting was initiated between large business representatives and the Office of the President. Large business agreed to support the state by purchasing the means of protection, and a private fund for the elimination of COVID-19 consequences was established by the Office of the President. The totally collected means from private businesses was worth US $14 mln. This money was directed towards purchasing masks, respirators, tests, gloves, thermometers and other items from Ukrainian and Chinese suppliers. All expenses related to deliveries from abroad were also covered by the fund. The purchased goods were distributed to healthcare and police workers, hospitals and pharmacies, all of which faced shortages of protective equipment. At the same time, large business used this opportunity to secure its ongoing retail, by selling not only the means of protection but also regular goods to customers. At the beginning of May, the media highlighted a wave of scandals: one hypermarket chain – which, as it turned out, had also financed the fund – remained open during the lockdown, despite state restrictions.

As the situation evolved, it became clear that Ukraine was unable to sustain all its needs. Central government initiated negotiations with the International Monetary Fund (IMF), without which the Ukrainian economy could have been doomed. As an influential financial institution, the IMF agreed to support the Ukrainian economy by providing a US $5-bln stand-by programme (around half of Ukraine's budget deficit). Importantly, two concrete conditions for the Ukrainian government were set, upon which the IMF would agree to approve the stand-by programme. The first was the adoption of the law lifting the ban on buying and selling farmland, which resulted in the opening of the land market. The second involved the law on securing the prevention of the re-privatization of nationalized banks. For Ukraine, it was hard to accept both laws; they were highly controversial and politicized, as they could affect the interests of Ukrainian oligarchs. Nevertheless, due to a unique political configuration in Ukraine, which occurred in 2019 after the remarkable victory of Volodymyr Zelensky in the presidential elections and his party's successive win in parliamentary elections, taking more than the half the seats in the Parliament, thus establishing a so-called "monocoalition", these laws were approved – despite strong opposition from other parties. Only after this, at the end of May, did the IMF sign a new 18-month stand-by to support the Ukrainian budget in mitigating the negative effects of COVID-19 (IMF, 2020).

The case of Russia

Preamble: Russia on a pre-pandemic stage

Russia entered 2020 with an enormous budget "airbag". In addition to US $600 bln in international reserves, the Russian federal budget faced a surplus of US $15 bln, due to the 2-percent increase in VAT in 2019 and a major underspending on investment programmes in 2019. Moreover, Russia could boast US $170 bln in its National Welfare Fund (NWF) as extra revenue from oil and gas, regulated by a so-called "budget rule". The latter states that the revenue from oil and gas taxes and tolls above the projected oil price of $40 per barrel of Urals is to be sterilized in the NWF and thus may not cover annual budget spending (Federal Law 262 FZ, 2017). Since the NWF's mandate prioritizes high quality securities, its liquidity is restricted, provoking criticism from experts and left-wing politicians, who urge the government to use the NWF to fuel social welfare and infrastructure development programmes. Therefore, after the resignation of Medvedev's government in January 2020, the newly appointed government announced the spending of the NWF money for development purposes in February (FT, 2020). Thus, in March 2020, the federal government invested US $29 bln of the NWF to acquire 50 percent of Sberbank (Russia's largest listed company) from the central bank, which channelled this de-sterilized money into the national bank system (WSJ, 2020). Considering a rather low total external debt of US $457.7 bln (Russian central bank, 2020a), rich reserves put Russia into a well-prepared and financially sustainable category, ranked 5th out of 66 countries (The Economist, 2020a). Therefore, Russia seemed to be financially well-cushioned from COVID-19 economic shocks (Kramer, 2020).

The Russian government introduced a ban on travel to China and restrictions on travel to Italy and Spain, postponing the rapid growth of infections inside Russia. However, this did not prevent it from introducing quarantine and lockdown in most people-to-people service sectors, creating ripple effects for the whole economy. As a quarantine arrangement, the president announced so-called "non-working days" from March 30 onwards. This was the most controversial arrangement because of the uncertain status of these days. Enterprises were prohibited from operating, but the support measures required them to keep 80 percent of staff employed. The "non-working days" were widely criticized in the opposition media. While the official media were quite convincing and seemed to be transparent in publishing daily statistics, the central authorities failed to explain the risks and potential consequences of the pandemic, which led to mass violation of anti-virus restrictions and quarantine sabotage. In a way, this is reminiscent of a Russian saying: "The rigidity of Russian laws is compensated by voluntary obedience in their implementation".

