

MONITORING OF RUSSIA'S ECONOMIC OUTLOOK:

TRENDS AND CHALLENGES OF SOCIO-ECONOMIC DEVELOPMENT

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Monitoring of Russia's Economic Outlook

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1. BALANCE OF PAYMENTS IN Q1 2024

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At the end of Q1 2024, the current account surplus increased by 1.4-fold relative to Q1 2023 as a result of the outstripping decline in value volumes of imports compared to decreased exports of goods, deficit reduction of the balance of services and deficit of primary and secondary incomes. This being said, the financial account deficit was generated as a result of growth of foreign assets due to problems with payments for Russian exports and a drop in foreign liabilities. In 1Q 2024, the ruble was supported by the continuation of tight monetary policy, as well as currency sales by the Bank of Russia as part of operations of the Ministry of Finance of Russia with the funds of the National Wealth Fund.

According to the preliminary estimate of the balance of payments released by the Bank of Russia, the current account balance in Q1 2024 amounted to \$22 bn, 43% higher than in Q1 2023 (\$15.4 bn) and 91% higher than in the previous Q4 2023 (\$10.5 bn).

The balance of trade in goods amounted to \$31 bn, which was only 2.3% (by \$0.6 bn in absolute value) higher than the value of Q1 2023 (\$30.4 bn). The decisive role in this growth was played by the reduction in the value of exports of goods from \$105.1 bn in Q1 2023 to \$97.9 bn in Q1 2024 (by 7%) and a comparable (but slightly larger) in absolute value – by \$7.9 bn to \$66.8 bn in Q1 2024 compared to \$74.7 bn in Q1 2023 – reduction in the supply of imported goods (by 10.6%).

Such dynamics of exports is determined by some decrease in prices for the basic goods of Russian exports (oil, petroleum products, grain, coal, ferrous and non-ferrous metals) and preservation of physical volumes of supplies of Russian products in January-March 2024 at the level of Q1 2023.

The observed dynamics of goods imports can be explained by the weakening of the national currency: according to the Bank of Russia, the depreciation of the real ruble-dollar exchange rate in Q1 2024 vs. Q1 2023 amounted to 16.5% – a significant weakening, which means a relative rise in the cost of import supplies.¹ At the same time, difficulties with cross-border payments, which have worsened since the beginning of 2024, could also lead to a decline in imports.

The balance of trade in services in Q1 of 2024 amounted to -\$4.7 bn, which in absolute value was 38% less than the negative balance of trade in services in Q1 of 2023. Moreover, the growth in exports of services (by 12% – from \$9.8 bn in the first quarter of 2023 to \$11 bn in Q1 2024) was accompanied by a fall

¹ On the impact of exchange rate dynamics on trade, see *Knobel A.Yu.* Estimation of import demand function in Russia // *Applied Econometrics*. 2011. No. 4 (24). P. 3–26; *Knobel A., Firanchuk A.* Russia in the world export in 2017 // *Russian Economic Development*. 2018. No. 9. P. 17–21.

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in their imports (by 10% – from \$17.5 bn in Q1 2023 to \$15.7 bn in Q1 2024) due to the weakening of the national currency. As a result, both these changes contributed to the reduction of the negative balance of trade in services.

The balance of primary and secondary income continued the consistent decline that began as early as in Q2 2022: in Q1 2024 it amounted to -\$4.4 bn, which is 40% less in absolute value than the same indicator in Q1 2023 (-\$7.4 bn). At the same time, both income receivable and income payable decreased in Q1 2024. Income receivable decreased by \$1.7 bn (from \$11.4 bn to \$9.7 bn) and income payable decreased by \$4.7 bn (from \$18.7 bn to \$14 bn) in Q1 2024 compared to Q1 2023. In general, the decrease in the aggregate deficit of primary and secondary incomes was due to the decrease in dividends accrued in favor of non-residents, as well as outgoing personal transfers.¹

In the coming quarters, due to continued capital controls and difficulties with repatriation of profits from Russia by foreign investors, primary and secondary income payable will not grow and their balance will remain low, with income payable likely to continue to decline faster than income receivable due to capital withdrawal restrictions. Imports in value terms are likely to remain stable, but the weakening ruble and tight monetary policy will put downward pressure on them. Exports in value terms will stagnate because, on the one hand, physical volumes of supplies will not grow and, on the other hand, prices for the basic goods of Russian exports (oil, oil products, metals, grains) will be at a level roughly corresponding to the 2023 level.

In Q1 2024, the balance of the financial account of the balance of payments excluding reserve assets amounted to \$26.2 bn, increasing 1.5-fold compared with Q1 2023 (\$18.0 bn). In Q1 2024, the balance of the financial account excluding reserve assets was formed under the impact of growth in foreign assets and decrease in the volume of foreign liabilities.

The increase in foreign assets (excluding reserve assets) in Q1 2024 was \$22.6 bn, 3.6 times higher than in Q1 2023 (\$6.3 bn). The increase in foreign assets can be explained by delays in receipt of payments for increased exports.²

The liabilities of all sectors of the Russian economy to non-residents in Q1 2024 decreased by \$3.7 bn, which is 3.2 times lower than in Q1 2023 (-\$11.7 bn). This is due to the lower intensity of non-residents' withdrawal from the equity of Russian companies.³

Russia's external debt in Q1 2024 decreased by 4.1% to \$304.0 bn. External debt of other sectors decreased to the greatest extent (by 4.2% to \$181.4 bn in Q1 2024) on attracted credits, including those under direct investment relations,⁴ of banks and the Central Bank of the Russian Federation (by 4.2% to \$90.8 bn in Q1 2024). In Q1 2024, external liabilities of public administration bodies decreased by 2.8% to \$31.8 bn. The share of non-residents in the OFZ market continued to decline from 7.4% as of January 1, 2024 to 7.2% as of March 1, 2024, which corresponds to the level of July-August 2012.

Russia's reserve assets decreased by \$6.9bn in Q1 2024 (-\$5.1 bn in 1Q 2023). This was mainly due to the sales of foreign currency within the framework of operations with the National Welfare Fund, as well as a temporary increase in the limit on swap transactions for the sale of yuan for rubles in March in

1 URL: https://www.cbr.ru/statistics/macro_itm/svs/bop-eval/

2 URL: https://www.cbr.ru/statistics/macro_itm/svs/bop-eval/

3 Balance of Payments of the Russian Federation, No. 1 (18), Q1 2024. Information and analytical commentary of the Bank of Russia.


4 URL: https://www.cbr.ru/statistics/macro_itm/svs/ext-debt/

1. Balance of payments in Q1 2024

order to smooth the volatility of money market rates. For Q1 2024, international reserves decreased by \$8.2 bn to \$590.4 bn, with foreign exchange reserves falling by \$18.4 bn to \$424.3 bn, while the value of monetary gold increased by \$10.2 bn to \$166.0 bn as a result of positive revaluation.

It should be noted that starting from 2024, the Bank of Russia resumed operations in the foreign exchange market with the NWF funds: during the first six months of 2024, the regulator plans to buy or sell foreign currency, adjusting the volume of operations announced by the Russian Ministry of Finance within the framework of the budget rule by the amount of currency sales in the amount of Rb2.1 trillion (Rb1.4 trillion – the difference between the volume of currency purchases deferred from August 10 to December 31, 2023 within the framework of the budget rule and the volume of expenditures of the National Wealth Fund to finance the budget deficit in 2023 outside the budget rule, Rb0.7 trillion – sale of foreign currency in the volume of net investment of the National Wealth Fund's funds).¹ The planned currency sales in H1 2024 will support the ruble. It should be noted that in Q1 2024 the volume of operations of the Russian Ministry of Finance on net sale of foreign currency on the domestic foreign exchange market amounted to Rb552.4 bn. This being said, the volume of net purchase of foreign currency within the framework of regular operations under the budget rule in Q1 2024 amounted to approximately Rb130 bn, while the volume of adjustments to the volume of operations announced by the Russian Ministry of Finance within the framework of the budget rule in the form of sales of foreign currency from the National Wealth Fund reached about Rb684 bn.

In 1Q 2024, the ruble depreciated by 3% to 92.3 Rb/dollar, which was mainly due to a decrease in net foreign currency sales by major exporters in Q1 2024 (\$35.4 bn vs. \$41.2 bn in Q4 2023), lags in export payments, as well as expectations of additional sanctions and growth in net foreign currency purchases on the stock exchange by non-residents from friendly countries. The ruble was supported by the continuation of tight monetary policy, as well as by the sale of foreign currency by the Bank of Russia as part of the operations of the Ministry of Finance of Russia with the funds of the National Wealth Fund. Thus, in Q1 2024 net sales of foreign currency reached Rb552.4 bn against Rb308 bn in Q1 2023 and Rb51 bn in Q4 2023.

According to our estimates, if oil prices remain at around USD 80/bbl, as well as taking into account the monetary policy pursued by the Bank of Russia and the preservation of measures on the mandatory sale of foreign currency earnings by the largest exporters, the ruble exchange rate will average Rb90–100/USD in 2024. 