Emergency budgetary responses

While the pandemic was unfolding, affecting the largest cities and spreading to the regions, the federal authorities announced anti-crisis measures in three packages. The first budgetary response package was announced in March and concerned banks and strategic enterprises through monetary policy measures. A joint announcement by the federal government and the central bank concerned the sustainability of economic development (Russian central bank, 2020b). The package aimed at coping with global markets' volatility, delays and restrictions in cross-border communications and limited access to funding. As non-monetary measures, the central bank committed to not devaluing the ratings of enterprises affected by the above-mentioned consequences.

The second support package was introduced in April and concerned strategically important enterprises and households. The package accounted for 1 trillion roubles (US $15 bln) in total, half of which concerned budget funds, while the other half came in the form of government loan guarantees. Social benefits in various forms accounted for US $4.3 bln, of which US $2.2 bln went to subsidizing salary losses at a minimum wage level of US $180.

The third support package, primarily aimed at supporting households and SMEs, was announced in May. While all measures before this package were targeted at the most suffering enterprises and citizens, for the first time, the president announced unconditional direct payments of $150 to all families with children under 16 years of age. As a stimulus policy for social and medical care staff, the third package assigned bonuses of up to $900 to each for three months. Responding to forecasted unemployment growth, the third package included the return of 2019 income tax payments to self-employed specialists, as well as tax exemptions for 1.5 million SMEs. Overall, support within the three packages in March-May accounted for 3 trillion roubles (US $39.9 bln).

On May 28, the federal government announced a new national plan for restoring the economy after the COVID crisis. The plan contained 500 items up until December 2021 and aimed at increasing citizens' income, softening unemployment, and steadying economic growth based on new technologies and labour market innovations, as well as boosting export and import-substitution measures. It was expected that all anti-virus restrictions would be eliminated by the end of the period, and the economy growth rates would exceed world average levels, specifically, more than 2.5 percent, with maximum 5-percent unemployment.

However, the public did not seem very convinced by this plan, since the official discourse became over-politicized through the domination of the legitimacy agenda connected to the announced changes to the constitution. While the virus pattern flattened and the infection curve plateaued in mid-June, the country was preparing for the referendum on major amendments to the constitution on July 1, to create the legal basis for President Putin to "nullify" his previous terms and retain power until 2036. Thus, the further introduction of anti-crisis policies turned into a pre-referendum campaign. On June 23, in his address to the nation, President Putin announced one more round of unconditional direct payments of US $150 to all families with children under 16 years (27 million children in total), to be transferred on July 1: voting day. Other initiatives announced in this address included lower (6.5 percent) subsidized mortgage rates for young families and major tax exemptions for IT companies.

To fight COVID-19, the Russian central government was reluctant to use the NWF for "socially oriented" measures and tried to compensate for the hit to the national budget by finding new sources of budgetary income. For instance, the tax on dividends received from offshore holdings increased from 2 to 15 percent (The Economist, 2020b). The first step towards the adoption of a progressive income tax scale was to increase the rate from 13 to 15 percent for all whose annual income exceeded US $72 thousand. While the former cost US $3.9 bln, the latter would provide an annual inflow of US $1 bln to the federal budget.

On June 24, Moscow held a World War 2 (WW2) victory parade, attended by all former Soviet republic leaders, except those of Ukraine and Georgia. Official media coverage of the parade drew parallels between the COVID-19 fight and the WW2 victory: perhaps not the best idea because the Soviet Union lost 27 million people in WW2. The 2020 COVID-19 losses of 10,000 people from more than 700,000 infected in this sense of course seem to be a great achievement. However, the economic losses of the anti-virus arrangements promise to be much more dramatic: Russia is forecast to lose 4-6 percent of GDP in 2020 (Vedomosti.ru, 2020).

Announced in June 2020, the government's anti-crisis recovery plan accounted for US $115 bln (Rambler.ru, 2020), of which small and large enterprises would receive US $20 bln, families with children around US $15 bln and Russian regions US $20 bln, to maintain budget sustainability. However, despite the fall in oil and gas markets, the government did not suspend major infrastructure project spending, accounting for US $28 bln. Although it was unclear who might benefit most among large companies from the recovery plan, the media suggested potential beneficiaries of the NWF money, connected to Sberbank acquisition. These were Russian defence industry enterprises and state-owned conglomerates, such as the railway monopoly, the state nuclear corporation and state-owned oil and gas companies, as well as privately owned mining companies with huge investment programmes requiring major funding but unable to raise it, due to the sanctions regime (Banki.ru, 2020).