1 URL: <https://www.cbr.ru/press/event/?id=18330>

2.EXECUTION OF THE FEDERAL BUDGET IN Q1 2024: NON-OIL AND GAS REVENUES MAKE UP FOR GROWTH IN EXPENDITURES

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In Q1 2024, with the dynamics of federal budget revenues being strictly in line with expectations, there is greater confidence that it will be feasible to receive annual revenues of 19.5% of GDP, that is, the maximum value in the past 15 years. The cash execution of expenditure obligations also rewrites local records, demonstrating an unprecedented increase in the rhythm of budget financing: a quarter of the planned annual volume of federal budget expenditures has already been delivered to its recipients. Although the budget balance is still in deficit, its size barely exceeds Rb0.6 trillion, which is markedly lower than in the relevant period of 2023.

In January-March 2024, federal budget revenues were equal to Rb8.7 trillion, that is, the local maximum of 22.3% of GDP as compared to recent years' relevant periods (Table 1). The cash execution at 24.9% points to the "strictly according to plan" movement towards the projected annual volume of Rb35 trillion.

Table 1

The main parameters of the federal budget

	January-March 2022			January-March 2023			January-March 2024			Change in 2024 on 2022	
	Bil- lion rubles	% GDP	Cash execu- tion, %	Bil- lion rubles	% GDP	Cash execu- tion, %	Billion rubles	% GDP	Cash execu- tion, %	Billion rubles in prices of 2022 ¹	P.p. of GDP
Revenues	7 163	19.4	25.7	5 679	15.7	19.5	8 719	22.3	24.9	659	2.9
including:											
Oil and gas revenues	2 974	8.1	25.7	1 635	4.5	18.5	2 928	7.5	25.4	-347	-0.6
Non-oil and gas revenues, including:	4 189	11.3	25.8	4 044	11.2	19.9	5 791	14.8	24.6	1 006	3.5
Tax profit revenues	435	1.2	26.1	340	0.9	17.7	565	1.4	29.3	72	0.2
VAT on goods sold in RF	1718	4.7	26.5	1 770	4.9	24.6	2 288	5.9	29.7	335	1.2
VAT on goods imported to RF	975	2.6	31.8	923	2.6	20.8	1 069	2.7	25.7	-16	0.1
Other revenues	1 034	2.8	26.7	1 011	2.8	10.6	1 869	4.8	21.1	643	2.0
Expenditures	5 860	15.9	18.8	7 765	21.5	24.0	9 326	23.8	25.4	2 506	7.9
Budget balance	1 303	3.5	-	-2 086	-5.8	-	-607	-1.5	-	-1 848	-5.0
Non-oil and gas deficit	-1 671	-4.6	-	-3 721	-10.3	-	-3 535	-9.0	-	-1 500	-4.4
GDP (in current prices), billion rubles	36 902			36 176			39 100				

Note. GDP in Q1 2024 – own estimate.

Source: The RF Ministry of Finance, the Federal Treasury and Rosstat.

In January-March 2024, the volume of oil and gas revenues increased to 7.5% of GDP, that is, growth of 3.0 p.p. of GDP on Q1 2023, while relative to the same

1 Recalculated in prices of 2022 on the basis of the consumer price index (CPI).

2. Execution of the Federal Budget in Q1 2024

period of 2022, a decrease of 0.6 p.p. of GDP or Rb0.3 trillion in prices of 2022. Oil and gas revenues account for a third of all federal budget revenues (*Table 2*). Apart from the ruble exchange rate and quite high oil prices, the dynamics of oil and gas revenues were influenced to a certain extent by the completion of the “tax maneuver,” envisaging the abandonment of export duties on hydrocarbons and petrochemicals by 2024.

Table 2

Oil and gas revenues of the federal budget

	January-March 2022			January-March 2023			January-March 2024			Change in 2024 on 2022	
	Bil-lion rubles	% GDP	Cash ex-ecution, %	Bil-lion rubles	% GDP	Cash ex-ecution, %	Bil-lion rubles	% GDP	Cash ex-ecution, %	Billion rubles in prices of 2022 indexed by CPI	P.p. of GDP
Revenues Including:	7 163	19.4	25.7	5 679	15.7	19.5	8 719	22.3	24.9	659	2.9
<i>Oil and gas revenues, including</i>	<i>2 974</i>	<i>8.1</i>	<i>25.7</i>	<i>1 635</i>	<i>4.5</i>	<i>18.5</i>	<i>2 928</i>	<i>7.5</i>	<i>25.4</i>	<i>-347</i>	<i>-0.6</i>
Severance tax, overall, including	2 598	7.0	24.4	1 644	4.5	17.4	3 087	7.9	26.0	171	0.9
<i>oil</i>	2 322	6.3	27.7	1 282	3.5	16.5	2 541	6.5	26.1	-42	0.2
<i>gas and gas condensate</i>	275	0.7	12.2	362	1.0	21.6	546	1.4	25.6	215	0.7
Export duties	802	2.2	32.0	212	0.6	21.7	114	0.3	20.1	-700	-1.9
<i>oil and petrochemicals</i>	278	0.8	31.7	70.3	0.2	17.8	-4	0	0	-282	-0.8
<i>gas</i>	524	1.4	32.1	142	0.4	25.1	118	0.3	0	-418	-1.1
Excise tax on petroleum raw materials, taking into account K dump, inv, vrk	-649	-1.7	20.0	-432	-1.2	14.8	-859	-2.2	27.5	-122	-0.5
Excess-Profit tax	224	0.6	13.3	211	0.6	16.3	587	1.5	26.8	303	0.9
For reference:											
Basic income	1 575	4.3	24.2	1 930	5.3	24.1	2 524	6.5	26.1	689	2.2
Additional income	1 399	3.8	27.5	-295	-0.8	26.4	404	1.0	22.2	-1 037	-2.8

Note. GDP in Q1 2024 – own estimate.

Source: The RF Ministry of Finance, the Federal Treasury, Rosstat and own calculations

By contrast with the relatively favorable Q1 2022, in January-March 2024 the dynamics of the main components of oil and gas revenues demonstrated an increase in revenues from the severance tax both in the oil component (0.2 p.p. of GDP) and the gas component (0.7 p.p. of GDP); growth of 0.5 p.p. of GDP in the volume of refundable excise taxes compensated by an increase of 0.9 p.p. of GDP in revenues from the excess-profit tax. As a result of the change in the fiscal rule, in Q1 2024 basic oil and gas revenues amounted to about 6.5% of GDP, an increase of 2.2 p.p. of GDP on the relevant period of 2022, while excess oil and gas revenues, subsequently subject to payment to the National Welfare Fund, decreased to 1% of GDP against 3.8% a year before.

In Q1 2024, non-oil and gas revenues of the federal budget grew at higher rates than in previous years, amounting almost to 15% of GDP or Rb5.8 trillion. Relative to 2022, the increase in real terms was equal to Rb1.0 trillion or 3.5 p.p. of GDP. The main growth driver across tax revenues was domestic VAT, which volume increased by 1.2 p.p. of GDP and 1.0 p.p. of GDP on the relevant period of 2023 and 2022, respectively. High growth rates are also demonstrated by

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profit tax revenues: in January-March 2024 they increased by 0.2 p.p. of GDP and 0.5 p.p. of GDP on the relevant period of 2022 and 2023, respectively.

Based on results of Q1 2024, federal budget expenditures were executed at the level of 23.8% of GDP, an increase of 7.9 p.p. of GDP and 2.3 p.p. of GDP on the relevant period of 2023 and 2022, respectively. Consequently, the budget remains an important factor in maintaining the unexpectedly high growth rates of the Russian economy. In Q1 2024, a little more than a quarter of the annual volume of the planned federal budget expenditures was spent, an increase of 6.6 p.p. of GDP and 1.4 p.p. of GDP relative to the corresponding ratios of 2023 and 2022, respectively, and this can be substantiated primarily by a speed-up in the rate of conclusion of contracts for supply of goods, work, services for government needs and advance payment thereof.¹

In Q1 2024, program expenditures (open part) of the federal budget amounted to the maximum value of 10.9% of GDP on the relevant period in 2022 and 2023 (8.8% of GDP and 9.5% of GDP, respectively) amid the accelerated cash execution thereof (23.7% against 14.3% and 21.7%, respectively). However, the share of the program expenditures in the overall volume of federal budget expenditures in January-March 2024 decreased to 45.8% against 55.2% in January-March 2022 (Table 3).

Table 3

The program pattern of federal budget expenditures

	January-March 2022			January-March 2023			January-March 2024			Change in 2024 on 2022	
	Billion rubles	% GDP	Cash execution,%	Billion rubles	% GDP	Cash execution,%	Billion rubles	% GDP	Cash execution,%	Billion rubles in prices of 2022 indexed by CPI	P.p. GDP
Expenditures overall, including:	5 860	15.9	18.8	7 765	21.5	24.0	9 326	23.8	25.4	2 506	7.9
On government programs (GP), total (open part), including:	3 238	8.8	14.3	3 433	9.5	21.7	4 272	10.9	23.7	594	2.1
Preserving the Population, Health and Well-Being of People	1 117	3.0	20.1	1 063	2.9	26	1 234	3.1	25.7	-10	0.1
Opportunities for Self-Realization	134	0.4	17.2	175	0.5	22.3	213	0.5	25.9	57	0.1
Comfortable and Safe Living Environment	688	1.9	18.2	725	2.0	21.3	952	2.4	23.9	166	0.5
Decent Efficient Work and Successful Entrepreneurship	500	1.4	15.5	504	1.4	18.2	784	2.0	21.6	203	0.6
Development of Science, Industry and Technologies	490	1.3	21.8	505	1.40	23.6	648	1.7	25.0	91	0.4
Digital transformation	53	0.1	11.7	59	0.2	18.2	77	0.2	21.8	16	0.1
Balanced regional development	256	0.7	20.8	402	1.1	31.7	364	1.0	21.9	71	0.3


Source: The Federal Treasury and own calculations.

In January-March 2024, an increase in program expenditures as compared to January-March 2022 with the rate of inflation taken into account amounted to about Rb0.6 trillion or 2.1 p.p. of GDP mainly owing to such lines as "Decent,

¹ The RF Ministry of Finance. The press-centerp. URL: https://minfin.gov.ru/ru/press-center/?id_4=38945-predvaritelnaya_otsenka_ispolneniya_federalnogo_byudzheta_v_1_kvartale_2024_goda

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Efficient Work and Successful Entrepreneurship” and “Comfortable and Safe Living Environment” – growth of Rb203 bn and Rb166 bn or by 0.6 p.p. of GDP and 0.5 p.p. of GDP, respectively.

Based on the results of January-March 2024, Russia ran a budget deficit of slightly over Rb600 bn, which is equivalent to 1.5% of GDP. OFZs remain the main source of budget deficit funding: since the beginning of the year, the RF Ministry of Finance has placed bonds at par value for a total amount of nearly Rb764 bn, thus implementing the quarterly placement plan by more than 95%. As borrowings in foreign currency were not planned, they were not carried out. As a result, as of April 1, 2024 the government internal debt increased to Rb21.3 trillion, while the external debt, on the contrary, decreased to \$52.8 bn. 

3. REGIONAL BUDGETS IN 2023: MAIN TRENDS AND PROSPECTS

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Despite a significant increase in the volume of public debt in 2023 on the back of the high growth rates of tax and non-tax revenues of regional budgets, their debt sustainability remains at a high level. Further dynamics of regional debt and debt burden will depend on the features of the implementation of the Presidential Address to the Federal Assembly of the Russian Federation in 2024. In general, the implementation of its measures should be expected to notably increase the volume of financial aid to the regions, as well as a certain redistribution of revenues from better-off subjects of the Russian Federation to the less well-off ones.

Revenues

As of year-end 2023, the total revenues of the consolidated budgets of the subjects of the Russian Federation amounted to Rb22.3 trillion, up by 13.5% against 2022. Excluding the data on the new subjects of the Russian Federation,¹ the corresponding volume amounted to Rb21.7 trillion and the growth rate vs. 2022 – 10.1%, which is higher than both the inflation rate² and the growth rate of budget revenues at the end of H1 2023 (+7.3%). Accordingly, the high growth rates of consolidated budget revenues of the regions based on the results of the whole 2023 are due to the high indicators of the second half of the year, during which the revenues of regional and local budgets increased by 12.7% against the corresponding period of 2022.

In 2023, the highest contribution to the revenues growth of the consolidated budgets of the regions was made by tax and non-tax revenues, whose receipts increased by 15.4% (+24.0% in H2 2023). The fastest growth rates were the corporate profit tax – +27.8% (+61.7% in H2 2023) and personal income tax – +13.1% (+19.6%). The growth rates of other major taxes did not exceed the inflation rate: excises went up by 6.4% (+7.1%), taxes on total income – by 5.1% (+3.6%), property taxes – by 3.1% (-5.6%). Non-tax revenues rose by 8.0% (+16.9%).

Higher growth rates of tax and non-tax revenues in H2 2023 could be associated not only with higher growth rates of the Russian economy³ but also with the impact of the transition of taxpayers to payment of taxes through a single tax account, one of the consequences of which was a later transfer of some tax

1 Hereinafter, unless otherwise specified, in order to ensure comparability of regional budget statistics, state and municipal debt as well as their growth rates, data are given without data for Donetsk and Lugansk People's Republics, Zaporizhzhya and Kherson oblasts.

2 According to Rosstat, in December 2023 against December 2022 the consumer price index constituted 107.42%, and for 2023 vs 2022 – 105.87%.

3 URL: https://minfin.gov.ru/ru/press-center/?id_4=38851-rosstat_otsenil_rost_vvp_v_2023_godu_v_36_protenta

3. Regional budgets in 2023: main trends and prospects

revenues to regional and local budgets. This had a particularly strong impact on revenues in the first months of 2023.

Uncompensated receipts from other budgets in 2023 as a whole decreased by 11.0% (-26.5% in H2 2023). The negative dynamics was demonstrated by subsidies – -5.8% (-22.8%), subventions – -35.0% (-42.3%) and other intergovernmental fiscal transfers – -28.1% (-43.5%). At the same time, the growth of grants amounted to 4.0% (-8.9% in H2 2023), of which equalization transfers – +8.9% (-0.9%) and equalization of fiscal capacity – +4.0% (-53.4%).

When analyzing the dynamics of intergovernmental fiscal transfers to the regions, it is necessary to pay attention to 2 facts. First, the growth rates of receipts of all types of intergovernmental fiscal transfers in H1 2023 were higher than in the second half of the year. This is explained by more prompt provision of intergovernmental fiscal transfers, which was necessary, among other things, to compensate for delays in the receipt of tax revenues in the first months of 2023.

Second, since the new subjects of the Russian Federation are highly subsidized, the inclusion of fiscal transfers to them from the federal budget significantly affects the overall dynamics of transfers. Thus, taking into account the new regions, the total volume of subsidies in 2023 decreased by 5.6%, subventions – by 34.8%, other intergovernmental fiscal transfers – by 22.6%, the volume of grants increased by 52.2%, while the growth rate of the total volume of uncompensated receipts from other budgets was in the positive zone – +2.7%.

As of year-end 2023, positive growth rates of consolidated budget revenues were observed in 69 subjects of the Russian Federation, and the highest – in Khanty-Mansi Autonomous Okrug-Yugra (+37.3%, the main growth was provided by the corporate income tax), Tyumen oblast (+31.9%, corporate income tax), the Leningrad oblast (+27.9%, corporate income tax and uncompensated receipts from state (municipal) organizations), the Republic of Adygea (+24.1%, subsidies) and the Smolensk oblast (+23.8%, corporate income tax, personal income tax and subsidies).

Of the 16 subjects that faced a drop in budget revenues, 6 had a drop of more than 10%: Nenets Autonomous Okrug (-18.2%, the main reduction is in corporate income tax, income in the form of the share of profitable products of the state in the implementation of the production sharing agreement for the Kharyaginskoye field project, subsidies and other intergovernmental fiscal transfers), Republic of Ingushetia (-17.5%, personal income tax, subsidies), Republic of Mordovia (-16.9%, subsidies to support measures to ensure balanced budgets, other intergovernmental transfers), the Republic of Khakassia (-11.2%, corporate income tax, revenues from placement of budget funds), the Karachay-Cherkess Republic (-10.9%, subsidies and other intergovernmental fiscal transfers) and the Kemerovo Region-Kuzbass (-10.4%, corporate income tax, subsidies).

Among the regions with a high level of budget revenue decline, there are several with a low level of fiscal capacity, which could raise concerns about their ability to fulfill their expenditure commitments. However, upon closer examination one can see that all such revenue reductions were either a rebound after abnormally high growth rates in 2022¹ or were related to the completion

1 Reduction of personal income tax revenues to the consolidated budget of the Republic of Ingushetia in 2023 by 29.5% is a technical rebound after growth by 80.2% in 2022. In the Republic of Khakassia, corporate income tax in 2023 more than halved (-52.4%) after a 5-fold growth in the previous 2 years.

of co-funding of certain expenditure commitments or were related to the completion of co-funding of certain activities by the Federation and therefore did not affect the current budget execution.

In well-off regions, the fall in corporate income tax receipts after its rapid growth in 2021–2022 was the main reason for the decline in revenues.

The main source of revenues of the new RF subjects in 2023 were subsidies to support measures to ensure fiscal balance (18.1%), other subsidies not related to fiscal capacity equalization and fiscal balance support (57%), personal income tax (10.7%), corporate income tax (2.5%), as well as non-tax revenues (2.1%). At the same time, the share of tax and non-tax revenues (16.8%) has had a steady upward trend since the beginning of 2023.