Concluding discussion

This section presents our reflections on the two cases of Russia and Ukraine, whose central governments approached the COVID-19 pandemic with similar lockdown measures but ended up with two quite different ways of approaching extraordinary budgetary allocations related to the lockdown. The Russian approach was to face the consequences of lockdown due to COVID-19 uncertainty by making incremental and sequential budgetary decisions, allocating resources to different sets of measures, prioritizing big enterprises and, only later, households and SMEs. The Ukrainian approach was quite different: in the face of lockdown, to gather different stakeholders together and, through a wider discussion, create "one emergency budget".

In making sense of why the same lockdown strategy resulted in two different budgetary allocation approaches, it could be useful to scrutinize those budgetary decisions in the light of the interplay between ideological and financial legitimized action spaces (Mellemvik and Olson, 1996; Olson, 1990) under the pandemic crisis conditions.

In the case of Russia, the central government's budgetary allocations seem to be rooted in the ideologically legitimized action space of preserving the existing Russian "corporate state", which, over the last decade, has also been founded on an increasingly isolationistic international policy. The key governmental elite responsible for budgetary decisions and spending have, over decades, demonstrated increasing de-coupling from the rest of society. While major budget revenues come from large enterprises – predominantly oil and gas and most often state-controlled – it would be irrational to expect the emergency packages to be oriented primarily towards SMEs and households. On the contrary, COVID-19 and the anti-crisis campaign served as a legitimation exercise to convince voters to accept amendments to the constitution, allowing the current president to rule until 2036. Internal opposition, as well as Western media, criticized these actions for being rent-seeking behaviour and usurping control over national resources and the allocation of governmental budgetary funds (Berdy, 2020). Under such ideology and quite low democratic control, the lobbying by state corporations and big businesses is not surprising (Matveev, 2019). It could also explain why governmental support to households and SMEs was rather low and rather late, compared to other countries in the same economic situation (The Economist, 2020b).

In terms of financial legitimized action space, the COVID-19 pandemic and the related expectation of continued low future oil prices could create uncertainty for the governmental elite in respect of long-term financial consequences regarding how great the financial resources available to those actors in the future would be. In terms of budgeting, this forges a strategy of saving rather than spending, caution when budgeting for extraordinary expenditures and balancing those with additional sources of income, e.g. new taxes. The step-by-step approach of a relatively rich but at the same time uncertain petroleum corporate state resembles the politics of muddling through (Lindblom, 1959): introducing incremental changes based on an agreed policy, mostly based on past experience.

In the Ukrainian case, the central government's extraordinary budgetary allocations seemed to be influenced by its weak financial condition and huge uncertainty regarding how to fund COVID-19 extraordinary expenditure. Under such conditions, it seemed to be financially legitimate to bring each stakeholder that can contribute funding to the negotiation table: national large businesses and, most importantly, international donors. Intertwined with this, such a strategy is ideologically legitimized by the notion of an internationally open democratic state in times of crisis, which recognizes the risks, encourages contributions from socially responsible businesses and is ready to take additional responsibilities for borrowed funds. Yet this strategy requires a wide parliamentary consensus on how to handle the pandemic, based on the needs of and contributions from different types of stakeholders in the society.

Approval of the "emergency budget" took almost one month from the introduction of the first lockdown measures. This signalled an uneasy negotiation process between various stakeholders. Nevertheless, in the face of COVID-19 and the approaching economic crisis, it was remarkable in the Ukrainian case that several situational coalitions appeared in different settings when forming the budgetary response to the pandemic. Specifically, the Office of the President cooperated with large business, while the Prime Minister and his Cabinet negotiated with the IMF. The conditions set by the international donor called for consent among oppositional parties. This resulted in some parties supporting the land and banking reforms, while others refused to vote. Although the process of achieving consensus was long, challenging and tense, all stakeholders united to address the threats of the pandemic. In a nutshell, Ukraine's budgetary response was built on the idea that those suffering from COVID-19 should be supported by the state and, thus, receive their share of the "emergency budget".

Thus, we conclude that the same lockdown policy in Russia and Ukraine, as a response to the COVID-19 pandemic, resulted in divergent central governments' budgetary decisions, in light of different ideological and financial legitimized action spaces. It will be interesting to follow this up with further studies on how the COVID-19 pandemic and lockdown strategies were handled in other countries, in terms of extraordinary budget allocations and the effects they had on society and the economy, so that we can better understand how the effects of similar lockdown strategies can be attributed to the social, economic and political contexts of budgeting in those countries.

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