High growth rates of the main tax revenues of the regions in H2 2023 reduced the need to provide them with additional financial assistance for the fulfillment of existing obligations and will contribute to the preservation of sustainability of subnational budgets.

Expenditures

As of year-end 2023, the consolidated budget expenditures of the regions (excluding new regions) amounted to Rb21.8 trillion, up by 11.3% against 2022, which is higher than both the inflation rate and the growth rate of budget revenues (+10.1%).¹ At the same time, the growth rates of expenditures during the year were uneven: after a sharp jump of 20.1% in Q1 2023, expenditures grew much slower in Q2, Q3 and Q4 (+8.4, +9.4 and +10.3%, respectively).

The leaders of growth were expenditures on national defense (+76.3%), housing and utilities (+29.8%), transportation (+21.1%), national security and law enforcement (+20.7%), general state issues (+18.1%), social security (+15.8%), culture and cinematography (+15.8%), as well as general education (+12.3%).

Due to the curtailment of many anti-Covid measures, expenditures on health care decreased (-4.1%), while the substitution of regions' commercial debt with budget loans led to a significant reduction in expenditures on its servicing (-11.8%).

In 2023, the consolidated budget expenditures went up in 75 RF subjects and in 55 of them the growth exceeded inflation for the same period. The leaders in the growth of budget expenditures were the Republic of Adygea (+33.3%, the largest increase in the areas of housing and public utilities, general education and social security), Smolensk oblast (+23.9%, housing and public utilities, road maintenance and healthcare), Yamal-Nenets Autonomous Okrug (+22.7%, housing and public utilities, culture, social security), Khanty-Mansi Autonomous Okrug-Yugra (+22.2%, public issues, transportation, road maintenance, housing and public utilities, social security) and the city of Moscow (+22.2%, public issues, housing and public utilities, transport, road maintenance, housing and public utilities, social security). Moscow (+22.2%, general state issues, housing and public utilities, social security).

Budget expenditures decreased slightly in the Republic of Ingushetia (-13%), the Republic of Dagestan (-10.5%), the Karachay-Cherkess Republic (-9.4%), the Samara oblast (-9.0%) and the Amur oblast (-2.7%).

In 2023, the structure of expenditures of the new subjects of the Federation differed from the corresponding structure of the other regions by a smaller

¹ Taking into account the new subjects of the Russian Federation, the total expenditures of the consolidated budgets of the regions amounted to Rb22.4 trillion, up by 14.8% against 2022.

3. Regional budgets in 2023: main trends and prospects

share of expenditures on the national economy (11.6% vs. 23.1%), housing and public utilities (5.9% vs. 12.1%) and education (14.5% vs. 23.2%), but a larger share of expenditures on national security and law enforcement (4.0% vs. 1.4%), pension provision (28.1% vs. 1.1%), and healthcare (13.7% vs. 8.6%). If we assess the difference in the structure of budget expenditures of the considered groups of RF subjects as the sum of absolute values of deviations in the specific weights of budget expenditures by sections of the functional classification, then throughout 2023 there was a tendency to its reduction.

Regions' fiscal balance and public debt

The consolidated budget deficit was observed in 52 out of 85 subjects of the Russian Federation, and its total volume amounted to Rb171.7 bn (vs. a surplus of Rb50.6 bn in 2022), or 1.0% of the total revenues of the subjects' consolidated budgets excluding subventions. Taking into account the new RF subjects, the aggregate deficit amounted to Rb200.1 bn (1.1% to the total revenues of the consolidated budgets of the subjects excluding subventions). Among the new regions the consolidated budget of only Zaporizhzhya oblast was executed with a surplus.

In 2023, intensive provision of infrastructure budget loans from the federal budget pushed up the total volume of the regions' public debt, which reached Rb3.2 trillion as of January 1, 2024, increasing by 14.5% over the year. Despite such growth, the level of the regions' debt burden¹ not only did not increase, but due to higher growth rates of tax and non-tax revenues of the regions even slightly decreased to 20.5% compared to 20.9% as of January 1, 2022, remaining at the minimum level over the last decade (Fig. 1).

The number of regions with debt burden above 50% in 2023 dropped from 25 to 24 and still does not pose a threat to the stability of regional budgets (Fig. 2).

For the first time in a long period, as of January 1, there are no constituent entities of the Federation with a debt burden exceeding 100% of the volume of tax and non-tax revenues of the regional budget.

The Republic of Mordovia (the ratio of public debt to tax and non-tax revenues – 93.9%), the Republic of Udmurtia (82.3%), the Republic of Khakassia (79.8%), the Jewish Autonomous Region (77.8%) and the Republic of Kalmykia (77.4%) had the highest debt burden.

In total, in 2023, the public debt of 73 subjects of the Russian Federation increased, while the debt burden increased in 45 subjects.

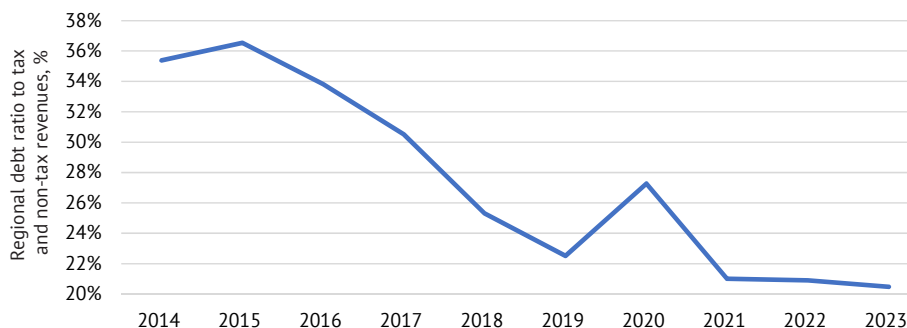


Fig. 1. Debt burden of RF subjects in 2014–2023, %

Source: Own calculations on the data released by Minfin of Russia and the Federal Treasury.

¹ The level of debt burden of a subject of the Federation is defined as the ratio of the volume of public debt of the region to the volume of tax and non-tax revenues of the regional budget.

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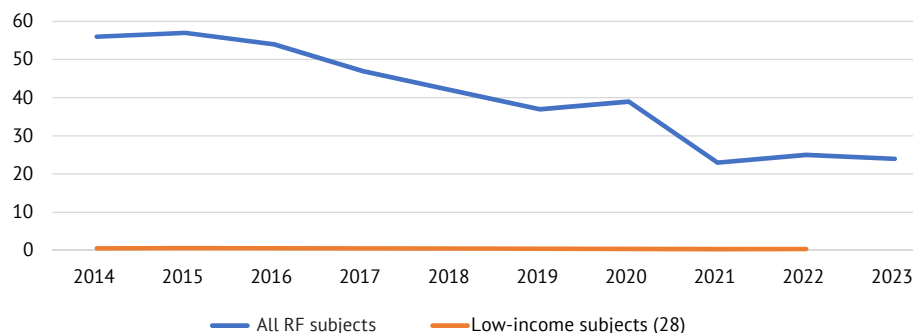


Fig. 2. The number of RF subjects with debt burden over 50% in 2014–2023

Source: Own calculations on the data released by Minfin of Russia and the Federal Treasury.

Following the loans of credit organizations, the share of which reached its historical minimum (4.0%) at the beginning of 2024, the share of government securities began to rapidly decline, which also fell to the minimum level (16.8%). In turn, the share of federal budget loans to the regions in 2023 increased from 71.0% to 77.4% (Fig. 3). The shares of state guarantees and other debt obligations continued to balance at around zero – 1.7% and 0.2%, respectively.

Thus, despite a significant increase in the volume of public debt in 2023, the debt sustainability of the regions remains at a high level, which was assisted by high growth rates of tax and non-tax revenues of regional budgets.

The prospects for the dynamics of the regions' public debt and their debt burden are directly dependent on the specifics of the implementation of the 2024 Presidential Address to the Federal Assembly of the Russian Federation. On the one hand, many of its provisions provide for a significant increase in the regions' expenditure obligations in the areas of housing and utilities, social policy and infrastructure development. On the other hand, a significant part of the new obligations will be co-funded from the federal budget. In addition, it is planned to gradually write off 2/3 of the accumulated volume of budget

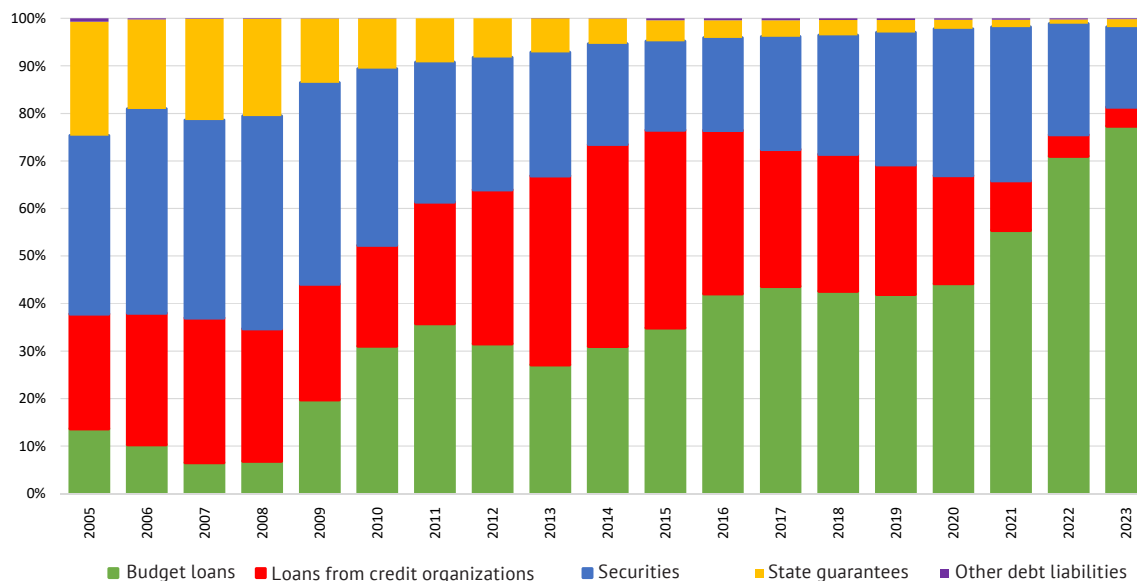



Fig. 3. Structure of public debt of the RF subjects in 2005–2023, % to total

Source: Own calculations on data released by RF Ministry of Finance.

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loans to the regions (which will amount to about Rb1.2–1.3 trillion). The balance of regional budgets will also be affected by the announced fine-tuning of the tax system, the results of which can affect the revenues of regional budgets (primarily in terms of corporate income tax). We should also expect a certain redistribution of revenues from more well-off subjects to less well-off ones. 

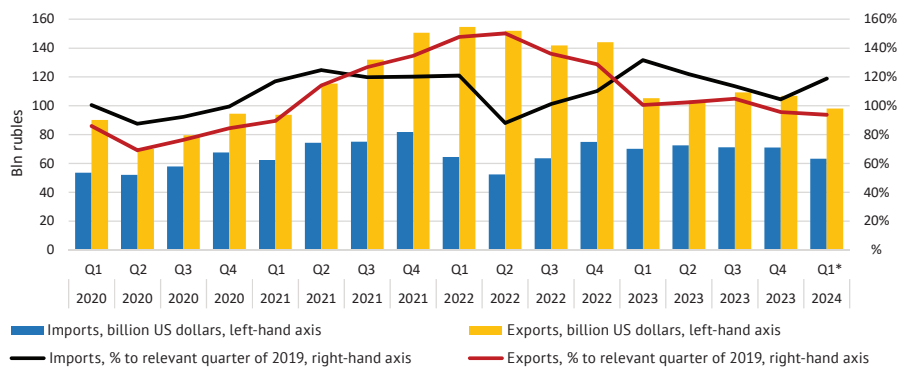
4. RUSSIA'S FOREIGN TRADE IN Q1 2024: IMPORTS DECLINE ON THE BACK OF THE RISKS OF SECONDARY SANCTIONS

Alexander Knobel, Candidate of Economic Sciences, Head of the Foreign Trade Department, Gaidar Institute;

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In Q1 2024, Russian exports were equal to \$97.9 bn (-6.8% on Q1 2023). In January-February, the share of fuel and energy commodities remained at the level of about 63%. The share of the Chinese market in exports is estimated at 31% (+4.5 p.p. compared to the relevant ratio of the previous year). Supplies of fuel and energy commodities to this market demonstrated multidirectional dynamics. The discount to the price for Russian oil fell to near-zero levels. Supplies of metals to China increased, among other things, owing to restrictions on the markets of unfriendly countries. Russian imports fell to \$63.3 bn (-9.8%). The share of Chinese goods in imports is estimated at 43% (+6.4 p.p). After growth in January-February (+12.5%), March saw a considerable decline in supplies from China (-14.2%), probably, due to the risk of secondary sanctions.

The dynamics of Russian trade turnover



* based on the estimate of the Central Bank of Russia with the data of the Federal Customs Service for January-February 2024 taken into account.

Fig. 1. Dynamics of exports and imports in 2020–2024

Source: Own calculations based on the data of the Federal Customs Service and the Central Bank of Russia.

In 2023–early 2024, **exports** in value terms remained at the level of the pre-Covid period (Fig. 1). In 2023, exports amounted to \$425.1 bn (101% of the volumes seen in 2019), while in Q1 2024, by estimates of the Central Bank of Russia, to \$97.9 bn (94% on Q1 2019). The short-term dynamics of Russian exports are still determined by the price environment on global energy markets. In January-February, the share of fuel and energy goods in the commodity pattern of Russian exports was equal to about 63% against 61% in 2023.¹

1 The share of the mineral products group (25–27) in Russian exports.

4. Russia's Foreign Trade in Q1 2024

Imports were less stable. After a drop in the volumes of imported goods in H1 2022, a recovery began and it lasted for three quarters. In Q1 2023, imports reached a historic high (132% on Q1 2019) on the back of the effect of pent-up demand and the relatively strong ruble exchange rate. From Q2 2023, there was a decrease in import volumes relative to the peak values. In 2023, imports amounted to \$285.1 bn (117% of the volumes seen in 2019), while in Q1 2024, to \$63.3 bn¹ (119% on Q1 2019). It is noteworthy that Q1 saw uneven dynamics: the Central Bank of Russia's estimate points to a considerable decrease in imports in March (-18% on March 2023) after stable dynamics in February (+0.3%).

The share of Russia and China in mutual trade turnover

China has been Russia's main trading partner since 2022. According to the data of the General Administration of Customs (GAC) of China, in Q1 2024 the supplies of Chinese goods to Russia amounted to \$24.4 bn (+2.6% on Q1 2023) and those of Russian goods to China, to \$32.2 bn (+7.3%). This led to an increase in China's share in Russian trade turnover. Based on the results of January-February 2024, Chinese goods account for about 43% of imports² (+6.4 p.p. as compared to Q1 2023) and 31% of Russian exports (+4.5 p.p.).

For China, the Russian sales market remains secondary, with a share of 3.0% in Q1 2024 (no changes since Q1 2023). The leading positions in China's trade turnover are firmly occupied by countries which are unfriendly to Russia and this situation increases the risk of a decrease in supplies owing to a threat of secondary sanctions.

Russia is an important supplier of energy commodities to the Chinese market, while in Q1 2024 Russia's share in China's overall imports remained at 5.2% (4.9% a year before).

Supplies to China³

Fuel keeps prevailing in China's imports of Russian commodities: at the end of Q1 2024, it accounted for \$23.8 bn (+4.7% as compared to Q1 2023), or 74% (-1.8 p.p.) (Fig. 2).

The period of rapid growth in Russian fuel supplies to China on the back of reorientation from the markets of unfriendly countries has ended. The supplies dynamics were multidirectional.

In Q1 2024, China's imports of Russian oil kept growing, amounting to 28.5 mn tons (+12.9% compared to Q1 2023) or \$16.3 bn (+17.9%) in value terms. The share of Russian oil reached 20.8% (+2.2 p.p.). Over the same period, imports of Russian **coal** decreased to 18.2 mn tons (-22.7%) or to \$2.41 bn in value terms (-45.7%). The share of Russian coal decreased considerably to 24.7%, losing 14.6 p.p. over a year. China's imports of Russian liquefied natural gas (**LNG**) increased to 1.73 mn tons (+4.7%). However, a more substantial decline in prices led to a reduction in the value of supplies to \$1.09 bn (-18.5%). The share of

1 The Central Bank of Russia's estimate and the data of the Federal Customs Service for January-February 2024 are used. It is taken into account that the Central Bank of Russia's estimate for January-February is 5.5% higher than the relevant data of the Federal Customs Service.

2 Based on the Federal Customs Service's data on the overall volumes of Russia's imports and exports in January-February 2024. It is taken into account that the GAC of China's data on the imports of Russian goods are 14% higher (on average for 2019–2021) than those of the RF Federal Customs Service, while the data on the exports of Chinese goods to Russia are, on the contrary, 8% lower.

3 Hereinafter, based on the data of the GAC of China without adjustment for the differences in the data of the GAC of China and the RF Federal Customs Service in previous years.

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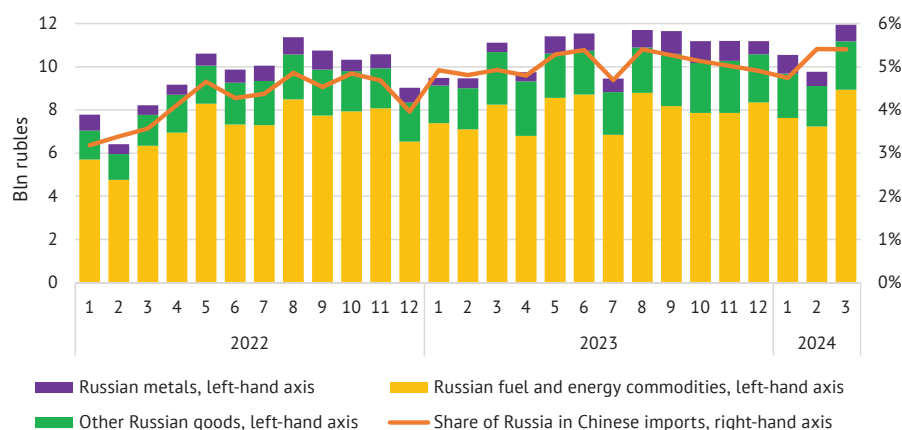


Fig. 2. Supplies of Russian goods to China in 2022–2024

Source: Own calculations based on the data of the GAC of China.

Russian LNG on the Chinese market fell to 6.2% (-1.1 p.p). **Pipeline gas** supplies from Russia continued to grow, amounting to \$1.99 bn (+13.1% on Q1 2023).¹

In Q1 2024, China's imports of Russian light distillates amounted to \$530 mn (+95.9%) or 760,000 tons (+86.4% relative to Q1 2023) and the share in Chinese imports increased to 26.6% (+11.6 p.p.). Over the same period, **heavy distillate** supplies from Russia amounted to \$2.72 bn (+47.9%), or 1.32 mn tons (+44.1%). At the same time, the share of Russian heavy distillates in Chinese imports changed slightly to 29.2% (+1.6 p.p.) owing to overall growth in China's imports of this type of fuel.

The share of Russian metals on the Chinese market has grown. Supplies of **ferrous metals** increased to 540,000 tons (+69.6%) or up to \$340 mn (+67.8%). The share of Russian ferrous metals on the Chinese market amounted to 8.4% (+2.9 p.p.). Owing to the actual ban on exports of Russian **aluminum** to the markets of unfriendly countries, its supplies to the Chinese market increased considerably to 400,000 tons (a 2.2-fold increase) or \$1.0 bn (a 2.3-fold increase) and the share in imports rose to 25.4% (+6.4 p.p.). **Copper** imports also grew to 93,000 tons (a 2.0-fold increase) or \$770 mn (a 1.96-fold increase) and the share, to 4.7% (+2.2 p.p.). Growth in volumes of **nickel** supplies to 8.400 tons (+75%) failed to overcome price effects and, consequently, the value decreased to \$130 mn (-12.0%) and the market share remained at the level of 2.0%. The recent expansion of restrictions on Russian metals supplies to the US market is expected to lead to a short-term price volatility and greater concentration of supplies to neutral countries' markets.

During the period under review, China's imports of **wood** and wood products from Russia were stable: 3.27 mn tons (+3%) or \$1.25 bn (-4.7%), with the share still at 11.2% (-0.5 p.p.). Supplies of chemical products to China increased to \$1.13 bn (+17.6%).

Discounts on Russian oil and LNG

From March 2022, Russia started to supply oil to China at a discount, which in the summer of 2022 was equal to 16% and at the end of the year decreased to 4–9%. After the embargo on oil supplies to the EU was introduced, the discount increased again to 11% in May 2023. Then the discount on Russian oil began to

¹ Data on physical volumes of pipeline gas are not available.

4. Russia's Foreign Trade in Q1 2024

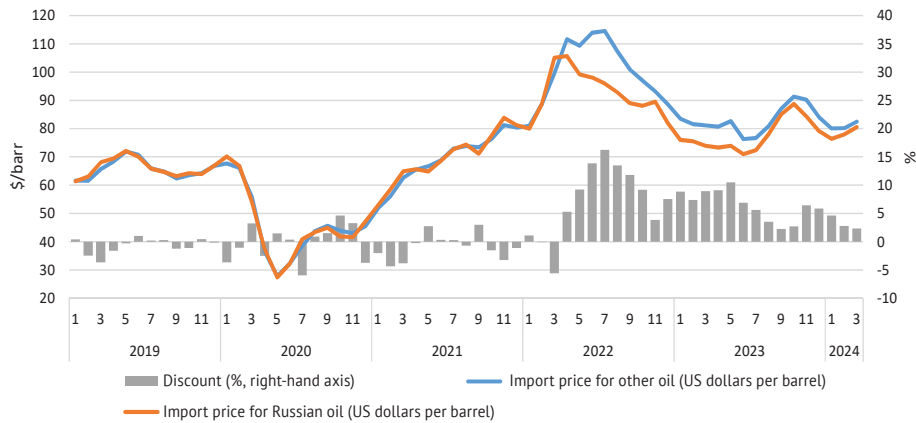


Fig. 3. Prices and discounts on Russian oil supplied to China

Source: Own calculations based on the data of the GAC of China.

decline, currently amounting to 2–5%, which can be explained by differences in the grades of oil supplied from Russia and other countries (Fig.3). Minor average price deviations took place before during periods of high oil price volatility and this can be explained by temporary unevenness in oil imports throughout a month.

Import price for Russian oil (US dollars per barrel)

Note that there was actually no discount to the price for Russian LNG on the Chinese market. On the contrary, prices for Russian LNG (TNVED 271111) have been higher than those for LNG supplies from other countries almost in all months since February 2022. This is probably related to the duration of supply contracts. In Q1 2024, prices for imports of Russian LNG (USD/t) were also 11% higher than those for LNG imports from other countries.

Supplies from China and secondary sanctions

In Q1 2024, the overall volumes of Chinese goods supplies to Russia were stable at the level of \$24.4 bn (+2.6% relative to Q1 2023). However, the monthly

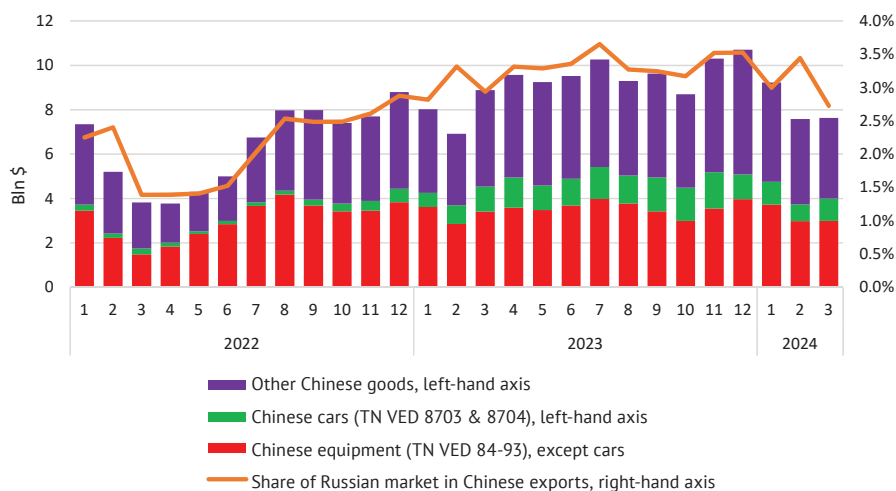


Fig. 4. The supplies of Chinese goods to Russia in 2019–2023

Source: Own calculations based on the data of the GAC of China.

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dynamics were not uniform: if in January-February there was strong growth (+12.5%), in March, a marked decrease (-14.2%). However, such a decline is partly related to the overall cooling of Chinese exports in March (-7.6%). To take into account seasonality and the general dynamics of China's exports, let's consider the share of the Russian market in Chinese exports.¹ In March, it fell sharply (a 1.25-fold decrease) to 2.73% (from 3.44% in February 2024), that is, the minimum value since December 2022 (*Fig. 4*).

The change in supply dynamics is most likely associated with the risks of secondary sanctions. This is pointed to by a more explicit decrease in the supply of equipment, which is more often affected by additional inspections. Indeed, after strong growth of 19.4% in January-February (on January-February 2023) the supplies of Chinese equipment in March declined sharply by 15.5% (on March 2023). The change in the trend in supplies of other goods is less explicit: there was a transition from weaker growth in January-February (+3.5%) to a somewhat less marked decline in March (-12%).

¹ China has floating holidays (usually in February), while Russia's share is traditionally lower in January owing to the longer New Year holidays.

5. THE ROLE OF MULTILATERAL FINANCIAL ORGANIZATIONS IN EURASIAN ECONOMIC INTEGRATION

Yuri Zaitsev, Candidate of Economic Sciences, Senior Researcher of the International Department for Foreign Trade Studies, IAES, RANEPa;

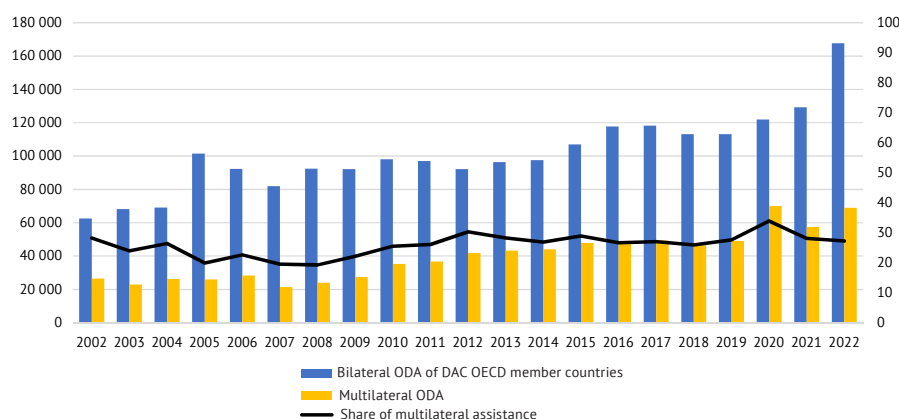
Alexander Knobel, Candidate of Economic Sciences, Head of the Foreign Trade Department, Gaidar Institute

Over the past 20 years, the EAEU countries have actively cooperated with international financial organizations in the field of economic development. In 2002–2022, Armenia, Belarus, Kazakhstan and Kyrgyzstan received more than \$9 bn. The largest sectors of cooperation were the development of the economic infrastructure, water supply and power engineering, as well as budget support. Regional integration is largely promoted through the implementation of infrastructure projects.

The global context

At present, about 200 multilateral financial organizations (MFO) and other international institutions are working in the field of international development assistance (IDA). In general, there are three groups of MFO that promote regional economic integration in different parts of the world: global organizations (the World Bank, the IMF and the UN institutions), regional development banks (ADB) and international/global funds.

The volume of MFO official development assistance, including that for the purposes of regional economic integration, is growing from year to year. In 2022, the volume of multilateral official development assistance (ODA) (except for labeled multilateral ODA/multi-bilateral ODA) exceeded \$69 bn. In 2022, the share of multilateral ODA (except for multi-bilateral ODA) exceeded 27% (Fig. 1), which is in harmony with the trend of the past few decades.

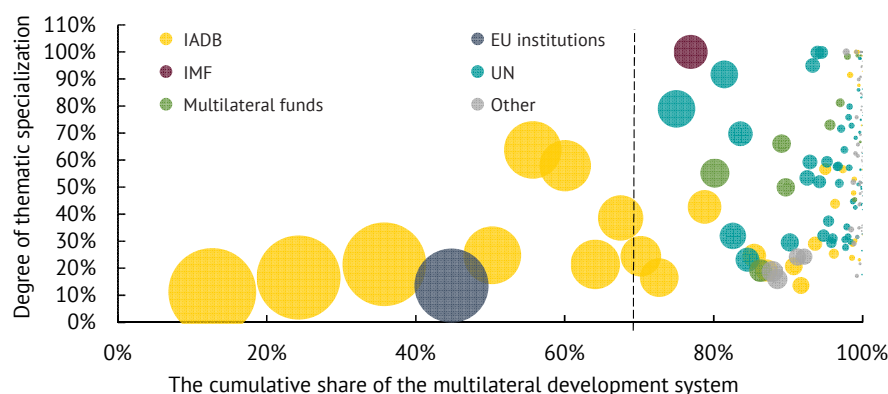


Note. Direct bilateral ODA relates to bilateral ODA of the Development Assistance Committee (DAC) OECD member countries, except for contributions to multilateral organizations.

Fig. 1. The volumes of multilateral and bilateral ODA, million US dollars

Source: Prepared by the authors on the basis of the DAC OECD data; URL: <https://doi.org/10.1787/9fea4cf2-en>

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Note. The calculations are based on the obligations in constant prices of 2020. On the chart's left side, the horizontal axis shows the overall multilateral funding (as % of MFO's total funding) and the vertical axis, the extent of specialization (calculated as the share of the largest sector in each MFO). The size of the bubble represents the volume of MFO's funding, which includes both multilateral flows and non-core contributions channeled through multilateral organizations such as: International Development Association (IDA), International Bank for Reconstruction and Development (IBRD), Asian Development Bank (ADB), European Institutions (EI), Inter-American Development Bank (IADB), Development Bank of Latin America (CAF), International Finance Corporation (IFC), European Bank for Reconstruction and Development (EBRD), Islamic Development Bank (IDB) and Asian Infrastructure Investment Bank (AIIB).

Fig. 2. The total share of multilateral funding and extent of thematic specialization, 2018–2020 averages

Source: OECD. Multilateral Development Finance 2022. URL: <https://doi.org/10.1787/9fea4cf2-en>

In 2018–2020, the bulk of multilateral assistance (70%) was concentrated within 10 multilateral organizations, including EU institutions, the International Development Association (IDA) and the International Bank for Reconstruction and Development (IBRD) of the World Bank, the Inter-American Development Bank, the Asian Development Bank (ADB) and other (*Fig. 2*).

Both global and regional MFO play a leading role in regional economic integration. Some financial institutions, such as the Eurasian Development Bank (EDB), the Asian Development Bank (ADB), and the African Development Bank (AfDB) have a regional specialization, while others – the World Bank Group – operate in many regions around the world. Regional development banks support regional integration in key areas such as: 1) promoting the formation of competencies; 2) financing through investments; and 3) promoting domestic resource mobilization at the national/regional level.¹

MFO can strengthen national institutions through various activities aimed at upgrading the level of knowledge and consolidating national capacity and competencies to reform and harmonize regional economic policies. MFO provide financial and technical solutions which facilitate regional integration (mainly through infrastructure development, for example, in such lines as the financing of energy and transport projects).

MFO promote understanding and participation of key interested parties in regional integration issues, for example, by engaging them in a dialogue and joint research. These lines often overlap, in particular, within the scope of regional infrastructure projects. Given a broad spectrum of work lines, the volume of funding of regional integration projects is considerable. In 2003–2021, IBRD/IDA loans, IFC investments and Multilateral Investment Guarantee

¹ *Abalkina A.* (2006) The Role of Multilateral Development Banks in Promoting Economic Integration. Institute of Economics RAS, Financial University under the Government of the Russian Federation. URL: <https://mpr.ub.uni-muenchen.de/49967/>

5. The role of multilateral financial organizations in Eurasian economic integration

Agency (MIGA) guarantees totaled \$37.4 bn. The World Bank Group's regional integration portfolio amounted to \$318.14 bn and included 720 projects.¹

Review of the statistics on MFO's economic assistance to EAEU countries

In 2002–2022, MFO provided over \$9.16 bn worth of ODA to four EAEU countries. Among EAEU countries, in the abovementioned period the largest recipients of multilateral ODA were Armenia and Kyrgyzstan: \$2.9 bn and \$4.2 bn, respectively (Fig. 3).

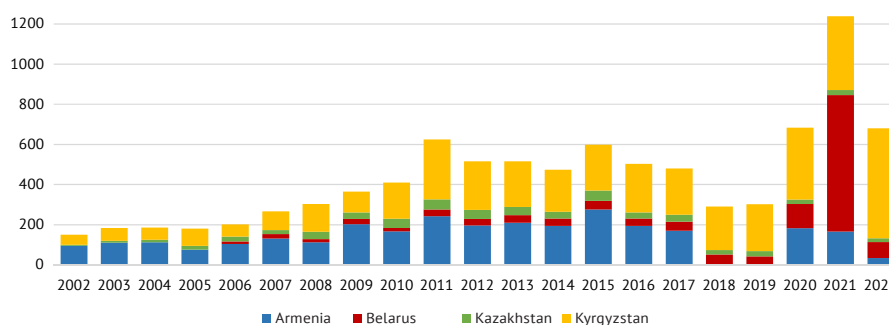


Fig. 3. The total volume of multilateral assistance provided to EAEU countries in 2002–2022, million US dollars

Source: Prepared by the authors on the basis of the DAC OECD data.

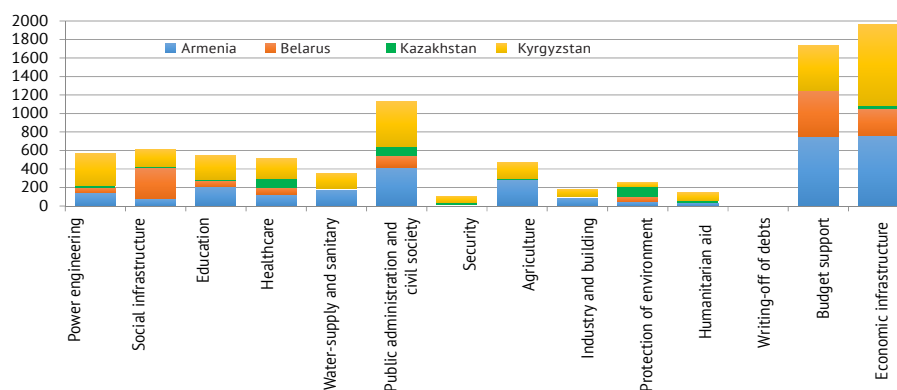


Fig. 4. The main sectors of multilateral financing of development programs in EAEU countries in 2002–2022

Source: Prepared by the authors on the basis of the DAC OECD data.

As regards the distribution of assistance across economic sectors, the largest volume of ODA was concentrated in the sectors of budget support (\$1.74 bn), economic infrastructure development (\$2.12 bn) and the development of public administration and civil society (\$1.22 bn) (Fig. 4).

A number of other sectors – water supply and power engineering– are the most important areas of partnership between EAEU countries and MFO.

Promoting regional Eurasian integration

Regional integration is facilitated to a large extent through the implementation of infrastructure projects. In case of Armenia and Kyrgyzstan, an important area

¹ IEG (2023) Two to Tango. An Evaluation of the World Bank Group Support to Fostering Regional Integration. Washington DC: World Bank.

of cooperation with MFO is still the development of economic infrastructure, including, in particular, transport and communications. For the Kyrgyz economy in this sector, as of 2022 the main donors were the International Finance Corporation (\$299.36 mn), ADB (\$460.78 mn) and UNDP (\$3.1 million). For Armenia, ADB, UNDP and the World Bank institutions have also become the largest donors in the field of economic infrastructure development, providing a total of more than \$756 mn.¹

A significant role in regional economic integration is played directly by Eurasian financial organizations, such as the Eurasian Development Bank (EDB), as well as the Eurasian Fund for Stabilization and Development (EFSD). The EFSD provides a wide range of financial services in the region, including budget and balance of payments support for member countries, as well as infrastructure investment loans. Investment loans are provided by the EFSD to member states for the development of large national projects in the hydropower sector, the automotive industry, transport, agriculture and irrigation. A large amount of economic assistance to the region's energy sector comes through EDB instruments. In particular, in 2015–2019 the bank granted \$16.35 mn to finance a project on the modernization and construction of gas distribution networks in the Aktobe Region of Kazakhstan.²

EFSD often implements integration projects in cooperation with the World Bank and ADB. Cooperation with MFO helps the Fund open up new opportunities and co-finance projects. In particular, the Fund co-finances ADB projects on the construction of the Toktogul hydroelectric power station, the Uch-Kurgan hydroelectric power station and the Bishkek-Osh Road in the Kyrgyz Republic; in Armenia – the construction of the North-South Road Transport Corridor. The Fund works with the World Bank in Tajikistan (Nurek hydroelectric station), as well as in Armenia (modernization of the irrigation system).³

In the case of the EDB, the promotion of economic integration is carried out through investment and technical projects, as well as cooperation with other MFO. However, this kind of cooperation is limited by a number of factors. It is primarily the cost of project financing. In recent years, the EDB's ratings have been BBB/A-2 from Standard and Poor's and Baa1 from Moody's. Credit ratings of other MFO, such as the World Bank, ADB and AIIB are at the highest or very high level (AA or higher). This allows them to reduce the cost of their loans. At the same time, EDB ratings increase the cost of capital raising in terms of bonds or commercial loans.⁴

It is noteworthy that owing to limitations related to financial and technical capacities, the economic effects of EFSD activities in the region are not comparable with those of global MFO, such as the World Bank and/or ADB. While the WB and ADB implement complex projects (for example, the construction of roads and hydroelectric power plants), EFSD often acts as a project executor, being a de facto junior partner in joint project financing.⁵

1 DAC OECD (2024). QWIDS Official Development Assistance Statistics. URL: <https://stats.oecd.org/qwids>

2 The EDB investment portfolio. September 03, 2022 / EDB, 2022. URL: <https://eabr.org/projects/eabr/>

3 EADB (2019) EADB Annual report 2018. EDB: Moscow. URL: https://eabr.org/upload/iblock/fda/EABR_AR_2018_web_1_.pdf

4 Vinokurov E. (2020) Interaction of Eurasian and International Financial Institutions. EADB.

5 Vinokurov E., Efimov A., Levenkov A. (2019) The Eurasian Fund for Stabilization and Development: A Regional Financing Arrangement and its Place in the Global Financial Safety Net. EFSD Working Paper no.1. EDB: Moscow.

5. The role of multilateral financial organizations in Eurasian economic integration

Let us name other regionally important projects implemented with the support of MFO. For example, a connecting road for CAREC corridors (Central Asia Regional Economic Cooperation Corridors 1 and 3 connecting road project) is being built in the region by seven MFO.¹ In Kyrgyzstan, within the scope of the project it is planned to repair approximately 253 km of road sections between the southern regions of Batken, Jalal-Abad and Osh regions and the northern regions of Chui, Issyk-Kul, Naryn and Talas regions. These two transport routes are expected to improve national and regional connectivity, including through further facilitation of access to international markets.²

In Kazakhstan, the World Bank is currently financing the “Southwestern Roads” project – the “Western Europe - Western China” international transit corridor (CAREC).³ The project deals with the construction of a route with a total length of 2.700 km connecting Kazakhstan with China in the southeast and to the border with Russia. The volume of financing is equal \$4.25 bn. In addition to the construction project, the ADB, as the CAREC secretariat, coordinates work on the harmonization of trade policies and customs transit in the Eurasian region. In the period under review, the ADB provided approximately \$1.3 bn to Armenia, Kazakhstan and Kyrgyzstan.

EU institutions finance mainly the development of agricultural sectors, as well as projects on upgrading energy efficiency. In 2002–2021, the volume of economic assistance to EAEU countries amounted to \$1.87 bn. In 2014–2020, the European Commission allocated euro170 mn for the development of the energy and water supply sectors in Kazakhstan and Kyrgyzstan.⁴ For Central Asian countries, important European programs were the Regional Environmental Program for Central Asia (EURECA) in 2009–2016 with a funding volume of over \$11 mn,⁵ as well as projects under the scope of the INOGATE program in 2011–2016 with a funding volume of over Euro 24 mn.⁶

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The expedience of using multilateral mechanisms to provide ODA has always been a subject of debate. The case for using aid provided through multilateral channels includes the effect of scale, political neutrality and the potential to increase resources for development. Multilateral ODA is more evenly distributed in geographic terms.⁷ Multilateral assistance mechanisms are more flexible and able to respond promptly to changing conditions.

1 Institutions include: Asian Development Bank (ADB), Asian Infrastructure Investment Bank (AIIB), European Bank for Reconstruction and Development (EBRD), International Monetary Fund (IMF), Islamic Development Bank (IDB), United Nations Development Program (UNDP) and The World Bank.

2 Enhancing Connectivity and Freight in Central Asia / International Transport Forum. 2019. URL: <https://www.itf-oecd.org/sites/default/files/docs/connectivity-freight-central-asia.pdf>

3 The CAREC Corridors - Linking the Russian Federation with South Asia and the Middle East / ADB. 2017. URL: <https://www.adb.org/news/infographics/carec-corridors-linking-russian-federation-south-asia-and-middle-east>

4 European Commission. Multiannual indicative program regional Central Asia 2014-2020. URL: https://international-partnerships.ec.europa.eu/system/files/2019-09/mip-2014-2020-central-asia-regional-20140812-en_en.pdf

5 Regional Environmental Program for Central Asia (EURECA). URL: <https://afci.de/jobs/eu-central-asia-water-and-environmental-platform>

6 INOGATE – Sustainable Energy Program for CA: Renewable Energy Sources - Energy Efficiency; INOGATE - Technical Secretariat and integrated program in support of the Baku Initiative and the Eastern Partnership energy objectives; INOGATE - Technical Secretariat and integrated program in support of the Baku Initiative and the Eastern Partnership energy objectives. URL: <http://www.inogate.org/pages/1?lang=en>

7 OECD DAC Development Cooperation Report, 2009.

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At the same time, the case against the use of multilateral IDA mechanisms includes: MFO institutional and organizational complexity, lengthy bureaucratic procedures, low transparency and insufficient accountability. High transaction costs may also arise. Many sovereign donors also point to the lack of evidence regarding the efficiency of multilateral assistance in terms of the impact on development processes and return on investment, despite international institutions' considerable contributions to the evaluation of development programs.

The analysis of MFO's economic assistance to the EAEU countries is not exhaustive; this can be explained by a restricted access to the information and statistical data. In the period under review, the largest recipients of MFO's multilateral assistance were Kyrgyzstan and Armenia. At the same time, the most important areas of cooperation were budget support and the development of economic infrastructure. In certain sectors, such as water supply and power engineering, donors were found to be operating within multilateral trust funds, which often included sovereign donors and other MFO.

As for Russia's cooperation with MFO and other multilateral institutions, it is still a priority for Russia, particularly, in the context of Eurasian economic integration. Several multilateral development organizations have been directly affected by international sanctions imposed against Russia. For example, the World Bank and AIIB have suspended all activities in Russia and Belarus.¹ The New Development Bank (NDB) was affected, as well. In March 2022, the Fitch ratings agency downgraded its rating from stable to negative, citing that 13% of the bank's loans as of the end of 2021 were related with Russian stakeholders and that Russia was the bank's largest shareholder (19% of NDP capital). 

1 *Subacchi, P.* (2022). "Is Asia's development machine stuttering?", *International Politics and Society*. URL: <https://www.ips-journal.eu/topics/foreign-and-security-policy/is-asias-development-machine-stuttering-6055/>